NORTHERN POWERGRID HOLDINGS COMPANY

HALF-YEARLY FINANCIAL REPORT

SIX MONTHS ENDED 30 JUNE 2015

NORTHERN POWERGRID HOLDINGS COMPANY

CONTENTS OF THE HALF YEARLY REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2015

NORTHERN POWERGRID HOLDINGS COMPANY
(REGISTERED NUMBER: 03476201)

INTERIM MANAGEMENT REPORT

Registered Number: 03476201
Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF

Cautionary Statement

This interim management report has been prepared solely to provide additional information to shareholders to assess the business and strategies of Northern Powergrid Holdings Company (the "Company") and its subsidiaries (together the "Group") and the potential for those strategies to succeed and should not be relied on by any other party or for any other purpose.

Review of the six months to 30 June 2015

The Company's main subsidiary companies are Northern Powergrid (Northeast) Limited ("NPg Northeast") and Northern Powergrid (Yorkshire) plc ("NPg Yorkshire") (together "Northern Powergrid"), Integrated Utility Services Limited ("IUS"), CalEnergy Resources Limited ("CE Resources") and Northern Powergrid Metering Limited ("Metering").

NPg Northeast and NPg Yorkshire are distribution network operators and distribute electricity to a total of approximately 3.9 million customers connected to their electricity distribution networks, IUS provides engineering contracting services, CE Resources holds interests in hydrocarbon permits in Australia, Poland and the United Kingdom and Metering rents meters to energy suppliers. The Group operates a business model and strategy based on its core principles, details of which can be found in the Group's annual reports and accounts for the year ended 31 December 2014.

Financial strength

Results for the six months ended 30 June 2015

The half-yearly accounts for the six months ended 30 June 2015 consolidate the results of the Group and are prepared under International Financial Reporting Standards. The half-yearly accounts do not comprise statutory accounts required to be delivered to the Registrar of Companies under the Companies Act 2006 and have not been subject to audit or review by the Group's auditor. The Group will deliver its statutory accounts for the current financial year ending on 31 December 2015 to the Registrar of Companies by 30 September 2016.

The Group delivered a satisfactory performance for the six months ended 30 June 2015, mainly due to increased revenue as a result of the five-year profile of allowed revenues inherent in the price control formula under the Distribution Price Control 5 period to 31 March 2015 ("DPCR5"), partially offset by lower tariffs from 1 April 2015 as the next price control period, known as ED1, began. A summary of the key financial results is set out below:

Key financials

Revenue

Revenue at £403.1 million was £4.2 million higher than for the six months ended 30 June 2014 due to higher distribution revenues and smart meter rental income, partially offset by lower contracting volumes.

Financial strength (continued)

Key financials (continued)

Cash flow

Cash and cash equivalents as at 30 June 2015 were £2.5 million, representing a decrease of £0.7 million when compared with the position at 31 December 2014.

Northern Powergrid has access to £150 million under a committed revolving credit facility provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc. This revolving credit facility was restated and amended with effect from 30 April 2015 and is now due to expire on 30 April 2020.

In addition, companies in the Group have access to short-term borrowing facilities provided by Yorkshire Electricity Group plc, a company in the Group, and to a £42 million overdraft facility provided by Lloyds Bank plc.

Financial position

Profit before tax at £168.2 million was £2.3 million lower than the six months ended 30 June 2014 mainly as a result of higher operating costs, increased depreciation and amortisation, partially offset by increased distribution revenues.

Dividends

An ordinary dividend totalling £50 million was paid in the period resulting in £71.0 million being transferred to reserves.

Related party transactions

Details of the related party transactions entered into by the Group and changes therein are included in Note 10 to this half-yearly financial report.

Customer service

Northern Powergrid's key customer service performance indicators are customer interruptions ("CI") and customer minutes lost ("CML") and, for the regulatory year to 31 March 2015 (the "Regulatory Year"), both indicators were better than Ofgem's targets. As at the date of this half-yearly financial report, Northern Powergrid's reported performance for the Regulatory Year is as follows:

	NPg Northeast				**NPg Yorkshire**			
	Year to 31 March 2015		Year to 31 March 2014		**Year to 31 March 2015**		Year to 31 March 2014	
	Actual	**Target**	Actual	Target	**Actual**	**Target**	Actual	Target
CML	**56.1**	**70.6**	64.6	70.7	**50.4**	**76.0**	58.9	76.0
CI	**65.3**	**68.1**	62.9	68.1	**60.9**	**75.3**	64.5	75.3

Customer service (continued)

In June 2015 Ofgem issued its view on the impact of certain events that occurred in the regulatory year to 31 March 2014 on Northern Powergrid's CML and CI performance for that year, which is reflected in the above table.

Under the Broad Measure of Customer Satisfaction, an independent market research company carries out telephone surveys with Northern Powergrid's customers to find out how satisfied they were with the services provided. Those surveys are of a number of customers who contacted Northern Powergrid regarding an unplanned or a planned power cut, requested a price quotation and a subsequent connection or had a general enquiry where a service had been provided or a job completed. NPg Northeast recorded an overall satisfaction score of 81.9% and NPg Yorkshire a score of 82.6% for the Regulatory Year and expect that the range of initiatives in the customer service improvement plan will improve the services provided to customers and so increase the satisfaction ratings year-on-year.

In that respect, customer satisfaction with Northern Powergrid's response to unplanned high voltage power cuts showed some gradual improvement in the first half of 2015 and the focus remains on improving restoration times and providing more timely and accurate information to customers. Customer satisfaction with planned power cuts also showed some encouraging improvement with Northern Powergrid introducing a text and email service to remind customers three days ahead of the power cut taking place.

Operational excellence

During the six months to 30 June 2015, Northern Powergrid continued to implement its approved network investment strategy in order to deliver improvements in an efficient and cost-effective manner and to enhance the network's resilience. That investment included the refurbishment, replacement and construction of assets such as substations, transformers, switchgear and overhead and underground cables so that the number of power cuts that occur and number of customers affected by those power cuts are minimised as far as possible.

Northern Powergrid invested £275.4 million in the distribution network during the six months to 30 June 2015, which was an increase on the £216.4 million recorded in the six months to 30 June 2014, and completed all outputs committed within the DPCR5 period by the price control end date of 31 March 2015. A new guaranteed standard for the restoration of supply within 12 hours of a power cut occurring came into effect from 1 April 2015 and Northern Powergrid's initial performance in that respect has been encouraging, with its new operational structure providing a more localised focus and, therefore, improved response times in the event of a power cut.

IUS continued to operate its engineering contracting business and saw a reduction in revenues in the six months to 30 June 2015, mainly due to lower activity in delivering contracts for Network Rail. Work on Multi-Utility contracts, which relate to the provision of electric, gas and water connections to housing developers, has increased in 2015 but competition for business in the sectors, within which IUS operates, remained strong.

Operational excellence (continued)

Metering continued to deliver a satisfactory performance in terms of the contracts secured with energy suppliers for the provision of smart meters in the United Kingdom and Ireland and also continued to pursue business development opportunities with other energy suppliers.

CE Resources continued to develop its portfolio of hydrocarbon exploration, development and producing assets in Australia, Poland and the United Kingdom. A subsidiary of CE Resources holds an interest in the Victor Field in the North Sea and, on 7 April 2015, the owners of the Theddlethorpe Facilities gave notice to the owners of the Victor Field of the termination of the Agreement for Transportation, Treatment, Processing and Redelivery of Victor Field Gas in the Theddlethorpe Facilities, the effect of which is that Victor Field gas production will cease from the end of 2015.

Employee commitment – Health and safety

The safety of its employees continued to be of paramount importance to the Group, with the on-going focus being on the goal that no employees should be injured during their working time. During the six months to 30 June 2015, the Group experienced two lost time accidents (six months to 30 June 2014: 3) against an annual target of two and incurred 10 preventable vehicle accidents (six months to 30 June 2014: 15) against an annual target of 25. The Group's performance in respect of lost time accidents and preventable vehicle accidents was, therefore, encouragingly ahead of that for the prior year. In addition, none of the incidents resulted in serious injuries to the employees concerned.

Regulatory integrity

On 2 March 2015 Northern Powergrid sought permission from the Competition and Markets Authority (the "CMA") to appeal against the licence modifications that give effect to the ED1 price control. The appeal relates to three specific areas:

(i) Ofgem's decision to demand further cost savings in relation to smart grid technology over and above the ones captured by its original benchmarking exercise;

(ii) Ofgem's assessment of the variation in wage rates across the country; and

(iii) Ofgem's projections for labour cost increases.

On 30 March 2015 the CMA granted Northern Powergrid permission to appeal and, between April and June 2015, Northern Powergrid made submissions to the CMA in support of the appeal. Northern Powergrid's appeal is expected to conclude in the fourth quarter of 2015 in accordance with the timetable required of the CMA. British Gas Trading Limited was also granted permission to appeal the price control, with the same review timetable. The outcome of these appeals may increase or reduce the revenue available to Northern Powergrid, if the CMA amends the price control determination.

Principal risks and uncertainties

Regulatory risk

During the term of the price control, the rate of inflation, as measured by the Retail Prices Index ("RPI"), is taken into account in setting Northern Powergrid's allowed income in respect of each regulatory year. Consequently, one of the risks faced by Northern Powergrid is that its costs may increase by more than RPI. Any changes in costs incurred will have a direct impact on Northern Powergrid's financial results, as will changes in performance under incentive schemes, such as in customer service, which can lead to adjustments to allowed revenues.

Ofgem's final determination in respect of ED1 set out allowed revenues and rules, by which Ofgem expects to adjust Northern Powergrid's revenues in certain circumstances during ED1 and, excluding the effects of incentive schemes and any deferred revenues from DPCR5, NPg Northeast's base allowed revenue will decrease by approximately 20% and NPg Yorkshire's base allowed revenue will decrease by approximately 16% in the regulatory year to 31 March 2016 before the addition of inflation, as measured by RPI, in order to derive the final price change.

Under the ED1 price control effective from 1 April 2015, Ofgem intends to:

- derive and update the allowed cost of debt by reference to a long-run trailing average based on external benchmarks of utility debt costs;

- lengthen the period over which new regulatory assets are depreciated, from the current 20 years to 45 years, with the change being phased over eight years;

- adjust revenues during ED1, rather than at the next price control review, to partially reflect cost variances relative to cost allowances;

- adjust revenues in relation to some new service standard incentives, principally relating to the speed of and service standards for new connections to the network; and

- undertake a mid-period review and adjust revenues in the latter half of ED1 for any changes in the outputs required of licensees for certain specified reasons.

Many other aspects of the DPCR5 price control remain in place (either in their DPCR5 or a similar form), including adjustments to revenues in relation to the number and duration of service interruptions and customer service standards.

Principal risks and uncertainties (continued)

Financial risk

Northern Powergrid's appeal to the CMA and the principal risks associated with the regulatory environment, within which Northern Powergrid operates, are mentioned above.

As IUS' business is primarily in the competitive engineering contracting market, it continues to be subject to the issues created by the general economic environment and trading conditions and the associated fluctuations in demand for its services. In addition, there continues to be an enhanced risk of counter-party default, with the associated increase in the potential for IUS to be exposed to bad debt.

The Group addresses interest rate risk by a policy of having a stable, low cost of financing over time, whilst observing approved risk parameters. The Group finances its activities by a combination of long-term borrowings at fixed rates of interest and by having access to short-term borrowing facilities at floating rates.

As at 30 June 2015, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 13 years. Despite this position, the Group remains mindful of the economic climate and the associated potential impact on the cost of short-term borrowing. No material currency risks are faced by the Group and it is policy that no trading in financial instruments should be undertaken.

Further information on the principal long-term risks and uncertainties and the internal control system are included in the Group's latest annual reports and accounts for the year to 31 December 2014, which is available at www.northernpowergrid.com.

It is anticpated that these risks will continue for the remaining six months of 2015 and Northern Powergrid's appeal to the CMA is expected to conclude in the fourth quarter of 2015.

Going concern

In the Group's latest annual reports and accounts for the year to 31 December 2014 the directors set out a number of factors they took into account when they considered continuing to adopt the going concern basis in preparing those annual reports and accounts. The directors confirm that no events have occurred during the six months to 30 June 2015, which alter the view expressed in the annual reports and accounts to 31 December 2014.

Future strategy and objectives

The Company will continue to develop its business as a holding company in a manner that concentrates on the Group's principal activities of electricity distribution, engineering contracting, hydrocarbon exploration and the rental of meters to energy suppliers.

Northern Powergrid will continue to develop its business by operating with the goal of efficiently investing in the distribution network and improving the quality of supply and service provided to customers and delivering the regulatory business plan for ED1.

IUS will look to develop further its engineering contracting business by delivering a high standard of service to its existing clients and pursuing further opportunities in other sectors.

CE Resources and Metering will continue to explore commercial opportunities to develop their respective businesses in the sectors in which they operate.

Responsibility Statement

The board of directors confirm that to the best of their knowledge:

(a) the condensed set of finanical statements, which has been prepared in accordance with IAS 34, "Interim Financial Reporting", gives a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole for the six months to 30 June 2015; and

(b) the interim management report contains a fair review of the important events that have occurred during the first six months of the year and their impact, if any, on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the year.

By order of the board

P A Jones
Director
19 August 2015

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS - SIX MONTHS ENDED 30 JUNE 2015

	6 Months ended 30 June 2015 (unaudited) £m	6 Months ended 30 June 2014 (unaudited) £m
Revenue	403.1	398.9
Cost of sales	(29.9)	(34.0)
Gross profit	373.2	364.9
Operating expenses	(160.2)	(151.3)
Operating profit	213.0	213.6
Other gains	0.3	0.2
Finance income	0.5	0.4
Finance costs	(45.6)	(43.7)
Profit before tax	168.2	170.5
Income tax expense	(34.1)	(37.1)
Profit from ordinary activities after tax	134.1	133.4
Owners of the parent	133.0	132.1
Non-controlling interests	1.1	1.3
	134.1	133.4

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS - SIX MONTHS ENDED 30 JUNE 2015

	6 Months ended 30 June 2015 Unaudited £m	6 Months ended 30 June 2014 Unaudited £m
PROFIT FOR THE PERIOD	134.1	133.4
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Employee benefit obligation	(15.0)	11.1
Income tax relating to items of other comprehensive income	3.0	(1.9)
	(12.0)	9.2
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of foreign operations	(2.4)	0.2
	(2.4)	0.2
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX	(14.4)	9.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	119.7	142.8
Owners of the parent	118.6	141.5
Non-controlling interests	1.1	1.3
	119.7	142.8

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30 JUNE 2015

	30 June 2015	31 December 2014
	Unaudited	
	£m	£m
ASSETS		
NON-CURRENT ASSETS		
Goodwill	248.8	248.8
Intangible assets	40.9	35.7
Property, plant and equipment	4,997.4	4,787.9
Investments	14.3	9.0
Pension asset	55.6	52.9
Trade and other receivables	4.7	7.5
	5,361.7	5,141.8
CURRENT ASSETS		
Inventories	13.9	12.6
Trade and other receivables	129.3	127.9
Tax receivables	-	0.8
Cash and cash equivalents	2.5	3.2
	145.7	144.5
TOTAL ASSETS	5,507.4	5,286.3
EQUITY		
SHAREHOLDERS' EQUITY		
Share capital	354.6	354.6
Share premium account	(0.8)	(0.8)
Other reserves	(7.1)	(4.7)
Retained earnings	1,542.0	1,471.0
	1,888.7	1,820.1
	29.2	28.1
TOTAL EQUITY	1,917.9	1,848.2

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30 JUNE 2015

	30 June 2015	31 December 2014
	Unaudited	
	£m	£m
LIABILITIES		
NON-CURRENT LIABILITIES		
Trade and other payables	1,242.1	1,218.4
Borrowings	1,642.8	1,496.9
Deferred tax	273.7	271.7
Provisions	4.5	4.5
	3,163.1	2,991.5
CURRENT LIABILITIES		
Trade and other payables	237.5	234.6
Borrowings	168.8	189.5
Tax payable	17.4	19.4
Provisions	2.7	3.1
	426.4	446.6
TOTAL LIABILITIES	3,589.5	3,438.1
TOTAL EQUITY AND LIABILITIES	5,507.4	5,286.3

The interim financial statements were approved by the board of directors and authorised for issue on 19 August 2015 and were signed on its behalf by:

P A Jones
Director

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - SIX MONTHS ENDED 30 JUNE 2015

	Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	**Total £m**
Balance at 1 January 2015	354.6	(0.8)	(4.7)	1,471.0	**1,820.1**
Profit for the period (unaudited)	-	-	-	133.0	**133.0**
Other comprehensive income (unaudited)	-	-	-	(12.0)	**(12.0)**
Foreign exchange translation adjustment	-	-	(2.4)	-	**(2.4)**
Equity dividends paid	-	-	-	(50.0)	**(50.0)**
Balance at 30 June 2015	354.6	(0.8)	(7.1)	1,542.0	**1,888.7**

	Non-Controlling Interests £m	**Total Equity £m**
Balance at 1 January 2015	28.1	**1,848.2**
Profit for the period (unaudited)	1.1	**134.1**
Other comprehensive income (unaudited)	-	**(12.0)**
Foreign exchange translation adjustment	-	**(2.4)**
Equity dividends paid	-	**(50.0)**
Balance at 30 June 2015	**29.2**	1,917.9

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - SIX MONTHS ENDED 30 JUNE 2015 (CONTINUED)

	Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	**Total £m**
Balance at 1 January 2014	354.6	(0.8)	(3.9)	1,191.9	**1,541.8**
Profit for the period	-	-	-	132.1	**132.1**
Other comprehensive income (unaudited)	-	-	-	9.2	**9.2**
Foreign exchange translation adjustment	-	-	0.2	-	**0.2**
Balance at 30 June 2014	354.6	(0.8)	(3.7)	1,333.2	**1,683.3**

	Non-Controlling Interests £m	**Total Equity £m**
Balance at 1 January 2014	22.1	**1,563.9**
Profit for the period	1.3	**133.4**
Other comprehensive income (unaudited)	-	**9.2**
Foreign exchange translation adjustment	-	**0.2**
Balance at 30 June 2014	23.4	**1,706.7**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - SIX MONTHS ENDED 30 JUNE 2015 (CONTINUED)

	Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	**Total £m**
Balance at 1 January 2014	354.6	(0.8)	(3.9)	1,191.9	**1,541.8**
Profit for the year	-	-	-	258.4	**258.4**
Other comprehensive income	-	-	-	20.7	**20.7**
Purchase of minority interest	-	-	-	-	**-**
Foreign exchange translation adjustment	-	-	(0.8)	-	**(0.8)**
Balance at 31 December 2014	354.6	(0.8)	(4.7)	1,471.0	**1,820.1**

	Non-Controlling Interests £m	**Total Equity £m**
Balance at 1 January 2014	22.1	**1,563.9**
Profit for the year	2.5	**260.9**
Other comprehensive income	-	**20.7**
Purchase of minority interest	3.5	**3.5**
Foreign exchange translation adjustment	-	**(0.8)**
Balance at 31 December 2014	28.1	**1,848.2**

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

CONSOLIDATED CASH FLOW STATEMENT

	6 Months ended 30 June 2015 Unaudited £m	6 Months ended 30 June 2014 Unaudited £m
Cash inflow from operating activities	248.9	244.0
Net interest paid	(44.6)	(44.6)
Tax paid	(29.5)	(22.9)
Net cash from operating activities	174.8	176.5
Investing activities		
Proceeds from disposal of property, plant and equipment	0.3	0.2
Purchase of property, plant and equipment	(291.8)	(224.9)
Purchase of intangible assets	(7.7)	(8.4)
Investment in associate	(5.5)	(1.9)
Dividends received from joint venture	0.5	0.4
Receipt of customer contributions	58.1	40.7
Net cash used in investing activities	(246.1)	(193.9)
Financing activities		
Dividends paid	(50.0)	-
Movement in external loans	121.3	15.5
Net cash generated by financing activities	71.3	15.5
Foreign exchange differences	(0.7)	(0.3)
Net decrease in cash and cash equivalents	(0.7)	(2.2)
Cash and cash equivalents at beginning of period	3.2	5.1
Cash and cash equivalents at end of period	2.5	2.9

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The information included within these condensed financial statements for the year ended 31 December 2014 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts and that report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. ACCOUNTING POLICIES

Basis of preparation
The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Going concern
In the Group's latest annual reports and accounts for the year to 31 December 2014 the directors set out a number of factors they took into account when they considered continuing to adopt the going concern basis in preparing those annual reports and accounts. The directors confirm that no events have occurred during the six months to 30 June 2015, which alter the view expressed in the annual reports and accounts to 31 December 2014.

Changes in accounting policy
The Group's accounting policies and methods of computation are the same as the accounting policies which are described in the Group's financial statements for the year ended 31 December 2014. The Group has not adopted any new or revised accounting standards in the current year.

3. SEGMENTAL ANALYSIS

The Group operates in the principal area of activity of the distribution of electricity in the United Kingdom.

There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period.

The following is an analysis of the Group's revenue and results by reportable segment in the six months ended 30 June 2015 (unaudited):

	Distribution £m	Other £m	Total £m
REVENUE			
External sales	381.5	21.6	403.1
Inter-segment sales	0.5	(0.5)	-
Total Revenue	382.0	21.1	403.1
SEGMENT RESULTS			
Operating profit	205.4	7.6	213.0
Other gains			0.3
Finance income			0.5
Finance costs			(45.6)
Profit before tax			168.2
OTHER INFORMATION			
Capital additions	276.0	30.5	306.5
Depreciation and amortisation	80.5	6.5	87.0
Amortisation of deferred revenue	23.2	-	23.2

NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER: 03476201)

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENTAL ANALYSIS (CONTINUED)

The following is an analysis of the Group's revenue and results by reportable segment in the six months ended 30 June 2014 (unaudited):

	Distribution £m	Other £m	Total £m
REVENUE			
External sales	377.9	21.0	398.9
Inter-segment sales	0.5	(0.5)	-
Total Revenue	378.4	20.5	398.9
SEGMENT RESULTS			
Operating profit	204.4	9.2	213.6
Other gains			0.2
Finance income			0.4
Finance costs			(43.7)
Profit before tax			170.5
OTHER INFORMATION			
Capital additions	218.0	3.7	221.7
Depreciation and amortisation	76.1	3.7	79.8
Amortisation of deferred revenue	21.9	-	21.9

"Other" comprises engineering contracting, hydrocarbon exploration, smart meter rental and business support units.

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

External sales to RWE Npower plc in the six months ended 30 June 2015 of £111.0 million (30 June 2014: £109.8 million) are included within the Distribution segment.

3. SEGMENTAL ANALYSIS (CONTINUED)

The accounting policies of the reportable segments are the same as the Group's accounting policies which are described in the Group's latest annual financial statements. The segment results represent the profit earned by each segment without allocation of the share of profits of joint ventures, associates, finance income and finance costs and income tax expense

Segment net assets	30 June 2015 Unaudited £m	31 December 2014 £m
Distribution	3,592.4	3,444.9
Other	299.9	123.6
Total net assets by segment	3,892.3	3,568.5
Unallocated net corporate liabilities	(1,974.4)	(1,720.3)
Total net assets	1,917.9	1,848.2

Unallocated net corporate liabilities include cash and cash equivalents of £2.5 million (December 2014: £3.2 million), borrowings of £1,811.6 million (December 2014: £1,686.4 million) and taxation of £291.1 million (December 2014: £291.1 million).

4. INCOME TAX EXPENSE

Tax for the six month period ended 30 June 2015 is charged at 20.25% (six months ended 30 June 2014: 21.50%; year ended 31 December 2014: 21.50%), which represents the best estimate of the average annual effective tax rate expected for the full year, as applied to the pre-tax income of the six month period.

	6 months ended 30 June 2015 Unaudited £m	6 months ended 30 June 2014 Unaudited £m
Current tax	27.8	33.2
Deferred tax	6.3	3.9
Total income tax expense	34.1	37.1

The Summer Finance Bill 2015 includes a provision for a 1% reduction to the standard rate of corporation tax from April 2017 and a further 1% reduction from April 2020 but this bill will not be substantively enacted until later in 2015 and, therefore, has not impacted these condensed financial statements.

5. DIVIDENDS

A dividend of £50 million was distributed to the shareholders in the six month period ended 30 June 2015 (six months ended 30 June 2014: £nil)

6. BANK OVERDRAFTS AND LOANS

On 1 April 2015, Northern Powergrid (Yorkshire) plc, a company in the Group, issued £150 million 2.5% bonds due 2025.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. NOTES TO THE CASH FLOW STATEMENT

	6 Months ended 30 June 2015 Unaudited £m	6 Months ended 30 June 2014 Unaudited £m
Profit before income tax	168.1	170.5
Depreciation charges	87.0	79.8
Profit on disposal of fixed assets	(0.3)	(0.2)
Amortisation of deferred revenue	(23.2)	(21.9)
Retirement benefit obligations	(18.0)	(20.7)
(Decrease)/increase in provisions	(0.5)	0.1
Finance costs	45.6	43.7
Finance income	(0.5)	(0.4)
	258.2	250.9
(Increase)/decrease in inventories	(1.4)	0.4
Decrease/(increase) in trade and other receivables	16.6	(13.2)
(Decrease)/increase in trade and other payables	(24.5)	5.9
Cash generated from operations	248.9	244.0

8. RETIREMENT BENEFIT SCHEMES

The defined benefit obligation as at 30 June 2015 is calculated on a year-to-date basis, using the latest actuarial valuation as at 31 December 2014. There have not been any significant fluctuations or one-time events since that time that would require adjustment to the actuarial assumptions made at 31 December 2014.

9. FINANCIAL INSTRUMENTS

Except as detailed in the following table, the directors consider that the carrying value amounts of financial assets and financial liabilities are approximately equal to their fair values:

	Carrying value		Fair value	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014
	Unaudited		Unaudited	
	£m	£m	£m	£m
Financial liabilities				
Short-term loans	113.0	138.2	113.0	138.2
Inter-company short-term loan	2.1	2.9	2.1	2.9
Bond 2020 – 8.875% (Northern Electric Finance plc)	105.4	100.9	136.6	135.4
Bond 2020 – 9.25% (Northern Powergrid (Yorkshire) plc)	223.7	234.6	265.4	280.1
Bond 2022 – 7.25% (Northern Powergrid Holdings Company)	203.1	195.6	257.8	258.1
Bond 2025 – 2.5% (Northern Powergrid (Yorkshire) plc)	148.3	-	141.8	-
Bond 2028 – 7.25% (Yorkshire Power Finance Limited)	202.6	196.1	260.1	261.2
Bond 2032 4.375% (Northern Powergrid (Yorkshire) plc)	153.6	150.3	167.7	168.7
Bond 2035 – 5.125% (Northern Electric Finance plc)	149.1	152.8	176.1	183.9
Bond 2035 – 5.125% (Northern Powergrid (Yorkshire) plc)	198.9	203.8	236.1	246.4
EIB Loans*	277.7	277.1	306.7	309.3
Cumulative preference shares	34.1	34.1	51.0	49.6
	1,811.6	1,686.4	2,114.4	2,033.8

10. RELATED PARTY TRANSACTIONS

Group

Transactions entered into with related parties and balances outstanding were as follows:

	Sales to related parties £m	Purchases from related parties £m	Amounts owed to related parties £m	Borrowings from related parties £m	Dividends from/(to) related parties £m
Related party					
Six months ended 30 June 2015:					
Immediate Parent Companies*	-	-	-	-	(50.0)
Northern Powergrid Insurance Services Limited	-	0.5	-	-	-
Vehicle Lease and Service Limited	0.2	4.0	0.2	0.6	0.5
	0.2	4.5	0.2	0.6	(49.5)
Six months ended 30 June 2014:					
Northern Powergrid Insurance Services Limited	-	0.6	-	-	-
Vehicle Lease and Service Limited	0.1	4.1	0.3	0.6	0.4
	0.1	4.7	0.3	0.6	0.4
Year ended 31 December 2014:					
Northern Powergrid Insurance Services Limited	-	1.3	-	-	-
Vehicle Lease and Service Limited	0.3	7.7	1.2	2.9	0.4
	0.3	9.0	1.2	2.9	0.4

Sales and purchases from related parties were made at commercial prices.

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

10. RELATED PARTY TRANSACTIONS (CONTINUED)

Company

Transactions entered into with related parties and balances outstanding were as follows:

Related party	Borrowings to/(from) related parties £m	Interest from/(to) related parties £m	Dividends from/(to) related parties £m
Six months ended 30 June 2015:			
Immediate Parent Companies*	-	-	(50.0)
Northern Powergrid UK Holdings	264.2	9.2	-
Yorkshire Electricity Group plc	(36.3)	(7.3)	-
	227.9	1.9	(50.0)
Six months ended 30 June 2014:			
Northern Powergrid UK Holdings	264.2	9.2	-
Yorkshire Electricity Group plc	(8.4)	(0.1)	-
	255.8	9.1	-
Year ended 31 December 2014:			
Northern Powergrid UK Holdings	264.2	18.5	-
Yorkshire Electricity Group plc	(10.1)	(0.2)	-
	254.1	18.3	-

* Immediate parent companies are BHE U.K. Electric, Inc., (35%), BHE U.K. Power, Inc. (35%) and BHE U.K. Inc. (30%).

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

During the six months ended 30 June 2015 two directors (six months ended 30 June 2014: 2, year ended 31 December 2014: 2) utilised the services provided by Northern Transport Finance Limited, a subsidiary company.