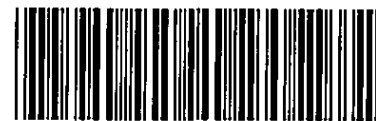


NORTHERN ELECTRIC plc
REGISTERED NUMBER 2366942
REPORT & ACCOUNTS
TO 31 DECEMBER 2006

FRIDAY



A6NU6PUM

A43

25/05/2007

533

COMPANIES HOUSE

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

REPORT AND ACCOUNTS TO 31 DECEMBER 2006

CONTENTS

Directors' Report	2
Directors' Biographies	15
Independent Auditors' Report to the Members of Northern Electric plc	17
Group Income Statement	19
Statement of Recognised Income and Expense	19
Balance Sheets	20
Statement of Cash Flows	21
Notes to the Accounts	22
Notice of Annual General Meeting	60

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT

The directors present their report together with the consolidated accounts of Northern Electric plc and its subsidiary undertakings (the "Group") for the year ended 31 December 2006

BUSINESS REVIEW OF THE YEAR

Northern Electric plc (the "Company") is a subsidiary of CE Electric UK Funding Company and its principal activity during the year was to act as a holding company

The activities of the Company's principal subsidiaries during the year were the distribution of electricity by Northern Electric Distribution Limited ("NEDL") and the provision of engineering contracting services by Integrated Utility Services Limited ("IUS")

Electricity distribution

NEDL serves an area of approximately 14,400 sq km in the north east of England with a resident population of 3.2 million, receives electricity from the National Grid transmission system and distributes it to the 1.6 million customers connected to its electricity distribution network of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV. NEDL is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. During the year, NEDL distributed electricity to customers in its distribution services area and continued to improve the overall performance of its distribution network through its investment strategy being targeted at delivering improvements in an efficient and cost-effective manner.

NEDL, as a holder of an electricity distribution licence, is subject to regulation by the Gas and Electricity Markets Authority, which acts through the Office of Gas and Electricity Markets ("Ofgem"). Most of the revenue of the electricity distribution licence holders is controlled by a distribution price control formula set out in the electricity distribution licence. The price control formula does not constrain profits from year to year, but is a control on revenue that operates independently of most of the electricity distribution licence holder's costs. It has been the practice of Ofgem, to review and reset the formula at five-year intervals, although the formula has been, and may be, reviewed at other times at the discretion of Ofgem. The current five-year price control period became effective on 1 April 2005. A resetting of the formula requires the consent of the electricity distribution licence holder but licence modifications may be unilaterally imposed by Ofgem without such consent following review by the Competition Commission. During the term of the price control, changes in costs incurred will have a direct impact on the financial results of NEDL.

Customer service and network performance

During the year, NEDL continued to improve services to its customers by taking action to

- Reduce the overall number of faults and their effects,
- Reduce customer interruptions by targeting overloaded LV feeders,
- Improve under-performing parts of the distribution system by identifying "hot spots" and taking specific action to address the issues in those areas,
- Make best use of new equipment, including fault location devices,
- Invest in new information systems,
- Reduce the average length of time taken to restore supplies in fault situations, and
- Target storm resilience investment and review and amend the major incident plan

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Customer service and network performance (continued)

Ofgem has established the Quality of Service incentive scheme, by which distribution network operators ("DNOs"), such as NEDL, are provided with financial incentives based upon targets set by Ofgem for each of the DNOs with regard to their performance in the following areas

- The number of interruptions to supply,
- The duration of interruptions to supply, and
- Customer satisfaction

Customer minutes lost ("CML") and customer interruptions ("CI") are the key performance indicators used by NEDL to measure the quality of supply and system performance. CML measure the average number of supply minutes lost for every connected customer due to faults and planned outages that last for three minutes or longer. CI measure the average number of supply interruptions for every 100 connected customers due to faults and planned outages that last for three minutes or longer. Guaranteed standards, set for activities such as restoring supplies after unplanned interruptions, measure the level of customer service. Performance against these measures forms part of NEDL's regular reporting to Ofgem.

Some of the inherited and inherent differences in the DNOs' networks have been recognised so that more meaningful comparisons can be made between the performances of the various DNOs. The results of this comparison show that NEDL's network performed well against the CI benchmark but less favourably against the CML benchmark.

In response, NEDL is focusing its initiatives on reducing the time taken to restore supplies following faults on the network. Those initiatives include "Power in an Hour", which aims to restore the supplies of as many customers as possible within an hour of the start of an interruption and the use of the latest mobile phone technology to locate and contact the nearest persons able to deal with faults. In addition to this, NEDL is continuing with its investment to expand the remote control of the distribution network. The results of this work are starting to show through a reduction in overall average restoration time.

In respect of the key customer service performance indicators, NEDL's CML performance for the regulatory year to 31 March 2006 was stated as 64.1, compared with the Ofgem target of 71.4, whilst CI performance was stated as 65.7, compared with the Ofgem target of 74.5. However, as at the date of this report, these figures are being reviewed, as a result of the investigation mentioned on page 9 of this report.

NEDL has put a great deal of effort into improving both the speed and usefulness of the information provided to customers through its call centre and, during the regulatory year to 31 March 2006, achieved a cumulative customer satisfaction score of 88.6% for the year and was ranked third in the comparison with other DNOs published by Ofgem. Only one DNO exceeded the Ofgem target of 90%. It is NEDL's goal to maintain and then improve on this performance in the future.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

System investment and improvement

During the year, £113.1m was invested in the electricity distribution system, including the replacement of assets and continuing network improvements intended to increase the quality of the electricity supply provided to its customers

As part of the investment strategy to deliver improvements in an efficient and cost-effective manner, the major projects undertaken during the year included

- 132/11kV transformer and 11kV switchboard replacement work at Norton,
- Commissioning of new 66/11kV primary substations at Seghill and Birtley Grove,
- Installation of an additional 33/11kV transformer and 33kV switchboard at York University,
- Completion of a project to renew all 66kV and 11kV equipment at Benwell substation,
- Completion of a project to renew all 11kV equipment at Grangetown substation,
- Replacement of 80 units of high voltage outdoor switchgear,
- Replacement of 44 high voltage distribution substations,
- Replacement of 70 units of high voltage indoor switchgear,
- Refurbishment or rebuilding of 70km of high voltage overhead line,
- Refurbishment or rebuilding of 64km of low voltage overhead line, and
- The installation of 150 new sites with remote control facilities and commissioning of an additional 298 remote control units

In order to deliver its investment strategy, NEDL used a mix of its own staff and contractors (including affiliated group companies) to undertake its activities

Engineering contracting

IUS provided engineering contracting services to a range of clients during the year, including NEDL, Yorkshire Electricity Distribution plc (YEDL), Central Networks, Network Rail, Northumbrian Water and Yorkshire Water. Following the re-organisation of the way the CE Electric UK Funding Company group's (the "CE Group's") electricity distribution business operated, IUS entered into agreements with NEDL and YEDL, companies in the CE Group, under which NEDL and YEDL purchased the assets and liabilities of the business of IUS which provide connections services and work on and services for the improvement and repair of their electricity distribution networks (Note 27). Such agreements were effective from 1 April 2006.

During the year, IUS saw a successful expansion to its contract with Central Networks, with particular areas of operational growth including major projects at extra high voltage and vegetation management services. Locating operations at Hucknall, Cannock and Grantham has assisted in the expansion of the engineering contracting business, with the number of maintenance contracts increasing, particularly in the West Midlands. In addition, IUS delivered services to Westinghouse Rail Systems Limited, a key supplier to Network Rail, and identified strategic growth potential in the water industry.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Other activities

On 8 December 2006, Northern Electric Generation (Peaking) Limited, a wholly-owned subsidiary of the Group, completed the arrangements entered into on 28 June 2005 and disposed of its interest in Northern Electric Generation (TPL) Limited, which holds an investment in Teesside Power Limited. Further details are provided in Note 13.

Financial Review

Results and dividends

The Group made a profit after tax for the year of £76.4m. An interim dividend totalling £50.0m was paid during the year and the directors recommend that no final dividend be paid in respect of the year, leaving a profit of £26.4m to be transferred to reserves.

Share capital and debt structures

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

Taxation

Full details of the Group's taxation charge are provided in Note 9 to the accounts.

Generation and use of cash resources

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

Liquidity and maintenance of investment grade ratings

The Group increased its net debt by £62.4m to £182.1m during the year. The Group has access to short-term borrowing facilities provided by YE. The Company maintained its investment grade issuer credit rating throughout the year.

Financial derivatives

As at 31 December 2006 and during the year it was the Group's policy not to hold any derivative financial instruments.

Pensions

The Company is the Principal Employer in the Northern Electric Group of the Electricity Supply Pension Scheme ("ESPS"), a defined benefit scheme. The Company also participates in the Northern Electric Money Purchase Scheme, a defined contribution scheme. Full details of the ESPS pension commitments are provided in Note 28 to the accounts.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Insurance

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

Income Statement commentary

Profit before tax at £112.3m was £0.6m higher than the previous year. The previous year benefited from a non-recurring gain following the arrangements entered into to dispose of the Group's interest in Northern Electric Generation (TPL) Limited (£4.6m). In 2006 the absence of similar gains was offset by higher margins and lower pension costs.

Cash Flow Statement Commentary

Net cash inflow from operating activities

The net cash inflow from operating activities at £77.7m was £19.9m higher than 2005 mainly due to lower cash taxes paid and other favourable working capital movements.

Investing activities

Net cash used in investing activities at £90.0m was £74.2m lower than the prior year. The prior year included a cash outflow of £100.0m due to the purchase of a guaranteed investment contract as part of the refinancing exercise completed in May 2005.

Financing activities

The net cash used in financing activities at £55.1m represented an adverse variance of £155.1m compared with the cash inflow of £100.0m in the prior year. The prior year benefited from additional borrowings as a result of the refinancing exercise completed in May 2005.

Treasury policy

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk.

Interest rate risk

The Group's primary objective in respect of borrowings is to provide a stable, low cost of financing over time whilst observing approved risk parameters.

The Group is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2006, 96% of the Group's borrowings were at fixed rates and the average maturity for these borrowings was 21 years.

Liquidity risk

The Group's primary 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.

Currently, committed revolving credit facilities are provided to NEDL by LloydsTSB Bank plc and Royal Bank of Scotland plc. In addition, short-term borrowing facilities are provided by YE. Such borrowings are on normal commercial terms, are on an arm's length basis and are reflective of an entity with an investment grade issuer credit rating.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Currency risk

No material currency risks are faced by the Group

Trading risk

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

Supplier payment policy

The Group complies with the Better Payment Practice Code for the prompt payment of suppliers in accordance with the normal terms of trade. It is Group policy with respect to its suppliers to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are aware of the terms of payment and to pay in accordance with the Group's contractual and other legal obligations. The number of days purchases in trade creditors for the Company at 31 December 2006 was 18 (2005 21)

Principal risks and uncertainties facing the Group

The Group operates a structured and disciplined approach to the management of risk, as part of the overall risk management approach of the CE Group. Those risks assessed to be significantly high are logged within a risk register that is reviewed regularly by a Corporate Governance Group ("CGG"), consisting of certain directors and senior managers of the CE Group. Key indicators track the number of significant risks actively monitored by the CGG at any one time. As at 31 December 2006 a total of 20 significant risks were registered in this regard. The categories were financial (4), regulatory and legal (3), people (1), commercial (3), technical (4), safety and environment (2), political (1) and physical (2). Other principal categories of risk facing the Group are customer service, corporate reputation and economic.

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

The main financial risks facing the Group are outlined under Treasury policy, above.

The CE Group's strategy is to follow an appropriate risk policy, which is intended to effectively manage exposures related to the achievement of business objectives. The CE Group identifies and assesses risks associated with the achievement of its strategic objectives, including those of an environmental and social nature. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk. A quarterly review of the key risks, controls and action plans is undertaken. The Director of Governance and Risk oversees all aspects of risk and compliance, emphasising the CE Group's commitment to maintaining an appropriate risk and governance framework across the business.

The use of a well-defined risk management methodology allows a consistent and co-ordinated approach to risk reporting and mitigation.

A key element and requirement of the risk management process is that a written certificate is provided by the President and Chief Operating Officer of the CE Group confirming that the effectiveness of the system of internal controls has been reviewed during the year. A self-certification process is in place, in support of this review, whereby senior managers are required to confirm that the system of internal control in their area of the business is operating effectively.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Internal control

A rigorous internal control environment exists within the CE Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. MidAmerican Energy Holdings Company, a parent company of the Company, requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the Sarbanes-Oxley Act. During the year, an extensive programme to review the company-wide controls took place and resulted in the implementation of various recommended process improvements.

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

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

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

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

Other key features of the internal control system are

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years,
- Regular review of key performance indicators to assess progress towards objectives,
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed,
- A strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures, including standards required by the Sarbanes-Oxley Act,
- On-going health and safety performance reviews carried out by in-house safety professionals in addition to the normal health and safety risk assessment and management processes carried out within each of the operating units,
- To operate under the Occupational Health and Safety Assessment Series ("OHSAS") standard OHSAS 18001, which is subject to external certification and regular assessment,
- An external obligations programme, which provides a robust approach to, and compliance with, financial, legal and regulatory obligations,
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews, and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Ofgem investigation

Despite the emphasis placed on the internal control environment, certain anomalies in the information reported to Ofgem by NEDL under the Quality of Service incentive scheme were identified and investigated internally during the year. The results of those investigations were communicated to Ofgem and, on 3 November 2006, Ofgem announced that it was investigating the possible breach by NEDL of standard condition 49 of its licence. This condition requires, inter alia, the licensee to provide Ofgem, or its agent, with certain information pertaining to the number and duration of interruptions in the supply of electricity through the licensee's electricity distribution system and information relating to the number and identity of people who had telephoned the licensee to report a loss of supply. The investigation is continuing as at the date of this report. Should the investigation conclude that there has been a contravention of the licence, Ofgem has a range of remedies available including the making of enforcement orders and the imposition of financial penalties. Any penalty imposed must be reasonable and may not exceed 10% of NEDL's revenue. No provision for any penalty has been made in the accounts.

Although NEDL did identify and report the issues to Ofgem itself and none of NEDL's customers have paid too much for their electricity as a result, a thorough internal compliance assurance programme was undertaken, which employed significant resource and subjected various internal and external reporting mechanisms to detailed scrutiny. That exercise identified a number of process weaknesses, which required improvement, together with areas of those reporting mechanisms where enhanced verification was required. Remediation projects were allocated to those areas of the business, which either have been or are in the process of being completed.

In addition, as the board of NEDL has recognised that the issues were not identified by the normal process overseen by the CGG, it has expressed the expectation to NEDL's management that the enhanced verification measures and risk management processes associated with the CGG should identify such issues and the experience be used to inform and improve the mechanisms for identifying significant risk and control issues in the future.

People

An organisational restructure undertaken during the year established a clearly defined leadership team, in which the clear roles were identified, so allowing more effective management of the Group's business and response to any control weaknesses that may become apparent.

The restructure in NEDL saw the establishment of a single unit for all field operations, a new unit bringing together all of the functions, which relate directly to NEDL's customers, an asset management group, which includes engineering design and responsibilities for commercial management, and a function dedicated to performance analysis and innovation.

The IUS business was also restructured on functional lines to give the scope for more effective operation of its business and the delivery of enhanced service to its customers through the creation of separate operations and commercial units.

The information technology, human resources and finance functions were centralised in order to provide those services across the CE Group.

The Group employed 1,362 staff at the end of December 2006 (2005 1,506).

Disabled employees

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

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Employee consultation

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

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

Health and safety

During the year, the focus on health and safety continued to be of paramount importance for the directors, as it is for all employees. Providing and maintaining a safe working environment is the first objective of the Group and there is a continuous drive for improvement in safety performance through the setting of challenging goals and the pursuit of a programme of on-site safety audits, which reflect the Group's fundamental objective that none of its staff should go home injured. NEDL maintained its OHSAS 18001 accreditation and both NEDL and IUS again received a gold award from the Royal Society for the Prevention of Accidents for occupational health and safety performance and provision. The gold status is awarded to recognise the achievement of continued or improving standards of health and safety over at least a four-year period.

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

	2006		2005	
	Target	Actual	Target	Actual
Lost time accidents	0	3	0	0
Medical treatment accidents	1	2	4	1
Operational incidents	4	5	3	4
Preventable vehicle accidents	24	24	26	26

Environmental Management

A comprehensive policy and strategy, with subordinate operational control procedures and systems, are in place, aimed at ensuring compliance with all environmental requirements. The Group promotes environmental awareness, best practice and legal compliance amongst its staff and contractors and requires strict compliance with its environmental policy.

NEDL and IUS have operated under the environmental management systems ("EMS") standard ISO 14001 since the late 1990s and have been subjected to regular six-monthly surveillance assessments, which are undertaken by an external certification body, in order to retain United Kingdom Accreditation Service certification status. The most recent surveillance assessment of NEDL was carried out by Lloyd's Register Quality Assurance in September 2006. Two minor nonconformances were raised for action but the visit report concluded that the EMS continues to operate appropriately in relation to ISO 14001 2004. The most recent surveillance assessment of IUS was carried out by Lloyds Register Quality Assurance in July 2006, which confirmed that transition to the new standard ISO 14001 2004 had been achieved.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Environmental Management (continued)

Management improvement programmes in support of the Group's environmental policy objectives during the year included

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

Key performance indicators are used to monitor environmental performance in the following categories

- An annual internal environmental management systems audit programme (26 audits completed),
- Internal environmental management systems non-conformances (6 reported and addressed),
- Continual improvement programmes (7 underway and performing to target),
- Environmental incidents (29 investigated and remedial action taken, including 10 with related Environment Agency contact),
- Cable fluid loss (The target for 2006 was to improve performance by at least 5% over that recorded in 2005),
- EHV transformer oil loss (zero litres lost), other transformer oil loss (zero litres lost) and SF6 switch-gear loss (0.3 kg lost), and
- Environmental customer communications (288, mainly substation related, regarding graffiti, weeds and fly-tipping)

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

Environmental Management (continued)

The key performance indicators are provided monthly to MidAmerican, as part of a group-wide monitoring process, and are also made available for scrutiny during six-monthly external environmental management system assessments

Charitable and political donations

During the year, charitable donations of £18,416 were made, principally to local charities serving the communities in which the Group operates. No contributions were made to political organisations.

Corporate social responsibility

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

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

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

Research and development

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

- A novel (super-conducting) fault current limiter, to reduce prospective short-circuit currents. The resultant lower stress on switchgear, if the project succeeds, will permit the connection of more rotating plant (including generation) with lower levels of reinforcement and/or replacement,
- In collaboration with other distribution network operators, a range of incremental improvements to tools and equipment that, if successful, will further add to overall efficiency improvements, and
- In collaboration with universities and other network operators, a programme of longer-range research that will, if successful, lay the foundation for the development of a wide range of improved products and processes to improve customer service, environmental performance and overall efficiency.

Future Developments

The directors intend to develop the business in a manner that concentrates on its core skills of electricity distribution and engineering contracting.

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

IUS will look to further develop its engineering contracting business by delivering a high standard of service to its existing clients and pursuing opportunities in the health, education, industrial, chemical and manufacturing sectors.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND THEIR INTERESTS

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

David L Sokol	Chairman
Gregory E Abel	Chief Executive Officer
P Eric Connor	
Ron Dixon	
John M France	
Patrick J Goodman	
Brian K Hankel	
Mark J Horsley	resigned 31 October 2006

In accordance with the Articles of Association, Mr D L Sokol and Mr R Dixon will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election

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

Note 8 to the accounts gives details of the directors' share interests. No director holds any non-beneficial interest in the share capital 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

ANNUAL GENERAL MEETING

Full details of the Annual General Meeting appear on page 60 of this report

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's 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.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS (CONTINUED)

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

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

Going Concern

The directors are confident that, after having made appropriate enquiries, the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Audit of the accounts

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

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

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.



By order of the board
John Elliott, Secretary

20 April 2007

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' BIOGRAPHIES

DAVID L SOKOL

Appointed January 1997, Mr Sokol, 50, is chairman and chief executive officer of MidAmerican Energy Holdings Company ("MidAmerican"), which has \$34.4 billion in assets and is a subsidiary of Berkshire Hathaway, Inc., which owns 88.2 percent of MidAmerican. In February 1991, Mr Sokol joined CalEnergy Company, Inc., the predecessor to MidAmerican, as chairman, president and chief executive officer, which, at that time, owned and operated one geothermal power project. Today, MidAmerican has grown into a thriving worldwide energy services provider with 17,800 employees and annual revenues of approximately \$10.4 billion. Through its utility subsidiaries, MidAmerican Energy Company and PacifiCorp in the United States and CE Electric in the United Kingdom, MidAmerican provides electricity and natural gas services to approximately 6.7 million customers. Through CalEnergy Generation, MidAmerican's independent power production business, and the utility operations of MidAmerican Energy Company and PacifiCorp, MidAmerican manages and owns interests in diversified power generation facilities, 15 percent of which is from renewable resources such as geothermal and wind. With the acquisition of Kern River Gas Transmission Company in March 2002 and the acquisition of Northern Natural Gas Company in August 2002, MidAmerican established itself as a leading owner of interstate natural gas pipeline systems in the United States. These companies deliver approximately 8 percent of the average daily volume of natural gas in North America through their combined 18,100 miles of pipeline.

GREGORY E ABEL

Appointed January 1997, Mr Abel, 44, is president and chief operating officer of MidAmerican, based in Des Moines, Iowa. He also serves as chairman and chief executive officer of PacifiCorp, which provides electricity services to six states in the west of the United States and approximately 1.6 million customers. He serves as the chief executive officer of CE Electric UK, which distributes electricity to approximately 3.7 million customers in England. Additionally, he is chief executive officer of MidAmerican Funding, LLC, the holding company for an integrated utility providing natural gas and electricity to 1.4 million customers in the Midwestern United States. Mr Abel also is a director of Kern River Gas Transmission Company and Northern Natural Gas Company. Kern River Gas Transmission Company is a 1,700 mile interstate pipeline transporting Rocky Mountain and Canadian natural gas to markets in California, Nevada and Utah. Northern Natural Gas Company operates 16,400 miles of pipeline extending from the Permian Basin in Texas to the Upper Midwest. Mr Abel has more than 20 years of experience in senior management related to the energy industry. His responsibilities at MidAmerican are the operation and management of the holdings company, PacifiCorp's and MidAmerican Energy Company's supply and marketing and delivery services businesses, the CE Electric UK distribution businesses, CalEnergy Generation's operations as an independent power producer, and the Kern River Gas Transmission Company and Northern Natural Gas Company pipeline operations. Furthermore, he is responsible for the evaluation of opportunities relating to acquisitions and project development. Previously, as executive vice president, Mr Abel was responsible for engineering, construction and administrative functions for CalEnergy Company, Inc.

PATRICK J GOODMAN

Appointed May 1999, Mr Goodman, 40, is senior vice president and chief financial officer of MidAmerican and is responsible for managing all aspects of the company's financial operations. Mr Goodman supports the negotiation and closing of the company's international and domestic project financings along with supporting future acquisitions and project developments and manages all accounting, financial reporting, tax, budgeting and long-range financial planning functions for the MidAmerican group. After joining the company in 1995, Mr Goodman has served in various financial positions including chief accounting officer. Prior to joining MidAmerican, he served as a financial manager for National Indemnity Company and was a senior associate at Pricewaterhouse.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

DIRECTORS' BIOGRAPHIES (CONTINUED)

P ERIC CONNOR

Appointed in March 1998, Mr Connor, 58, is senior vice president and chief procurement officer for MidAmerican. He is responsible for maximising the value of goods and services purchased by the MidAmerican group across all of its energy business platforms. Previously Mr Connor was president and chief operating officer of CE Electric UK and was responsible for overseeing all of CE Electric UK's business including its electricity distribution business. Mr Connor joined Northern Electric plc in 1992 as a director of resources, was named as president and chief operating officer in April 1999 and moved to his current position in June 2003. Mr Connor is a chartered engineer and, prior to joining Northern Electric plc, was a director at NEI Reyrolle Limited. His previous appointments include engineering and management posts with National Nuclear Corporation, NEI and Marconi Space and Defence.

RON DIXON

Appointed October 1997, Mr Dixon, 69, worked for North Eastern Electricity Board and Northern Electric plc throughout his career, being appointed Secretary in 1987. He was appointed Managing Director of the Power Division in 1990, responsible for electricity supply and distribution, and Commercial Director in 1991. He retired from the board on 31 July 1997 and was re-appointed in the capacity of a non-executive director on 22 October 1997. Mr Dixon is also a non-executive director of CE Electric UK Funding Company and Northern Electric Distribution Limited.

JOHN M FRANCE

Appointed January 2000, Dr France, 49, is Regulation Director for the CE Electric UK group of companies. After leaving university he joined the British Gas Corporation where he held a number of posts before becoming a member of the team that handled the privatisation of British Gas in 1986. He joined Northern Electric plc as its Regulation Manager in 1989 and has been involved with all the distribution (and supply) price control reviews that have affected the Company since privatisation. He was a member of the team that negotiated the acquisition of the distribution business of Yorkshire Electricity Group plc and the sale of the Northern Electric plc supply businesses in 2001.

BRIAN K HANKEL

Appointed June 2003, Mr Hankel, 44, joined CalEnergy Company, Inc. in February of 1992 as a treasury analyst and served in that position through December 1995. He was appointed Assistant Treasurer in January 1996 and was appointed to his current position of Vice President and Treasurer in January 1997. A graduate of the University of Nebraska-Lincoln, Mr Hankel was previously a Money Position Analyst at FirstTier Bank of Lincoln from 1988 to 1992 and Senior Credit Analyst at FirstTier from 1987 to 1988.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN ELECTRIC plc

We have audited the group and parent company financial statements (the "financial statements") of Northern Electric plc for the year ended 31 December 2006 which comprise the Group income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated statement of recognised income and expenses and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

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

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

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

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

Separate opinion in relation to IFRSs

The Group, in addition to complying with its legal obligations to comply 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 Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
20 April 2007

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****GROUP INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	2006 £m	2005 £m
Revenue	3	280.3	297.3
Cost of sales		<u>(77.9)</u>	<u>(97.3)</u>
Gross profit		202.4	200.0
Distribution costs		(54.2)	(54.4)
Administrative expenses		<u>(17.0)</u>	<u>(18.4)</u>
Operating profit	4	131.2	127.2
Share of profit after tax of joint venture accounted for using the equity method		0.4	0.6
Other (losses)/gains		(0.3)	4.2
Investment income	5	16.2	13.1
Finance costs	6	<u>(35.2)</u>	<u>(33.4)</u>
Profit before tax		112.3	111.7
Income tax expense	9	<u>(35.9)</u>	<u>(36.6)</u>
Profit from ordinary activities after tax attributed to equity shareholders of the Company		<u>76.4</u>	<u>75.1</u>

All activities relate to continuing operations

STATEMENT OF RECOGNISED INCOME AND EXPENSE

There is no other income or expense for the Group other than the profits reported above

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

BALANCE SHEETS

AT 31 DECEMBER 2006

		GROUP		COMPANY	
	Note	2006 £m	2005 £m	2006 £m	2005 £m
Non-current assets					
Property, plant and equipment	11	1,092.1	1,009.7	1.5	1.5
Intangibles	12	6.0	4.1	-	-
Investments in joint venture	13	3.2	3.4	-	-
Investments in other companies	13	0.1	13.6	328.1	328.1
Long-term securities	17	-	100.0	-	-
Retirement benefit asset	28	4.8	-	-	-
Trade and other receivables	17	4.6	2.8	-	-
		<u>1,110.8</u>	<u>1,133.6</u>	<u>329.6</u>	<u>329.6</u>
Current assets					
Inventories	15	17.2	27.9	-	-
Trade and other receivables	17	55.6	53.8	0.8	0.1
Short-term securities	17	100.0	-	-	-
Cash and cash equivalents	17	79.1	146.5	61.7	81.6
		<u>251.9</u>	<u>228.2</u>	<u>62.5</u>	<u>81.7</u>
Total assets		<u>1,362.7</u>	<u>1,361.8</u>	<u>392.1</u>	<u>411.3</u>
Current liabilities					
Trade and other payables	18	(66.4)	(82.1)	(11.4)	(11.9)
Current income tax liabilities	18	(12.6)	(16.3)	(3.3)	(4.5)
Deferred revenue	21	(9.4)	(7.0)	-	-
Borrowings	19	(114.3)	(19.4)	(14.3)	(13.3)
Provisions	22	(3.7)	(4.7)	-	(0.1)
		<u>(206.4)</u>	<u>(129.5)</u>	<u>(29.0)</u>	<u>(29.8)</u>
Net current assets		<u>45.5</u>	<u>98.7</u>	<u>33.5</u>	<u>51.9</u>
Non-current liabilities					
Borrowings	19	(246.9)	(346.8)	(1.1)	(1.1)
Deferred income tax liabilities	20	(166.3)	(154.9)	(36.9)	(35.7)
Retirement benefit obligations	28	(1.3)	(37.3)	(1.3)	(1.2)
Deferred revenue	21	(327.3)	(305.4)	-	-
Provisions	22	(0.9)	(0.7)	-	-
		<u>(742.7)</u>	<u>(845.1)</u>	<u>(39.3)</u>	<u>(38.0)</u>
Total liabilities		<u>(949.1)</u>	<u>(974.6)</u>	<u>(68.3)</u>	<u>(67.8)</u>
Net assets		<u>413.6</u>	<u>387.2</u>	<u>323.8</u>	<u>343.5</u>
EQUITY					
Share capital	23	72.2	72.2	72.2	72.2
Share premium	24	158.8	158.8	158.8	158.8
Retained earnings	24	176.4	150.0	86.6	106.3
Other reserves	24	6.2	6.2	6.2	6.2
Total equity	24	<u>413.6</u>	<u>387.2</u>	<u>323.8</u>	<u>343.5</u>

The financial statements were approved by the board of directors and authorised for issue on 20 April 2007 and were signed on its behalf by



J M France
Director

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	GROUP		COMPANY	
		2006 £m	2005 £m	2006 £m	2005 £m
Net cash from operating activities	25	77.7	57.8	28.6	16.2
Investing activities					
Dividends received from joint venture		0.6	0.2	-	-
(Payments)/proceeds from disposal of business unit/subsidiary		(6.7)	2.9	-	(0.2)
(Purchase)/sale of long-term securities		-	(100.0)	-	64.6
Proceeds from disposal of property, plant and equipment		0.6	-	0.5	1.0
Purchases of property, plant and equipment		(114.4)	(104.1)	-	(0.1)
(Purchases)/disposal of intangible assets		(3.3)	0.4	-	-
Receipt of customer contributions		33.2	36.4	-	-
Net cash (used in)/from investing activities		(90.0)	(164.2)	0.5	65.3
Financing activities					
Equity dividends paid		(50.0)	(50.0)	(50.0)	(50.0)
Movement in borrowings from parent/subsidiary undertaking		0.9	94.7	1.0	(5.3)
Repayment of borrowings		(6.0)	(100.0)	-	-
New borrowings raised		-	155.3	-	-
Net cash (used in)/from financing activities		(55.1)	100.0	(49.0)	(55.3)
Net (decrease)/increase in cash and cash equivalents		(67.4)	(6.4)	(19.9)	26.2
Cash and cash equivalents at beginning of year		146.5	152.9	81.6	55.4
Cash and cash equivalents at end of year		79.1	146.5	61.7	81.6

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

1 GENERAL INFORMATION

Northern Electric plc is a company incorporated in England and Wales under the Companies Act 1985 (the "Act") The address of the registered office is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF

The nature of the Group's operations and its principal activities are set out in the principal activity and review of the business in the Directors' Report and in Note 3

2 PRINCIPAL ACCOUNTING POLICIES

Accounting convention and basis of preparation

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

Critical accounting policies

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 For the Group and Company the critical accounting policies relate to revenue, property, plant and equipment, pensions and provisions Where such judgments are made they are detailed within the accounting policies below

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 Group and Company in future periods

IFRS 7	Financial Instruments Disclosures
IFRS 8	Operating Segments
IFRIC 4	Determining whether an arrangement contains a lease

The directors anticipate that the adoption of these pronouncements in future periods will have no material impact on the financial statements of the Group or the Company

The directors anticipate that the Group and Company will adopt these Standards and Interpretation on their effective dates

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

Revenue

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

Revenue represents charges for the use of the Group's distribution network, amortisation of customer contributions, recharge of costs incurred on behalf of companies in the CE Group and the invoiced value of other goods sold and services provided, exclusive of value added tax.

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

Any under or overrecovery of allowed distribution network revenues as prescribed by Ofgem is not provided for in the financial statements.

Income from credit sales charges is apportioned in the income statement over the period of the sales agreements.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Cost includes the purchase price of the asset and any costs, including internal employee and other costs, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The charge for depreciation is calculated to write off assets to their residual values over their estimated useful lives on a straight-line basis.

Distribution system assets	50 years
Metering equipment included in distribution system assets	up to 15 years
Information technology equipment included in distribution system assets	up to 10 years
Non-operational assets	
Buildings - freehold	up to 60 years
- leasehold	lower of lease period or 60 years
Fixtures and equipment	up to 10 years
Software development costs	up to 10 years

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Freehold land is not depreciated

Assets in the course of construction are carried at cost. Depreciation on these assets, on the same basis as other assets, commences when the assets are commissioned.

The estimated useful economic lives of property, plant and equipment are based on management's judgment and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of the Group's investment in property, plant and equipment, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

In accordance with IFRS, the Group is required to evaluate the carrying values of property, plant and equipment for impairment whenever circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. An impairment review requires management to make judgments concerning the cash flows, growth rates and discount rates for the cash-generating units under review.

Pensions

The Group contributes to the Electricity Supply Pension Scheme, a defined benefit scheme.

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

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of the scheme assets on a bid value basis, together with adjustments for unrecognised actuarial gains and losses and past service costs.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the future cash outflows using yields on high quality sterling corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits and follow discussions with the actuary. The operating results are affected by the actuarial assumptions used. These assumptions include investment returns on the scheme's assets, discount rates, pay growth and increases to pensions and deferred pensions. These assumptions may differ from actual results due to changing market and economic conditions and longer or shorter lives of scheme members. Further detail is provided in Note 28.

The Group also participates in a defined contribution scheme. Contributions payable to the scheme are charged to the income statement in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Customer contributions

Customer contributions towards distribution system assets are included in deferred revenue. The Group's policy is to credit the customer contribution to revenue over 50 years on a straight-line basis, in line with the useful life of the distribution system assets.

Software development costs

Costs in respect of major developments are capitalised and amortised over the expected life of the software.

Capitalised software costs that are not an integral part of the related hardware are included in intangible assets on the balance sheet and amortised over the expected life of the software of up to 10 years.

Investments

Undertakings, other than subsidiary undertakings, which the Group jointly controls, are treated as joint ventures.

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of joint ventures and associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in joint ventures and associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the joint venture and associate, less any impairment in the value of individual investments. Losses of the joint venture and associates in excess of the Group's interest in those joint venture and associates are not recognised.

Fixed asset investments are stated at cost less provision for or amounts written off for impairment in value.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Raw materials and goods for resale are valued at purchase cost determined on an average price basis.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

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

Leases

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

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

Taxation

The 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Research costs

Expenditure on research activities is written off to the income statement in the year in which it is incurred.

Other than software development noted above, the Group and Company do not carry out any other development activity that would give rise to an intangible asset.

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.

Other borrowing costs are recognised on an accruals basis and allocated to the income statement as incurred.

Derivatives

The Group may use derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements.

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.

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.

Cash and cash equivalents

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

Operating profit

Operating profit is stated after charging restructuring costs but before the share of results of joint venture, investment income and finance costs.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006

2 PRINCIPAL 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 Group and the Company after deducting all of its liabilities.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Reasonable estimates involve judgments made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute and prior experience.

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006****3 REVENUE AND SEGMENTAL ANALYSIS**

The Group operates in two principal areas of activity, that of the distribution of electricity and engineering contracting in the United Kingdom

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

	Distribution 2006 £m	Engineering Contracting 2006 £m	Other 2006 £m	Total 2006 £m
REVENUE				
External sales	196 4	78 1	5 8	280 3
Inter-segment sales	1 6	8 9	(10 5)	-
Total revenue	198 0	87 0	(4 7)	280 3
SEGMENTS RESULTS				
Operating profit	88 0	6 4	36 8	131 2
Share of profit after tax of joint venture accounted for using the equity method				0 4
Other losses				(0 3)
Investment income				16 2
Finance costs				(35 2)
Profit before tax				112 3
OTHER INFORMATION				
Capital additions	123 3	0 2	(5 6)	117 9
Depreciation and amortisation	33 9	0 2	(0 6)	33 5
Amortisation of deferred revenue	(7 2)	-	-	(7 2)
BALANCE SHEET				
Segment assets	1,172 5	20 5	(12 5)	1,180 5
Unallocated corporate assets				182 2
Total assets				1,362 7
Segment liabilities	(377 0)	(9 9)	(15 1)	(402 0)
Unallocated corporate liabilities				(547 1)
Total liabilities				(949 1)
Net assets/(liabilities) by segment	795 5	10 6	(27 6)	778 5
Unallocated net corporate liabilities				(364 9)
Total net assets				413 6

"Other" comprises generation, business support units and consolidation adjustments

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

Interest on loans to and from the different segments is charged at a commercial rate of interest

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

3 REVENUE AND SEGMENTAL ANALYSIS (CONTINUED)

	Distribution 2005 £m	Engineering Contracting 2005 £m	Other 2005 £m	Total 2005 £m
REVENUE				
External sales	191 6	99 7	6 0	297 3
Inter-segment sales	2 0	32 5	(34 5)	-
Total revenue	193 6	132 2	(28 5)	297 3
SEGMENTS RESULTS				
Operating profit	88 9	12 3	26 0	127 2
Share of profit after tax of joint venture accounted for using the equity method				0 6
Other gains				4 2
Investment income				13 1
Finance costs				(33 4)
Profit before tax				111 7
OTHER INFORMATION				
Capital additions	107 9	0 3	(6 4)	101 8
Depreciation and amortisation	31 7	0 5	(0 1)	32 1
Amortisation of deferred revenue	(6 5)	-	-	(6 5)
BALANCE SHEET				
Segment assets	1,084 8	42 4	(15 0)	1,112 2
Unallocated corporate assets				249 6
Total assets				1,361 8
Segment liabilities	(356 1)	(25 5)	(48 7)	(430 3)
Unallocated corporate liabilities				(544 3)
Total liabilities				(974 6)
Net assets/(liabilities) by segment	728 7	16 9	(63 7)	681 9
Unallocated net corporate liabilities				(294 7)
Total net assets				387 2

"Other" comprises generation, business support units and consolidation adjustments

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

Interest on loans to and from the different segments is charged at a commercial rate of interest

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**4 OPERATING PROFIT**

Operating profit is stated after charging/(crediting)

	2006 £m	2005 £m
Staff costs (Note 7)	15.6	24 0
Research costs	0.1	-
Depreciation of property, plant and equipment	32 1	29 7
Amortisation of deferred revenue	(7 2)	(6 5)
Amortisation of intangibles	1 4	2 4

The analysis of auditor's remuneration is as follows

	2006 £000	2005 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	30	81
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	202	173
Total audit fees	232	254

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

	2006 £000	2005 £000
Fees payable to the Company's auditors and their associates in respect of the audit of associated pension schemes	7	6

The auditors' remuneration, initially incurred by the Company, is recharged to other companies in the Group

5 INVESTMENT INCOME

	2006 £m	2005 £m
Dividends received	1.5	-
Interest receivable	14.7	13 1
Total investment income	16.2	13 1

6 FINANCE COSTS

	2006 £m	2005 £m
Dividends on non-equity preference shares	9 0	9 0
Interest payable on other borrowings	26 2	24 4
Total finance costs	35.2	33 4

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

7 STAFF COSTS

	GROUP		COMPANY	
	2006 £m	2005 £m	2006 £m	2005 £m
Salaries	46.1	50.8	2.8	2.2
Social security costs	4.2	4.5	0.2	0.2
Pension (credit)/cost (Note 28)	(15.2)	(6.9)	1.4	(1.3)
Defined contribution pension scheme costs	0.1	0.1	-	0.1
	35.2	48.5	4.4	1.2
Less: charged as capital expenditure	(19.6)	(24.5)	-	-
	15.6	24.0	4.4	1.2

The average monthly number of employees

	2006 Number	2005 Number	2006 Number	2005 Number
Distribution	935	807	-	-
Engineering contracting	423	660	-	-
Other	44	37	44	37
	1,402	1,504	44	37

The change in the allocation of employees during the year reflects the re-organisation of the way the CE Group's distribution businesses operated

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**8 DIRECTORS AND KEY PERSONNEL****a) EMOLUMENTS**

	Highest paid director		All	
	2006	2005	2006	2005
	£000	£000	£000	£000
Short-term employee benefits	101	205	193	302
Compensation for loss of office	248	-	248	-
Post retirement benefits	16	53	52	84
Other long-term benefits	(167)	169	(65)	280
	198	427	428	666

The directors are remunerated for their services to the CE Group, of which Northern Electric plc is a subsidiary. The figures above represent the share of the costs borne by Northern Electric plc.

Other long-term benefits include credits for amounts previously accrued under the Long Term Incentive Plan.

	Other Key Personnel	
	2006	2005
	£000	£000
Short-term employee benefits	9	-
Post retirement benefits	1	-
Other long-term benefits	-	-
	10	-

On 1 November 2006 the CE Group appointed a new President and Chief Operating Officer, who was not a member of the board of Northern Electric plc as at the balance sheet date. The figures above represent the share of the costs borne by Northern Electric plc.

b) PENSIONS

Pension contributions relate to defined benefit schemes only. At 31 December 2006, 4 directors were members of defined benefit schemes (2005 - 5 directors).

The accrued pension benefit relating to the highest paid director is £89,623 (2005 - £75,739).

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

8 DIRECTORS AND KEY PERSONNEL (CONTINUED)

c) SHARE OPTIONS

No options over Northern Electric plc shares existed during the year ended 31 December 2006 (2005 - nil)

The options over the ordinary shares of, and accounted by, MidAmerican Energy Holdings Company were as follows

	At 31 December 2005 Number	At 31 December 2006 Number	At 1 April 2007 Number
David L Sokol	1,199,277	549,277	549,277
Gregory E Abel	649,052	524,052	524,052

No other director held an option over the ordinary shares of MidAmerican Energy Holdings Company

No options over shares in MidAmerican Energy Holdings Company were granted during the year ended 31 December 2006

No director held an option over the shares in Berkshire Hathaway, Inc

d) BENEFICIAL INTERESTS

No director had an interest in the share capital of the Company or any of its subsidiaries

No director had an interest in the share capital of CE Electric UK Limited, CE Electric UK Holdings or CE Electric UK Funding Company

The beneficial interests of the directors in the ordinary shares of MidAmerican Energy Holdings Company were as follows

	At 1 January 2006 Number	At 31 December 2006 Number	At 1 April 2007 Number
David L Sokol	324,205	629,931	629,931
Gregory E Abel	55,940	225,940	225,940

During the year, no other director held an interest in the share capital of MidAmerican Energy Holdings Company

The beneficial interests of the directors in the ordinary shares of Berkshire Hathaway, Inc were as follows

	At 9 February 2006 Number	At 31 December 2006 Number	At 1 April 2007 Number
David L Sokol	207 Class A 100 Class B	207 Class A 100 Class B	207 Class A 100 Class B
Patrick J Goodman	2 Class A 0 Class B	2 Class A 0 Class B	2 Class A 3 Class B

During the year, no other director held an interest in the share capital of Berkshire Hathaway, Inc

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**9 INCOME TAX EXPENSE**

	£m	2006	£m	£m	2005	£m
(a) Analysis of charge for the year:						
Current tax:						
Corporation tax charge for the year	11.4			10.1		
Provision for payment for group relief	14.3			16.5		
Over provision for prior years	(1.2)			(2.9)		
Total current tax charge		24.5			23.7	
Deferred tax (Note 20)		11.4			12.9	
Tax charge on profit before tax		35.9			36.6	
(b) Reconciliation of tax charge:						
Profit before tax		112.3			111.7	
Tax on profit before tax at standard rate of corporation tax in the United Kingdom of 30%		33.7			33.5	
Factors affecting charge:						
Permanent differences		2.3			2.7	
Tax effect of results of joint venture		(0.1)			(0.2)	
Adjustment to prior years		-			0.6	
Tax charge on profit before tax		35.9			36.6	
(c) Factors that may affect future tax charge:						

The Chancellor's Budget of March 2007 announced changes to the rate of corporation tax and to capital allowances to take effect between April 2008 and April 2010. Northern Electric plc will evaluate the effect of these changes as soon as full details are known.

10 DIVIDENDS

	2006 Pence per share	2005 Pence per share	2006 £m	2005 £m
Ordinary dividend for year	39.16	39.16	50.0	50.0

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

11 PROPERTY, PLANT AND EQUIPMENT

	GROUP			
	Distribution System £m	Non- operational land and buildings £m	Fixtures and equipment £m	Total £m
COST				
At 1 January 2005	1,379.1	6.8	48.4	1,434.3
Additions	98.7	-	3.5	102.2
Disposals	(4.5)	-	(2.3)	(6.8)
At 31 December 2005	1,473.3	6.8	49.6	1,529.7
Additions	113.1	-	1.5	114.6
Transfer to Group undertakings (Note 27)	-	-	(0.2)	(0.2)
Disposals	(4.7)	-	(1.7)	(6.4)
At 31 December 2006	1,581.7	6.8	49.2	1,637.7
DEPRECIATION				
At 1 January 2005	449.0	4.1	44.0	497.1
Provided during the year	27.1	0.1	2.5	29.7
Disposals	(4.5)	-	(2.3)	(6.8)
At 31 December 2005	471.6	4.2	44.2	520.0
Provided during the year	30.2	-	1.9	32.1
Transfer to Group undertakings (Note 27)	-	-	(0.1)	(0.1)
Disposals	(4.7)	-	(1.7)	(6.4)
At 31 December 2006	497.1	4.2	44.3	545.6
Net book value at 31 December 2006	1,084.6	2.6	4.9	1,092.1
Net book value at 31 December 2005	1,001.7	2.6	5.4	1,009.7
Assets in the course of construction included above				
At 1 January 2005	113.9	-	0.4	114.3
Additions	106.0	-	0.4	106.4
Available for use	(154.4)	-	-	(154.4)
At 31 December 2005	65.5	-	0.8	66.3
Additions	113.1	-	-	113.1
Available for use	(88.7)	-	(0.8)	(89.5)
At 31 December 2006	89.9	-	-	89.9

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

11 PROPERTY PLANT AND EQUIPMENT (CONTINUED)

	Distribution System £m	COMPANY Fixtures And Equipment £m	Total £m
COST			
At 1 January 2005	2 4	3 3	5 7
Additions	-	0 2	0 2
Disposals	(1 1)	-	(1 1)
At 31 December 2005	1 3	3 5	4 8
At 31 December 2006	1 3	3 5	4 8
DEPRECIATION			
At 1 January 2005	-	2 9	2 9
Provided during the year	-	0 4	0 4
At 31 December 2005	-	3 3	3 3
At 31 December 2006	-	3 3	3 3
Net book value at 31 December 2006	1 3	0 2	1 5
Net book value at 31 December 2005	1 3	0 2	1 5

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

	2006 £m	2005 £m
Freehold	1.9	1 9
Long leasehold	0.6	0 6
Short leasehold	0.1	0 1
	2.6	2 6

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

12 GROUP INTANGIBLES

	Software Development Costs £m
COST	
At 1 January 2005	21.4
Disposals	(0.4)
At 31 December 2005	21.0
Additions	3.3
At 31 December 2006	24.3
AMORTISATION	
At 1 January 2005	14.5
Charge for the year	2.4
At 31 December 2005	16.9
Charge for the year	1.4
At 31 December 2006	18.3
Net book value at 31 December 2006	6.0
Net book value at 31 December 2005	4.1

The Company had no intangible assets at 31 December 2006 (2005 - £nil)

13 INVESTMENTS

	GROUP			COMPANY		
	Shares of joint venture's net assets £m	Shares in other undertakings £m	Total £m	Shares in subsidiary undertakings £m	Shares in other undertakings £m	Total £m
SHARE OF NET ASSETS/COST						
At 1 January 2005	3.1	0.1	3.2	327.1	1.0	328.1
Share of joint venture's results less dividends received	0.3	-	0.3	-	-	-
Reclassification (i)	-	13.5	13.5	-	-	-
At 31 December 2005	3.4	13.6	17.0	327.1	1.0	328.1
Share of joint venture's results less dividends received	(0.2)	-	(0.2)	-	-	-
Disposals (ii)	-	(13.5)	(13.5)	-	-	-
At 31 December 2006	3.2	0.1	3.3	327.1	1.0	328.1

(i) Following the arrangements entered into on 28 June 2005, Northern Electric Generation (TPL) Limited was deconsolidated and accounted for as an equity investment

(ii) On 8 December 2006, following an earlier capital reconstruction of Northern Electric Generation (TPL) Limited, Northern Electric Generation (Peaking) Limited, a Group company, completed the arrangements entered into on 28 June 2005 and disposed of its interest in Northern Electric Generation (TPL) Limited

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**13 INVESTMENTS (CONTINUED)**

Details of the principal investments of the Group at 31 December 2006 are listed below

Name of company	Holding of shares	Proportion of voting rights and shares held	Nature of business
Principal subsidiary undertakings			
Held by Company			
Integrated Utility Services Limited	3,103,000 at £1	100%	Engineering contracting services
Northern Electric Distribution Limited	200,000,100 at £1	100%	Distribution of electricity
Northern Electric Genco	2 at £1	100%	Holding company
Northern Electric & Gas Limited	84,785,000 at £1	100%	Electrical and gas appliance retailing (discontinued)
Northern Electric Properties Limited	32,207,100 at £1	100%	Property holding and management company
Northern Transport Finance Limited	7,000,000 at £1	100%	Car finance company
UK Distribution Limited	1 at £1	100%	Holding company
Held by Northern Electric subsidiaries			
Northern Electric Finance plc	50,000 at £1	100%	Finance company
Northern Electric Generation (Peaking) Limited	1,500,000 at £1	100%	Generation of electricity
Joint venture held by Company:			
Vehicle Lease and Service Limited	950,000 at £1	50%	Transport services

All the above companies are registered in England and Wales

14 INTEREST IN JOINT VENTURE

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

	2006 £m	2005 £m
Long-term assets	10.5	10.9
Current assets	10.9	11.5
Long-term liabilities	(8.5)	(8.9)
Current liabilities	(6.5)	(6.7)
Net assets	6.4	6.8
Group's share of joint venture's net assets	3.2	3.4
Revenue	11.4	11.9
Profit for the year	0.8	1.2
Group's share of joint venture's profit for the year	0.4	0.6

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

15 INVENTORIES

	GROUP	
	2006 £m	2005 £m
Raw materials and consumables	6.9	7.5
Work in progress	9.8	20.1
Goods for resale	0.5	0.3
	<u>17.2</u>	<u>27.9</u>

The Company had no inventories at 31 December 2006 (2005 - £nil)

16 GROUP CONSTRUCTION CONTRACTS

	2006 £m	2005 £m
Contracts in progress at balance sheet date		
Amounts due from customers included in inventories	<u>9.8</u>	<u>20.1</u>
Contract costs incurred plus recognised profits less recognised losses to date	67.8	85.9
Less Progress billings	<u>(58.0)</u>	<u>(65.8)</u>
	<u>9.8</u>	<u>20.1</u>

At 31 December 2006, retentions held by customers for contract work amounted to £0.1m (2005 £0.1m)

Advances received from customers for contract work amounted to £nil (2005 £nil)

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**17 OTHER FINANCIAL ASSETS****Long-term securities**

	GROUP		Fair value	
	Book value			
	2006	2005	2006	2005
	£m	£m	£m	£m
Guaranteed investment contract maturity				
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

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

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

Trade and other receivables

	GROUP		COMPANY	
	2006	2005	2006	2005
	£m	£m	£m	£m
Non-current				
Finance lease receivables	4.6	2.8	-	-
Current				
Amounts receivable for sale of goods or services	34.0	32.9	-	0.1
Construction contract customers	10.4	6.2	-	-
Finance lease receivables	3.1	3.4	-	-
Amounts owed by parent undertakings	-	3.0	0.2	-
Other receivables	4.9	4.9	0.4	-
Prepayments and accrued income	3.2	3.4	0.2	-
	55.6	53.8	0.8	0.1

The directors consider the carrying amount of trade and other receivables approximates their fair value

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**17 OTHER FINANCIAL ASSETS (CONTINUED)****Finance lease receivables**

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	2006	2005
	£m	£m	£m	£m
Amounts receivable under finance leases				
Within one year	3.4	3.7	3.1	3.4
In the second to fifth years inclusive	5.0	3.0	4.6	2.8
	8.4	6.7	7.7	6.2
Less: unearned finance income	(0.7)	(0.5)	-	-
	7.7	6.2	7.7	6.2

Northern Transport Finance Limited, a wholly owned subsidiary, enters into credit finance arrangements for motor vehicles with employees in the CE Group. All agreements are denominated in sterling. The term of the finance agreements is predominantly three years.

The interest rate inherent in the agreements is fixed at the contract date for all of the term of the agreement. The average effective interest rate contracted is approximately 6.5% (2005: 6.5%) per annum.

Cash and cash equivalents

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

Credit risk

The Group's principal financial assets are short-term securities, cash and cash equivalents and trade and other receivables.

The amounts presented in the balance sheet in relation to trade and other receivables are net of allowances for doubtful receivables of £1.6m (2005: £1.7m).

Approximately 42% (2005: 44%) of the Group's distribution revenues are with one counterparty.

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**18 OTHER FINANCIAL LIABILITIES****Trade and other payables**

	GROUP		COMPANY	
	2006 £m	2005 £m	2006 £m	2005 £m
Payments received on account	6.8	5.4	-	-
Trade payables	7.1	4.5	1.3	0.7
Amounts due to parent undertakings	1.4	1.1	0.4	-
Amounts due to other undertakings	-	13.5	-	-
Amounts due to joint ventures	0.4	0.7	-	-
Other taxes and social security	3.2	2.8	2.6	2.8
Accruals	26.5	31.3	1.9	1.9
Interest payable	7.0	6.9	0.1	-
Other payables	14.0	15.9	5.1	6.5
	66.4	82.1	11.4	11.9

Current income tax liabilities

	GROUP		COMPANY	
	2006 £m	2005 £m	2006 £m	2005 £m
Corporation tax	4.8	11.8	-	11.8
Group relief	7.8	4.5	3.3	(7.3)
	12.6	16.3	3.3	4.5

The directors consider the carrying amount of other financial liabilities approximates their fair value

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

19 BORROWINGS

	GROUP			
	Book value		Fair value	
	2006 £m	2005 £m	2006 £m	2005 £m
Loans	245.8	251.7	287.9	307.9
Amounts owed to Group undertakings	114.3	113.4	113.3	114.7
Preference shares	1.1	1.1	150.2	158.6
	361.2	366.2	551.4	581.2

The borrowings are repayable as follows

On demand or within one year	114.3	19.4	113.3	19.4
In the second year	-	100.0	-	101.3
After five years	246.9	246.8	438.1	460.5
	361.2	366.2	551.4	581.2

Analysis of borrowings

Working capital loan from Group undertakings	14.3	19.4	14.3	19.4
2007 – 4.75% loan from Group undertaking	100.0	100.0	99.0	101.3
2020 – 8.875%	98.4	98.3	129.8	137.9
2035 – 5.125%	147.4	147.4	158.1	164.0
Cumulative preference shares	1.1	1.1	150.2	158.6
	361.2	366.2	551.4	581.2

	COMPANY			
	Book value		Fair value	
	2006 £m	2005 £m	2006 £m	2005 £m
Amounts owed to Group undertakings – working capital loan	14.3	13.3	14.3	13.3
Cumulative preference shares	1.1	1.1	150.2	158.6
	15.4	14.4	164.5	171.9

The borrowings are repayable as follows

On demand or within one year	14.3	13.3	14.3	13.3
After five years	1.1	1.1	150.2	158.6
	15.4	14.4	164.5	171.9

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

19 BORROWINGS (CONTINUED)

The directors' estimates of the fair value of the 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 Group and Company to cash flow interest rate risk. All other loans are at fixed interest rate and expose the Group and Company to fair value interest rate risk.

The loans are non-secured

The Company has authorised 115,000,000 non-equity cumulative preference shares of 1p each as at 31 December 2006 and 31 December 2005. As at 31 December 2006 and 31 December 2005, 111,662,378 were allotted, called up and fully paid.

The terms of the cumulative preference shares

- i) entitle holders, in priority to holders of all other classes of shares, to a fixed cumulative preferential dividend of 8.061p (net) per share per annum payable half-yearly in equal amounts on 31 March and 30 September,
- ii) on a return of capital on a winding up, or otherwise, will carry the right to repayment of capital together with a premium of 99p per share and a sum equal to any arrears or accruals of dividend, this right is in priority to the rights of ordinary shareholders,
- iii) carry the right to attend a general meeting of the Company, and vote if, at the date of the notice convening the meeting, payment of the dividend to which they are entitled is six months or more in arrears, or if a resolution is to be considered at the meeting for winding-up the Company or abrogating, varying or modifying any of the special rights attaching to them, and
- iv) are redeemable in the event of the revocation by the Secretary of State of the Company's Public Electricity Supply Licence at the value given in (ii) above.

During the year ended 31 December 2001, under the terms of the Company's transfer scheme, as approved by the Secretary of State in accordance with the provisions of the Utilities Act 2000, the Company's Public Electricity Supply Licence was converted into an Electricity Distribution Licence and an Electricity Supply Licence.

At 31 December 2006, the Group had available £57.0m (2005: £51.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

20 DEFERRED TAX

	Accelerated Tax Depreciation £m	Rollover Relief £m	GROUP Retirement Benefit (Obligations)/ Asset £m	Other £m	Total £m
At 1 January 2005	124.4	37.3	(20.0)	0.3	142.0
Charge to income	3.0	-	8.9	1.0	12.9
At 31 December 2005	127.4	37.3	(11.1)	1.3	154.9
Charge/(credit) to income	(0.7)	1.5	12.2	(1.6)	11.4
At 31 December 2006	126.7	38.8	1.1	(0.3)	166.3

	Accelerated Tax Depreciation £m	Rollover Relief £m	COMPANY Retirement Benefit Obligations £m	Total £m
At 1 January 2005	(0.2)	36.2	(1.1)	34.9
Charge to income	-	-	0.8	0.8
At 31 December 2005	(0.2)	36.2	(0.3)	35.7
Charge/(credit) to income	-	1.3	(0.1)	1.2
At 31 December 2006	(0.2)	37.5	(0.4)	36.9

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

21 DEFERRED REVENUE

	Customer Contributions £m	
At 1 January 2005		285.2
Additions		33.7
Amortisation		(6.5)
At 31 December 2005		312.4
Additions		31.5
Amortisation		(7.2)
At 31 December 2006		336.7
	2006	2005
	£m	£m
Included in current liabilities	9.4	7.0
Included in non-current liabilities	327.3	305.4
	336.7	312.4

The Company had no deferred revenue at 31 December 2006 (2005: £nil)

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

22 PROVISIONS FOR LIABILITIES AND CHARGES

	GROUP			Total £m
	Claims £m	Onerous contracts £m	Other £m	
At 1 January 2006	2.2	2.4	0.8	5.4
Utilised/paid in year	(0.9)	(1.5)	(0.4)	(2.8)
Transferred from income statement	0.8	0.9	0.4	2.1
Transferred to Group undertaking (Note 27)	(0.1)	-	-	(0.1)
At 31 December 2006	<u>2.0</u>	<u>1.8</u>	<u>0.8</u>	<u>4.6</u>

	COMPANY Claims £m
At 1 January 2006	0.1
Utilised/paid in year	(0.1)
At 31 December 2006	<u>-</u>

	GROUP		COMPANY	
	2006 £m	2005 £m	2006 £m	2005 £m
Included in current liabilities	3.7	4.7	-	0.1
Included in non-current liabilities	0.9	0.7	-	-
	<u>4.6</u>	<u>5.4</u>	<u>-</u>	<u>0.1</u>

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

Onerous contracts Relates to former retail business property leases. Settlement is expected substantially within the next 12 months.

Other Relates primarily to environmental liabilities, wayleave disputes and holidays in suspense.

23 SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	Number (millions)	£m	Number (millions)	£m
At 31 December 2005 and 2006				
Equity – ordinary shares of 56 12/23p each	<u>176.9</u>	<u>100.0</u>	<u>127.7</u>	<u>72.2</u>

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

Details of the cumulative non-equity preference shares are contained within Note 19.

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**24 MOVEMENT ON RESERVES AND RECONCILIATION OF TOTAL EQUITY**

GROUP					
	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Total equity at 1 January 2005	72.2	158.8	6.2	124.9	362.1
Profit for the year	-	-	-	75.1	75.1
Dividends	-	-	-	(50.0)	(50.0)
Total equity at 31 December 2005	72.2	158.8	6.2	150.0	387.2
Profit for the year	-	-	-	76.4	76.4
Dividends	-	-	-	(50.0)	(50.0)
Total equity at 31 December 2006	72.2	158.8	6.2	176.4	413.6

COMPANY					
	Share Capital £m	Share Premium Account £m	Capital Redemption Reserve £m	Retained Earnings £m	Total Equity £m
Total equity at 1 January 2005	72.2	158.8	6.2	121.2	358.4
Profit for the year	-	-	-	35.1	35.1
Dividends	-	-	-	(50.0)	(50.0)
Total equity at 31 December 2005	72.2	158.8	6.2	106.3	343.5
Profit for the year	-	-	-	30.3	30.3
Dividends	-	-	-	(50.0)	(50.0)
Total equity at 31 December 2006	72.2	158.8	6.2	86.6	323.8

At the Group's Annual General Meeting in August 1994, the shareholders gave approval to on-market purchases of up to 10% of its shares and this was given effect on 21 September 1994 when 12,370,400 shares were purchased. This transaction resulted in the creation of a capital redemption reserve of £6.2m.

Under section 263(3) (b) of the Companies Act 1985 this reserve is treated as an undistributable reserve.

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**25 NET CASH FROM OPERATING ACTIVITIES**

	GROUP		COMPANY	
	2006 £m	2005 £m	2006 £m	2005 £m
Operating profit	131.2	127.2	1.3	4.3
Depreciation and amortisation	33.5	32.1	-	0.4
Amortisation of deferred revenue	(7.2)	(6.5)	-	-
(Decrease)/increase in retirement benefit asset/obligation	(35.9)	(25.9)	0.1	(2.5)
Decrease in provisions	(0.2)	(2.0)	(0.1)	(0.1)
Operating cash flows before movements in working capital	121.4	124.9	1.3	2.1
Decrease/(increase) in inventories	10.7	(14.9)	-	-
Increase in receivables	(2.5)	(4.1)	(0.3)	(0.1)
(Decrease)/increase in payables	(2.7)	11.3	(0.6)	(2.1)
Cash generated/(used) by operations	126.9	117.2	0.4	(0.1)
Income taxes (paid)/received	(17.2)	4.3	(11.8)	11.5
Group relief (paid)/received	(11.0)	(42.7)	9.8	(30.7)
Dividends received	1.6	-	37.7	37.6
Interest received	14.6	10.0	8.0	10.7
Interest paid	(37.2)	(31.0)	(15.5)	(12.8)
Net cash from operating activities	77.7	57.8	28.6	16.2

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**26 OPERATING LEASE ARRANGEMENTS**

	GROUP	
	2006 £m	2005 £m
Minimum lease payments under operating leases recognised in the year	<u>5.0</u>	<u>5.9</u>

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	2006 £m	2005 £m
Within one year	2.2	2.6
In the second to fifth year inclusive	5.1	6.6
After five years	<u>3.3</u>	<u>4.9</u>
	<u>10.6</u>	<u>14.1</u>

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

The Company had no obligations under hire agreements (2005 - £nil)

27 DISPOSAL TO YORKSHIRE ELECTRICITY DISTRIBUTION PLC

On 1 April 2006, the Group entered into an agreement with Yorkshire Electricity Distribution plc (YEDL), a member of the CE Group, for YEDL to purchase certain assets and liabilities of the Group, at book value, comprising the provision of connections services and work on and services for the improvement and repair of its electricity distribution network.

Net liabilities at date of disposal

	£m
Property, plant and equipment	0.1
Trade and other payables	(4.6)
Provisions	<u>(0.1)</u>
Total cash consideration paid	<u>(4.6)</u>

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED) **FOR THE YEAR ENDED 31 DECEMBER 2006**

28 PENSION COMMITMENTS

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

The last full actuarial valuation of the Northern Group's share of the ESPS was carried out by Hewitt, Bacon & Woodrow, consulting actuaries, as at 31 March 2004. The projected unit method was used for the valuation. The principal actuarial assumptions were that the investment return would exceed salary increases by 1.6% per annum (inclusive of merit awards) and exceed future pension increases by 2.0% per annum.

The total market value of the assets of the Northern Group at the date of actuarial valuation was £678.8m.

For the Northern Group the valuation showed that the actuarial value of the assets represented 85.3% of the actuarial value of the accrued benefits. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on service completed to date for active members, but without allowing for future salary increases. This represented a funding deficiency of £116.6m. Allowing for the effect of future salary increases the actuarial value of the assets was 78.1% of the accrued benefits, representing a deficiency of £190.3m.

The Company reached agreement during 2005 with the Independent Trustee and Group Trustees to repair the scheme deficit. The agreement comprises monthly cash payments of £1.9m (£23.1m per annum) that started in April 2005. Of these payments, £0.3m per month (£4.2m per annum) is recovered by the Group from other participating employers in the scheme within the CE Group. These payments address the funding deficiency of £116.6m over six years and the deficit of £190.3m over 12 years subject to movements in actuarial assumptions adopted in the triennial valuation as at 31 March 2004.

At the Group's request the actuary has carried out a separate formal review of the Group's future pension costs using the assumptions set out below, which the actuary has confirmed facilitate a reasonable best estimate of those costs. This review has been based on the same membership and other data as at 31 March 2004. The board has accepted the advice of the actuary and formally approved the use of these assumptions for the purpose of calculating the Group's pension cost.

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**28 PENSION COMMITMENTS (CONTINUED)**

Principal assumptions

	2006	2005
	Projected unit	Projected unit
Valuation method		
Discount rate	5.20%	4.75%
Inflation rate	3.00%	2.50%
Increase to pensions	3.00%	2.50%
Increase to deferred benefits	3.00%	2.50%
Salary increases	3.25%	2.75%

The mortality assumptions are based on a mortality experience investigation carried out at the time of the 2004 funding valuation and allow for future improvements in mortality, in addition to those already encompassed within standard mortality tables. The assumption used for these disclosures implies that a member who retires in 2007 at age 60 will live for a further 23 years after retirement, if he is male, and for a further 26 years after retirement, if she is female.

These assumptions are determined in accordance with International Accounting Standard 19, "Employee Benefits", (IAS 19) and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2004, which determined the Group's contribution rate for future years.

For closed schemes under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

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

	2006	2005
	£m	£m
Present value of funded defined benefit obligations	(925.9)	(906.0)
Fair value of plan assets	912.8	821.6
	(13.1)	(84.4)
Unrecognised actuarial losses	17.9	48.1
Net surplus/(deficit)	4.8	(36.3)
Deferred tax (liability)/asset	(1.4)	10.9
Net asset/(liability) recognised on the balance sheet	3.4	(25.4)

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

	2006	2005
	£m	£m
Current service cost	10.0	8.4
Interest cost on obligation	42.2	42.0
Expected return on plan assets	(57.5)	(49.4)
	(5.3)	1.0
Recovered from other CE Group undertakings	(9.9)	(7.9)
	(15.2)	(6.9)

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**28 PENSIONS COMMITMENTS (CONTINUED)**

The actual return on plan assets was £89.9m (2005 £115.9m)

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

	2006 £m	2005 £m
Opening defined benefit obligation	906.0	819.0
Current service cost	10.0	8.4
Interest cost	42.2	42.0
Contributions from employees	3.4	3.4
Actuarial losses	2.1	70.1
Benefits paid	(37.8)	(36.9)
Closing defined benefit obligation	925.9	906.0

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

	2006 £m	2005 £m
Opening fair value of plan assets	821.6	708.4
Expected returns	57.5	49.4
Actuarial gains	32.4	66.5
Contributions by employer	35.7	30.8
Contribution from employees	3.4	3.4
Benefits paid	(37.8)	(36.9)
Closing fair value of plan assets	912.8	821.6

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

	Long term rates of return expected at		Value	
	2006 %	2005 %	2006 £m	2005 £m
Equities	8.7	8.7	473.6	422.7
Gilts	4.5	4.5	334.4	304.7
Cash	5.0	4.5	3.0	5.0
Property	7.7	7.7	101.8	89.2
Total fair value of plan assets			912.8	821.6

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**28 PENSIONS COMMITMENTS (CONTINUED)**

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

	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	(925.9)	(906 0)	(819 0)
Fair value of plan assets	912.8	821 6	708 4
Deficit	(13.1)	(84 4)	(110 6)
Experience losses on plan liabilities	(2.1)	(70 1)	(56 9)
Experience gains on plan assets	32.4	66 5	12 4

The Group expects to contribute approximately £35.9m to its defined benefit plan in 2007

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

	£m
At 1 January 2006	1 2
Utilised/paid in the year	(0 1)
Transferred from income statement	0 2
At 31 December 2006	1.3

29 CAPITAL AND OTHER COMMITMENTS

The Group has entered into contractual commitments in relation to capital investment of £10.6m (2005 - £5.1m)

30 DIRECTORS' INTERESTS

There are no interests in contracts, which are required to be disclosed under the Companies Act 1985

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**31 RELATED PARTY TRANSACTIONS****GROUP**

Details of transactions between the Group and other related parties are disclosed below

Loans

The Group has made loans to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2006 was £9.9m (2005: £8.1m). Included within cash and cash equivalents is £79.1m as at 31 December 2006 (2005: £146.5m) in respect of these loans.

The Group has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2006 was £8.9m (2005: £3.1m). Included within borrowings is £114.3m as at 31 December 2006 (2005: £113.4m) and within trade and other payables £1.0m as at 31 December 2006 (2005: £1.0m) in respect of these loans.

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

Trading transactions

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Inventories (Note 15) £m	Amounts Owed by Related Party (Note 17) £m	Amounts Owed to Related Party (Note 18) £m
2006:					
CE Insurance Services Limited	-	0.6	-	-	-
CE UK Gas Holdings Limited	0.2	-	-	-	-
Integrated Utility Services Limited (Registered in Eire)	-	0.1	-	-	0.1
Vehicle Lease and Service Limited	-	4.1	-	-	0.4
Yorkshire Electricity Distribution plc	<u>16.5</u>	<u>4.9</u>	<u>-</u>	<u>-</u>	<u>-</u>
2005					
CE Insurance Services Limited	-	0.8	-	-	-
CE UK Gas Holdings Limited	0.2	-	-	-	-
Teesside Power Limited	0.8	-	-	-	-
Vehicle Lease and Service Limited	0.2	5.6	-	-	0.7
Yorkshire Electricity Distribution plc	<u>57.6</u>	<u>1.6</u>	<u>10.8</u>	<u>3.0</u>	<u>0.1</u>

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

31 RELATED PARTY TRANSACTIONS (CONTINUED)

GROUP (CONTINUED)

Trading transactions (continued)

Sales and purchases from related parties were made at commercial prices

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

During 2006, 3 directors (2005: 3) and 1 key personnel (2005: nil) utilised the services provided by Northern Transport Finance Limited (NTFL).

The amounts included in finance lease receivables (Note 17) owed by these directors and key personnel total £0.1m (2005: £0.1m) in respect of non-current receivables.

COMPANY

Details of transactions between the Company and other related parties are disclosed below.

Loans

The Company has made loans to companies in the CE Group. The total interest included in investment income in the income statement for the year ended 31 December 2006 was £8.0m (2005: £9.2m). Included within cash and cash equivalents is £61.7m as at 31 December 2006 (2005: £81.6m) in respect of these loans.

The Company has received loans from companies in the CE Group. The total interest included in finance costs in the income statement for the year ended 31 December 2006 was £6.3m (2005: £3.7m). Included within borrowings is £14.3m as at 31 December 2006 (2005: £13.3m) in respect of these loans.

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

NORTHERN ELECTRIC plc**REGISTERED NUMBER 2366942****NOTES TO THE ACCOUNTS (CONTINUED)**
FOR THE YEAR ENDED 31 DECEMBER 2006**31 RELATED PARTY TRANSACTIONS (CONTINUED)****COMPANY (CONTINUED)****Trading transactions**

During the year, the Company entered into the following trading transactions with other members of the CE Group

Related Party	Sales to Related Party £m	Purchases from Related Party £m	Dividends received from Related Party £m
2006:			
CE UK Gas Holdings Limited	0.2	-	-
Integrated Utility Services Limited	0.5	-	8.5
Northern Electric & Gas Limited	-	-	2.2
Northern Electric Distribution Limited	4.8	0.6	25.0
Northern Electric Properties Limited	-	0.2	1.0
Northern Transport Finance Limited	-	-	0.4
Vehicle Lease and Service Limited	-	-	0.6
Yorkshire Electricity Distribution plc	4.5	-	-
2005			
CE UK Gas Holdings Limited	0.2	-	-
Integrated Utility Services Limited	0.1	-	6.9
Northern Electric Distribution Limited	4.5	0.1	30.0
Northern Electric Properties Limited	-	0.3	-
Northern Transport Finance Limited	-	-	0.5
Teesside Power Limited	0.8	-	-
Vehicle Lease and Service Limited	-	-	0.2
Yorkshire Electricity Distribution plc	3.8	-	-

Sales and purchases from related parties were made at commercial prices

There are no amounts outstanding to other members of the CE Group

Details of dividends paid can be found in Note 10

The Company has received £2.6m (2005: £7.3m) of group relief from other companies in the CE Group. Payment at the UK statutory rate of 30% (2005: 30%) will be made for the use of these tax losses.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

32 PARENT UNDERTAKINGS

The immediate parent undertaking of Northern Electric plc is CE Electric UK Limited. The ultimate controlling party and ultimate parent undertaking of CE Electric UK 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 Northern Electric plc 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.

NORTHERN ELECTRIC plc

REGISTERED NUMBER 2366942

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Northern Electric plc will be held at Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF on 4 July 2007 at 10 00 am for the following purposes

ORDINARY BUSINESS

Resolution 1

To receive and consider the directors' and auditors' reports and the Group accounts for the year ended 31 December 2006

Resolution 2

To declare that no final dividend be paid for the year ended 31 December 2006

Resolution 3

To re-elect Mr D L Sokol as a director

Resolution 4

To re-elect Mr R Dixon as a director

Resolution 5

To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to determine their remuneration

By order of the board

John Elliott

Secretary

20 April 2007

Registered office.

**Lloyds Court, 78 Grey Street,
Newcastle upon Tyne, NE1 6AF
Registered in England No 2366942**

Note

All the issued ordinary shares in the Company are held by or on behalf of CE Electric UK Limited. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

Holders of preference shares have the right to receive notice of, attend and speak at the Annual General Meeting but are only entitled to vote if, at the date of the notice of the meeting, payment of the dividend to which they are entitled is six months or more in arrears or if a resolution is to be considered at the meeting for the winding up of the Company or abrogating, varying or modifying any of the special rights attaching to the preference shares. As none of these circumstances apply to this Annual General Meeting, preference shareholders should note that they do not have the right to vote on any of the business to be considered.

The current price of the Company's preference shares can be obtained from the web site of the London Stock Exchange at www.londonstockexchange.com