

NORTHERN ELECTRIC plc
HALF-YEARLY FINANCIAL REPORT
SIX MONTHS ENDED 30 JUNE 2015

NORTHERN ELECTRIC plc

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NORTHERN ELECTRIC plc
(REGISTERED NUMBER: 02366942)

INTERIM MANAGEMENT REPORT

Registered in England and Wales
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 strategies of Northern Electric plc (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 is part of the Northern Powergrid Holdings Company group of companies (the “Northern Powergrid Group”) and its principal activity during the six months to 30 June 2015 was to act as a holding company, with its main operating subsidiaries being Northern Powergrid (Northeast) Limited (“NPg Northeast”), Integrated Utility Services Limited (“IUS”) and Northern Powergrid Metering Limited (“Metering”).

NPg Northeast distributes electricity to approximately 1.6 million customers connected to its electricity distribution network in the northeast of England and is an authorised distributor under the Electricity Act 1989. IUS provides engineering contracting services to various clients and Metering rents smart meters to energy suppliers. The Group operates a business model and strategy based on the Northern Powergrid Group’s 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 June 2016.

The Group delivered a satisfactory performance for the six months ended 30 June 2015, mainly due to increased distribution and smart-metering revenues offset by cost increases and higher depreciation charges. Distribution revenues increased 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:

INTERIM MANAGEMENT REPORT (CONTINUED)

Financial strength (continued)

Key financials

Revenue

Revenue at £200.6 million was £1.5 million higher than for the six months ended 30 June 2014 mainly due to the higher distribution revenues and smart metering rental income, partly offset by lower contracting volumes.

Cash flow

Cash and cash equivalents as at 30 June 2015 were £28.3 million, representing a decrease of £57.3 million when compared with the position at 31 December 2014.

NPg Northeast has access to £75 million under a five-year 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, the Group has access to short-term borrowing facilities provided by Yorkshire Electricity Group plc, a related party, and to a £22 million overdraft facility provided by Lloyds Bank plc.

Financial position

Profit before tax at £90.0 million was £0.1 million lower than the six months ended 30 June 2014. Increased distribution and smart metering revenues were offset by lower contracting volumes, increased depreciation and amortisation charges and other cost increases.

Dividends

No ordinary dividends were paid in the period resulting in £58.7 million being transferred to reserves.

Related party transactions

The Company provides certain corporate functions to the Northern Powergrid Group, including financial accounting and planning, treasury, taxation, pensions, internal audit, legal advice, insurance management, claims handling and litigation services.

Further details of the related party transactions entered into by the Group and the Company and changes therein are included in Note 8 to this half-yearly financial report.

INTERIM MANAGEMENT REPORT (CONTINUED)**Customer service**

NPg Northeast'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, NPg Northeast's reported performance for the Regulatory Year is as follows:

	Year to 31 March 2015		Year to 31 March 2014	
	Actual	Target	Actual	Target
CML	56.1	70.6	64.6	70.7
CI	65.3	68.1	62.9	68.1

In June 2015 Ofgem issued its view on the impact of certain events that occurred in the regulatory year to 31 March 2014 on the Company'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 NPg Northeast's customers to find out how satisfied they were with the services provided. Those surveys are of a number of customers who contacted NPg Northeast 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% for the Regulatory Year and expects that the range of initiatives in its 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 NPg Northeast'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 NPg Northeast 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, NPg Northeast 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.

INTERIM MANAGEMENT REPORT (CONTINUED)

Operational excellence (continued)

NPg Northeast invested £116.7 million in the distribution network during the six months to 30 June 2015, an increase on the £101.8 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 NPg Northeast'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.

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.

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 did not experience any lost time accidents (six months to 30 June 2014: Nil) against an annual target of one and incurred four preventable vehicle accidents (six months to 30 June 2014: 6) against an annual target of 12. The Group's performance in respect of both lost time and preventable vehicle accidents was encouraging and none of the incidents resulted in serious injuries to the employees concerned.

Regulatory integrity

On 2 March 2015 NPg Northeast 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.

INTERIM MANAGEMENT REPORT (CONTINUED)

Regulatory integrity (continued)

On 30 March 2015 the CMA granted NPg Northeast permission to appeal and, between April and June 2015, NPg Northeast made submissions to the CMA in support of the appeal. NPg Northeast'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 NPg Northeast, 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 NPg Northeast's allowed income in respect of each regulatory year. Consequently, one of the risks faced by NPg Northeast is that its costs may increase by more than RPI. Any changes in costs incurred will have a direct impact on NPg Northeast'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 NPg Northeast'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% 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.

INTERIM MANAGEMENT REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Financial risk

NPg Northeast's appeal to the CMA and the principal risks associated with the regulatory environment, within which NPg Northeast 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 Company's latest annual reports and accounts for the year to 31 December 2014, which is available at www.northernpowergrid.com.

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

Going concern

In the Company'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.

INTERIM MANAGEMENT REPORT (CONTINUED)

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 and the rental of meters to energy suppliers.

NPg Northeast will continue to develop its business by operating with the goal of efficiently investing in its 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 and Metering will continue to pursue business development opportunities with energy suppliers.

Responsibility Statement

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

- (a) the condensed set of financial 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 as required by DTR 4.2.4 R for the six months to 30 June 2015;
- (b) the interim management report contains a fair review of the information required by DTR 4.2.7 R (indication of important events during the first six months of the year and description of the principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8 R (related parties' transactions and changes therein).

By order of the board



P A Jones
Director
19 August 2015

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	200.6	199.1
Cost of sales	<u>(22.1)</u>	<u>(26.5)</u>
Gross profit	178.5	172.6
Operating expenses	<u>(71.3)</u>	<u>(66.2)</u>
Operating profit	107.2	106.4
Other gains	0.2	0.4
Finance income	0.8	0.7
Finance costs	<u>(18.2)</u>	<u>(17.4)</u>
Profit before tax	90.0	90.1
Income tax expense	<u>(19.3)</u>	<u>(20.6)</u>
Profit from ordinary activities after tax	<u>70.7</u>	<u>69.5</u>

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - 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	70.7	69.5
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	<u>3.0</u>	<u>(1.9)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX	<u>(12.0)</u>	<u>9.2</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>58.7</u></u>	<u><u>78.7</u></u>

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		
Intangible assets	27.7	23.8
Property, plant and equipment	2,048.3	1,946.9
Investments	3.3	3.5
Pension asset	55.6	52.9
Trade and other receivables	4.7	7.5
	<u>2,139.6</u>	<u>2,034.6</u>
CURRENT ASSETS		
Inventories	13.5	12.3
Trade and other receivables	70.9	72.0
Cash and cash equivalents	28.3	85.6
	<u>112.7</u>	<u>169.9</u>
TOTAL ASSETS	<u>2,252.3</u>	<u>2,204.5</u>
EQUITY		
SHAREHOLDERS' EQUITY		
Share capital	72.2	72.2
Share premium account	158.8	158.8
Other reserves	6.2	6.2
Retained earnings	708.4	649.7
TOTAL EQUITY	<u>945.6</u>	<u>886.9</u>

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

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

	30 June 2015 (unaudited) £m	31 December 2014 £m
LIABILITIES		
NON-CURRENT LIABILITIES		
Trade and other payables	513.2	500.8
Borrowings	467.1	467.0
Deferred tax	110.3	107.9
Provisions	1.7	2.0
	<u>1,092.3</u>	<u>1,077.7</u>
CURRENT LIABILITIES		
Trade and other payables	129.4	146.8
Borrowings	75.8	85.2
Tax payable	7.8	6.3
Provisions	1.4	1.6
	<u>214.4</u>	<u>239.9</u>
TOTAL LIABILITIES	<u>1,306.7</u>	<u>1,317.6</u>
TOTAL EQUITY AND LIABILITIES	<u>2,252.3</u>	<u>2,204.5</u>

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

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	72.2	158.8	6.2	649.7	886.9
Profit for the period (unaudited)	-	-	-	70.7	70.7
Other comprehensive income (unaudited)	-	-	-	(12.0)	(12.0)
Balance at 30 June 2015	<u>72.2</u>	<u>158.8</u>	<u>6.2</u>	<u>708.4</u>	<u>945.6</u>

	Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2014	72.2	158.8	6.2	518.8	756.0
Profit for the period (unaudited)	-	-	-	69.5	69.5
Other comprehensive income (unaudited)	-	-	-	9.2	9.2
Balance at 30 June 2014	<u>72.2</u>	<u>158.8</u>	<u>6.2</u>	<u>597.5</u>	<u>834.7</u>

	Share Capital £m	Share Premium Account £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2014	72.2	158.8	6.2	518.8	756.0
Profit for the year	-	-	-	140.2	140.2
Other comprehensive income	-	-	-	20.7	20.7
Dividends	-	-	-	(30.0)	(30.0)
Balance at 31 December 2014	<u>72.2</u>	<u>158.8</u>	<u>6.2</u>	<u>649.7</u>	<u>886.9</u>

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	6 Months ended 30 June 2015 (unaudited) £m	6 Months ended 30 June 2014 (unaudited) £m
Cash generated from operations	113.6	126.2
Net interest paid	(18.1)	(17.8)
Tax paid	(12.2)	(7.9)
Net cash from operating activities	<u>83.3</u>	<u>100.5</u>
Investing activities		
Proceeds from disposal of property, plant and equipment	0.2	0.2
Purchase of property, plant and equipment	(148.0)	(115.1)
Purchase of intangible assets	(5.2)	(5.0)
Dividends received from joint venture	0.5	-
Receipt of customer contributions	20.9	18.5
Net cash used in investing activities	<u>(131.6)</u>	<u>(101.4)</u>
Financing activities		
Movement in external loans	(9.0)	8.7
Net cash (used in)/generated by financing activities	<u>(9.0)</u>	<u>8.7</u>
Net (decrease)/increase in cash and cash equivalents	(57.3)	7.8
Cash and cash equivalents at beginning of period	<u>85.6</u>	<u>105.9</u>
Cash and cash equivalents at end of period	<u>28.3</u>	<u>113.7</u>

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 Company'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.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	Contracting £m	Other £m	Consolidation Adjustments	Total £m
REVENUE					
External sales	178.8	16.0	5.8	-	200.6
Inter-segment sales	0.3	1.4	(0.2)	(1.5)	-
Total Revenue	179.1	17.4	5.6	(1.5)	200.6
SEGMENT RESULTS					
Operating profit	90.4	0.2	(0.4)	17.0	107.2
Other gains					0.2
Finance income					0.8
Finance costs					(18.2)
Profit before tax					90.0
OTHER INFORMATION					
Capital additions	116.8	-	26.6	-	143.4
Depreciation and amortisation	35.8	-	1.3	(0.9)	36.2
Amortisation of deferred revenue	10.4	-	-	-	10.4

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	Contracting £m	Other £m	Consolidation Adjustments	Total £m
REVENUE					
External sales	175.0	20.9	3.2	-	199.1
Inter-segment sales	0.3	0.5	(0.2)	(0.6)	-
Total Revenue	175.3	21.4	3.0	(0.6)	199.1
SEGMENT RESULTS					
Operating profit	90.2	-	(2.4)	18.6	106.4
Other gains					0.4
Finance income					0.7
Finance costs					(17.4)
Profit before tax					90.1
OTHER INFORMATION					
Capital additions	102.2	0.1	1.5	(2.0)	101.8
Depreciation and amortisation	32.7	-	-	(0.8)	31.9
Amortisation of deferred revenue	9.7	-	-	-	9.7

"Other" comprises 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 £48.2 million (30 June 2014: £54.6 million) are included within the Distribution segment.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	1,524.3	1,460.7
Contracting	14.6	13.0
Other	44.3	27.9
Consolidation Adjustments	<u>(64.6)</u>	<u>(37.7)</u>
Total net assets by segment	1,518.7	1,463.9
Unallocated net corporate liabilities	<u>(573.1)</u>	<u>(577.0)</u>
Total net assets	<u>945.6</u>	<u>886.9</u>

Unallocated net corporate liabilities include cash and cash equivalents of £28.3 million (December 2014: £85.6 million), borrowings of £542.9 million (December 2014: £552.2 million) and taxation of £118.1 million (December 2014: £114.2 million).

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	13.7	19.5
Deferred tax	<u>5.6</u>	<u>1.1</u>
Total income tax expense	<u>19.3</u>	<u>20.6</u>

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.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. 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	90.0	90.1
Depreciation charges	36.2	31.9
Profit on disposal of fixed assets	(0.2)	(0.2)
Amortisation of deferred revenue	(10.4)	(9.7)
Retirement benefit obligations	(18.0)	(20.7)
(Decrease)/increase in provisions	(0.6)	0.2
Finance costs	18.2	17.5
Finance income	(0.8)	(0.9)
	<u>114.4</u>	<u>108.5</u>
(Increase)/decrease in inventories	(1.2)	0.3
Decrease/(increase) in trade and other receivables	5.6	(12.9)
(Decrease)/increase in trade and other payables	(4.2)	30.3
	<u>113.6</u>	<u>126.2</u>
Cash generated from operations	<u>113.6</u>	<u>126.2</u>

6. 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.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. 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 £m	£m	Unaudited £m	£m
Financial liabilities				
Short-term loans	60.5	69.2	60.5	69.2
Inter-company short-term loan	0.6	2.5	0.6	2.5
Bond 2020 – 8.875% (Northern Electric Finance plc)	105.5	100.9	136.6	135.4
Bond 2035 – 5.125% (Northern Electric Finance plc)	149.1	152.8	176.1	183.9
EIB Loans*	120.9	123.4	130.9	134.7
Yorkshire Electricity Group plc 2037 – 5.9%	102.9	100.0	132.0	132.1
Cumulative preference shares	3.4	3.4	165.3	160.8
	<u>542.9</u>	<u>552.2</u>	<u>802.0</u>	<u>818.6</u>

* The borrowings from the European Investment Bank were drawn down in twelve tranches, repayable in 2018, 2019 and 2020. The spread of interest rate is as follows:

2018: 3.901% - 4.283%
 2019: 4.077% - 4.455%
 2020: 4.227% - 4.586%

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. 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	Finance income/ (costs) from/(to) related parties £m
Related party					
<i>Six months ended 30 June 2015:</i>					
Integrated Utility Services Limited (Registered in Eire)	-	-	-	-	-
Northern Powergrid Gas Holding Limited	0.1	-	-	-	-
Northern Powergrid Insurance Services Limited	-	0.2	-	-	-
Northern Powergrid Limited	-	-	-	-	(3.1)
Northern Powergrid (Yorkshire) plc	9.8	4.5	-	-	-
Vehicle Lease and Service Limited	0.1	2.0	0.3	0.6	0.4
Yorkshire Electricity Group plc	-	-	-	102.9	(2.9)
	<u>10.0</u>	<u>6.7</u>	<u>0.3</u>	<u>103.5</u>	<u>(5.6)</u>
<i>Six months ended 30 June 2014:</i>					
Integrated Utility Services Limited (Registered in Eire)	-	0.8	-	-	-
Northern Powergrid Gas Holding Limited	0.1	-	-	-	-
Northern Powergrid Insurance Services Limited	-	0.2	-	-	-
Northern Powergrid Limited	-	-	-	-	(3.1)
Northern Powergrid (Yorkshire) plc	7.7	4.4	-	-	-
Vehicle Lease and Service Limited	-	1.9	0.1	0.6	0.4
Yorkshire Electricity Group plc	-	-	-	102.9	(2.6)
	<u>7.8</u>	<u>7.3</u>	<u>0.1</u>	<u>103.5</u>	<u>(5.3)</u>

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. RELATED PARTY TRANSACTIONS (CONTINUED)

Group - continued

	Sales to related parties £m	Purchases from related parties £m	Amounts owed to related parties £m	Borrowings to/(from) related parties £m	Finance income/ (costs) from/(to) related parties £m
Related party					
<i>Year ended 31 December</i>					
<i>2014:</i>					
Integrated Utility Services Limited (registered in Eire)	-	2.7	0.3	-	-
Northern Powergrid Gas Limited	0.1	-	-	-	-
Northern Powergrid Insurance Services Limited	-	0.5	-	-	-
Northern Powergrid Limited	-	-	-	-	(6.2)
Northern Powergrid (Yorkshire) plc	21.8	9.9	-	-	-
Vehicle Lease and Service Limited	0.2	3.7	0.4	2.5	0.5
Yorkshire Electricity Group plc	-	-	-	102.5	(5.5)
	<u>22.1</u>	<u>16.8</u>	<u>0.7</u>	<u>105.0</u>	<u>(11.2)</u>

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

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.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. RELATED PARTY TRANSACTIONS (CONTINUED)

Company

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 to/(from) related parties £m	Finance income/ (costs) from/(to) related parties £m
Related party					
<i>Six months ended 30 June 2015:</i>					
Integrated Utility Services Limited	-	0.3	-	-	-
Northern Powergrid Gas Holding Limited	0.1	-	-	-	-
Northern Powergrid Limited	-	-	-	-	(3.1)
Northern Powergrid (Northeast) Limited	3.7	-	-	-	-
Northern Powergrid (Yorkshire) plc	2.3	-	-	-	-
Vehicle Lease and Service Limited	0.1	-	-	-	0.4
Yorkshire Electricity Group plc	-	-	-	29.0	0.1
	<u>6.2</u>	<u>0.3</u>	<u>-</u>	<u>29.0</u>	<u>(2.6)</u>
<i>Six months ended 30 June 2014:</i>					
Integrated Utility Services Limited	0.2	-	-	-	-
Northern Powergrid Gas Holding Limited	0.1	-	-	-	-
Northern Powergrid Limited	-	-	-	-	(3.1)
Northern Powergrid (Northeast) Limited	2.2	0.3	-	-	-
Northern Powergrid (Yorkshire) plc	1.9	-	-	-	-
Vehicle Lease and Service Limited	0.1	-	-	-	0.4
Yorkshire Electricity Group plc	-	-	-	37.0	0.1
	<u>4.5</u>	<u>0.3</u>	<u>-</u>	<u>37.0</u>	<u>(2.6)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. RELATED PARTY TRANSACTIONS (CONTINUED)

Company – continued

	Sales to related parties £m	Purchases from related parties £m	Amounts owed to related parties £m	Borrowings to/(from) related parties £m	Finance income/ (costs) from/(to) related parties £m
Related party					
<i>Year ended 31 December</i>					
<i>2014:</i>					
Integrated Utility Services Limited	0.1	0.5	-	-	-
Northern Powergrid Gas Limited	0.1	-	-	-	-
Northern Powergrid Limited	-	-	-	-	(6.2)
Northern Powergrid (Northeast) Limited	7.3	0.1	-	-	30.0
Northern Powergrid (Yorkshire) plc	4.7	-	-	-	-
Vehicle Lease and Service Limited	0.2	-	-	-	0.5
Yorkshire Electricity Group plc	-	-	-	29.8	0.3
	<u>12.4</u>	<u>0.6</u>	<u>-</u>	<u>29.8</u>	<u>24.6</u>

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

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