

NORTHERN POWERGRID (YORKSHIRE) plc

HALF-YEARLY FINANCIAL REPORT

SIX MONTHS ENDED 30 JUNE 2016

NORTHERN POWERGRID (YORKSHIRE) plc

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ENDED 30 JUNE 2016**

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NORTHERN POWERGRID (YORKSHIRE) plc
(REGISTERED NUMBER: 04112320)

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 and strategies of Northern Powergrid (Yorkshire) plc (the "Company") 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 2016

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 2016 was to act as an authorised distributor under the Electricity Act 1989. The Company distributes electricity to approximately 2.3 million customers connected to its electricity distribution network within its distribution services area.

Financial strength

Results for the six months ended 30 June 2016

The half-yearly accounts for the six months ended 30 June 2016 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 Company's auditor. The Company will deliver its statutory accounts for the current financial year ending on 31 December 2016 to the Registrar of Companies by 30 June 2017.

The Company delivered a satisfactory performance for the six months ended 30 June 2016 although profit after tax reduced by £10.3 million when compared to the previous year mainly as a result of lower revenue, the reasons for which are set out below. A summary of the key financial results is as follows:

Key financials

Revenue

Revenue at £206.6 million was £11.5 million lower than for the six months ended 30 June 2015 mainly due to reduced Distribution Use of System ("DUoS") revenue when compared to the previous year.

Cash flow

Cash and cash equivalents as at 30 June 2016 were £153.1 million, representing an increase of £7.4 million when compared with the position at 31 December 2015.

INTERIM MANAGEMENT REPORT (CONTINUED)

Financial strength (continued)

Key financials (continued)

Cash flow (continued)

The Company 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, which is due to expire on 30 April 2020. The Company also has access to a £50 million committed loan facility provided by the European Investment Bank.

In addition, the Company has access to short-term borrowing facilities provided by Yorkshire Electricity Group plc, a related party, and to a £19 million overdraft facility provided by Lloyds Bank plc.

Financial position

Profit before tax at £78.1 million was £13.0 million lower than the six months ended 30 June 2015 mainly as a result of lower DUoS revenue.

Dividends

No ordinary dividends were paid in the period resulting in £62.0 million being transferred to reserves.

Related party transactions

Details of the related party transactions entered into by the Company and changes therein are included in Note 7 to this half-yearly financial report.

Customer service

The Company's key customer service performance indicators are customer interruptions ("CI") and customer minutes lost ("CML") and, for the regulatory year to 31 March 2016 (the "Regulatory Year"), both indicators were better than Ofgem's targets. As at the date of this half-yearly financial report, the Company's currently reported performance for the Regulatory Year is as follows:

	Year to 31 March 2016		Year to 31 March 2015	
	Actual	Target	Actual	Target
CML	42.1	63.1	50.4	76.0
CI	52.7	68.5	60.9	75.3

INTERIM MANAGEMENT REPORT (CONTINUED)

Customer service (continued)

Under the Broad Measure of Customer Satisfaction, an independent market research company carries out telephone surveys with the Company's customers to find out how satisfied they were with the services provided. Those surveys are of a number of customers who contacted the Company 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. In that respect, the Company recorded an overall satisfaction score of 83.3% (2015: 82.6%) for the Regulatory Year.

Indicative of the continued, gradual improvement in the standard of customer service provided in the first half of 2016 was the achievement in May of an overall satisfaction score of 93.8% in respect of planned power cuts, which was the highest monthly score ever recorded in that category by any group of DNOs. The best ever overall customer satisfaction result was recorded in May 2016 but a slightly reduced score in June 2016 placed the Company and its affiliate, Northern Powergrid (Northeast) Limited, joint fourth in the ranking of DNOs, although only 0.2% separated the scores of the DNOs in joint fourth and second position. Individual performance in respect of power cuts, connections and general enquiries has been encouraging year-to-date and provides a solid base as further improvement initiatives are introduced.

The Company continued to deliver its customer satisfaction improvement programme in respect of new connections to the network in the first half of 2016, which is focussed on actions derived from customers' feedback obtained from the weekly telephone surveys and is designed to support the Company's goal to be the leading provider of customer service within the electricity distribution sector.

Operational excellence

The Company continued to implement its approved network investment strategy in order to deliver improvements in an efficient and cost-effective manner and to enhance the distribution network's resilience and invested £103.6 million in the network during the six months to 30 June 2016, which was a decrease on the £158.7 million recorded in the six months to 30 June 2015 and 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. That investment and the locally-focussed basis of Northern Powergrid's operations have contributed to average high-voltage and low-voltage restoration times being in line with their year-to-date targets.

Employee commitment – Health and safety

The safety of its employees continued to be of paramount importance to the Company, with the on-going focus being on the goal that every employee and contractor should go home at the end of each shift uninjured and in good health after a productive day's work. During the six months to 30 June 2016, the Company experienced four lost time accidents (six months to 30 June 2015: 2) against an annual target of two and incurred six preventable vehicle accidents (six months to 30 June 2015: 6) against an annual target of 13.

INTERIM MANAGEMENT REPORT (CONTINUED)

Employee commitment – Health and safety (continued)

Flashovers on electrical equipment were the most significant incidents in the year to date and appropriate restrictions were placed on the equipment concerned pending completion of investigations that are currently ongoing. The Company's continued use of targeted online driver training has assisted in reducing slow-speed and reversing incidents in the year to date and the exercise to equip all fleet vehicles with fully-operational telematics equipment was completed in May. The impact of this investment on accident rates will be subject to on-going assessment and accident investigations are able to utilise the technology in order to assist with identification of root causes and to support improvements in driving behaviour.

Environmental respect

Environmental performance for the first half of 2016 was encouraging with leakage rates from underground cables and oil-filled equipment continuing to be below historic levels over that part of the year and all of the Northern Powergrid Group's key performance indicators being ahead of target. That performance was supported by increased awareness of environmental matters across the Company's business and effective and early notification of issues occurring that provide the opportunity to take action to manage those issues in a timely manner.

In addition, the Company was presented with a Silver award at the Zero Waste Awards 2016 for excellence in recycling and waste management, which recognise contributions made by businesses to create a more sustainable and resourceful economy by embedding waste reduction practices into their operations.

Principal risks and uncertainties

Regulatory risk

During the current price control period, which is known as ED1 and runs until 31 March 2023, the rate of inflation, as measured by the Retail Prices Index ("RPI"), is taken into account in setting the Company's allowed income in respect of each regulatory year. Consequently, one of the risks faced by the Company is that its costs may increase by more than RPI. Any changes in costs incurred will have a direct impact on the Company's financial results, as will changes in performance under incentive schemes, such as in customer service, which can lead to adjustments to allowed revenues. In addition, the following are likely to have an impact on the Company's financial performance during the ED1 period:

- the period over which new regulatory assets are depreciated is being gradually lengthened, from 20 years to 45 years;
- allowed revenues will be adjusted during the ED1 period, rather than at the next price control review, to partially reflect cost variances relative to cost allowances;
- the allowed cost of debt will be updated within the ED1 period by reference to a long-run trailing average based on external benchmarks of public debt costs; and
- allowed revenues will be adjusted in relation to some new service standard incentives, principally relating to speed and service standards for new connections to the network.

INTERIM MANAGEMENT REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Regulatory risk (continued)

Many aspects of the previous price control remain in place, including adjustments to revenues in relation to the number and duration of power cuts and customer service standards and there is scope for a mid-period review and adjustment to revenues in the latter half of the ED1 period for any changes in the outputs required of licensees for certain specified reasons.

Financial risk

The principal risks associated with the regulatory environment, within which the Company operates, are mentioned above.

The Company addresses interest rate risk by a policy of having a stable, low cost of financing over time, whilst observing approved risk parameters. The Company 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 2016, 100% of the Company's long-term borrowings were at fixed rates and the average maturity for these borrowings was 11 years. No material currency risks are faced by the Company and it is policy that no trading in financial instruments should be undertaken.

The Company operates a stable and regulated electricity distribution business, in respect of which its allowed income is set for each regulatory year through the special conditions in the electricity distribution licence. The principal risk is of an increase in the deficit currently attributable to the defined benefit pension scheme, in which the Company is a Participating Employer, given current volatility and uncertainty in the financial markets. The triennial valuation as at 31 March 2016 is currently ongoing, as part of which the Northern Powergrid Group and the Trustees will agree contributions required (if any) to ensure the scheme is fully funded over time on the basis of suitable, prudent assumptions.

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 2015, which is available at www.northernpowergrid.com.

It is anticipated that these risks will continue for the remaining six months of 2016.

Going concern

In the Company's latest annual reports and accounts for the year to 31 December 2015 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 2016, which alter the view expressed in the annual reports and accounts to 31 December 2015.

INTERIM MANAGEMENT REPORT (CONTINUED)

Future strategy and objectives

The directors intend that the Company will continue to develop its business by operating with the goal of efficiently investing in its distribution network, improving the quality of supply and service provided to customers and delivering the regulatory business plan for ED1.

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 as required by DTR 4.2.4 R for the six months to 30 June 2016; and
- (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).

By order of the board



T E Fielden
Director

23 September 2016

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

CONDENSED STATEMENT OF PROFIT OR LOSS - SIX MONTHS ENDED 30 JUNE 2016

	6 Months ended 30 June 2016 (unaudited) £m	6 Months ended 30 June 2015 (unaudited) £m
Revenue	206.6	218.1
Cost of sales	<u>(8.0)</u>	<u>(8.0)</u>
Gross profit	198.6	210.1
Operating expenses	<u>(97.3)</u>	<u>(97.8)</u>
Operating profit	101.3	112.3
Other gains	0.3	0.1
Net finance costs	<u>(23.5)</u>	<u>(21.3)</u>
Profit before tax	78.1	91.1
Income tax expense	<u>(16.1)</u>	<u>(18.8)</u>
Profit from ordinary activities after tax	<u>62.0</u>	<u>72.3</u>

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - SIX MONTHS ENDED 30 JUNE 2016

There is no other comprehensive income for the Company for the six months to 30 June 2016 or the comparative six month period in 2015 other than the profits reported above.

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

CONDENSED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30 JUNE 2016

	30 June 2016 (unaudited) £m	31 December 2015 £m
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	2,989.5	2,921.1
	<u>2,989.5</u>	<u>2921.1</u>
CURRENT ASSETS		
Inventories	0.4	0.5
Trade and other receivables	55.4	63.8
Cash and cash equivalents	153.1	145.7
	<u>208.9</u>	<u>210.0</u>
TOTAL ASSETS	<u>3,198.4</u>	<u>3,313.0</u>
EQUITY		
SHAREHOLDERS' EQUITY		
Share capital	290.0	290.0
Retained earnings	891.5	829.5
TOTAL EQUITY	<u>1,181.5</u>	<u>1,119.5</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Trade and other payables	750.5	728.9
Borrowings	972.5	972.2
Deferred tax	134.7	134.2
Provisions	0.9	0.9
	<u>1,858.6</u>	<u>1,836.2</u>
CURRENT LIABILITIES		
Trade and other payables	114.9	129.8
Borrowings	25.2	33.3
Tax payable	17.2	11.2
Provisions	1.0	1.1
	<u>158.3</u>	<u>175.4</u>
TOTAL LIABILITIES	<u>2,016.9</u>	<u>2,011.5</u>
TOTAL EQUITY AND LIABILITIES	<u>3,198.4</u>	<u>3,131.0</u>

The interim financial statements were approved by the board of directors and authorised for issue on 23 September 2016 and were signed on its behalf by:



T E Fielden
Director

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

CONDENSED STATEMENT OF CHANGES IN EQUITY - SIX MONTHS ENDED 30 JUNE 2016

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2016	290.0	829.5	1,119.5
Profit for the period (unaudited)	-	62.0	62.0
Balance at 30 June 2016	<u>290.0</u>	<u>891.5</u>	<u>1,181.5</u>

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2015	290.0	710.4	1,000.4
Profit for the period (unaudited)	-	72.3	72.3
Balance at 30 June 2015	<u>290.0</u>	<u>782.7</u>	<u>1,072.7</u>

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2015	290.0	710.4	1,000.4
Profit for the year	-	146.7	146.7
Equity dividends paid	-	(27.6)	(27.6)
Balance at 31 December 2015	<u>290.0</u>	<u>829.5</u>	<u>1,119.5</u>

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

CONDENSED STATEMENT OF CASH FLOWS – SIX MONTHS ENDED 30 JUNE 2016

	6 Months ended 30 June 2016 (unaudited) £m	6 Months ended 30 June 2015 (unaudited) £m
Cash generated from operations	138.6	144.7
Net interest paid	(32.6)	(29.4)
Tax paid	(9.6)	(19.9)
Net cash from operating activities	<u>96.4</u>	<u>95.4</u>
Investing activities		
Proceeds from disposal of property, plant and equipment	0.3	0.1
Purchase of property, plant and equipment	(117.6)	(154.2)
Receipt of customer contributions	28.3	38.0
Net cash used in investing activities	<u>(89.0)</u>	<u>(116.1)</u>
Financing activities		
Movement in external loans	-	130.4
Movement in loan from group undertaking	-	(23.4)
Net cash generated by financing activities	<u>-</u>	<u>107.0</u>
Net increase in cash and cash equivalents	7.4	86.3
Cash and cash equivalents at beginning of period	<u>145.7</u>	<u>-</u>
Cash and cash equivalents at end of period	<u>153.1</u>	<u>86.3</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The information included within these condensed financial statements for the year ended 31 December 2015 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 Company are prepared in accordance with International Financial Reporting Standards 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 2015 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 2016, which alter the view expressed in the annual reports and accounts to 31 December 2015.

Changes in accounting policy

The Company's accounting policies and methods of computation are the same as the accounting policies which are described in the Company's financial statements for the year ended 31 December 2015. The Company has not adopted any new or revised accounting standards in the current year.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)****3. SEGMENTAL ANALYSIS**

Revenue, profit before tax and net assets are attributable to electricity distribution. Revenue is all in respect of sales to United Kingdom customers.

Revenue represents charges made to customers for use of the distribution system, rental of meters the recharge of costs incurred on behalf of related parties, amortisation of customer contributions and other goods sold and services provided, exclusive of value added tax.

4. INCOME TAX EXPENSE

Tax for the six month period ended 30 June 2016 is charged at 20.00% (six months ended 30 June 2015: 20.25%; year ended 31 December 2014: 20.25%), 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 2016 (unaudited) £m	6 months ended 30 June 2015 (unaudited) £m
Current tax	15.6	18.1
Deferred tax	0.5	0.7
Total income tax expense	<u>16.1</u>	<u>18.8</u>

The Finance No 2 Act 2015 included a provision that the standard rate of corporation tax in the United Kingdom was to reduce from 20% to 19% from April 2017 and to 18% from April 2020. Deferred taxation is measured at the tax rates that apply in the periods in which the temporary differences are expected to reverse based on the tax rates and laws that have been substantively enacted at the statement of financial position date. Accordingly, 18% has been applied when calculating deferred tax assets and liabilities as at 30 June 2016.

The Finance Bill 2016 contains provisions to further reduce the rate of corporation tax to 17% with effect from 1 April 2020. It is expected that the Finance Act 2016 will be substantively enacted in October 2016. As substantive enactment of Finance Act 2016 is after the statement of financial position date the further reduction to the rate of UK corporation tax has been disregarded in calculating the deferred tax position at 30 June 2016.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

5. NOTES TO THE CASH FLOW STATEMENT

	6 Months ended 30 June 2016 (unaudited) £m	6 Months ended 30 June 2015 (unaudited) £m
Profit before income tax	78.1	91.1
Depreciation charges	46.6	43.2
Profit on disposal of fixed assets	(0.3)	(0.1)
Amortisation of deferred revenue	(12.2)	(11.3)
Decrease in provisions	(0.1)	-
Finance costs	23.5	21.3
	<u>135.6</u>	<u>144.2</u>
Decrease/(increase) in inventories	0.1	(0.1)
(Increase)/decrease in trade and other receivables	(5.4)	15.4
Increase/(decrease) in trade and other payables	8.3	(14.8)
	<u>138.6</u>	<u>144.7</u>
Cash generated from operations	138.6	144.7

6. 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 2016 (unaudited) £m	31 December 2015 £m	30 June 2016 (unaudited) £m	31 December 2015 £m
Financial liabilities				
Short-term loans	-	0.1	-	0.1
Inter-company short-term loan	-	-	-	-
Bond 2020 – 9.25%	207.9	217.1	262.0	269.8
Bond 2025 – 2.5%	148.5	150.3	156.7	146.6
Bond 2032 – 4.375%	153.7	150.4	186.0	164.5
Bond 2035 – 5.125%	198.9	203.8	264.0	240.3
EIB Loan – 4.133%	156.3	153.7	184.4	173.0
EIB Loan – 2.564%	131.8	130.1	141.8	126.9
	<u>1,049.6</u>	<u>1,005.5</u>	<u>1,039.2</u>	<u>1,121.1</u>

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

7. RELATED PARTY TRANSACTIONS

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

	Sales to related parties £m	Purchases from related parties £m	Amounts owed from related parties £m	Borrowings to related parties £m	Interest from related parties £m
Related party					
<i>Six months ended 30 June</i>					
<i>2016:</i>					
Integrated Utility Services Limited	0.1	0.2	-	-	-
Northern Electric plc	-	2.5	-	-	-
Northern Powergrid Metering Limited	0.2	-	-	-	-
Northern Powergrid (Northeast) Limited	4.7	8.2	-	-	-
Vehicle Lease and Service Limited	-	2.0	0.2	-	-
Yorkshire Electricity Group plc	-	-	-	153.1	0.4
	<u>5.0</u>	<u>12.9</u>	<u>0.2</u>	<u>153.1</u>	<u>0.4</u>
<i>Six months ended 30 June</i>					
<i>2015:</i>					
Integrated Utility Services Limited	0.1	1.0	-	-	-
Northern Electric plc	-	2.3	-	-	-
Northern Powergrid Insurance Services Limited	-	0.2	-	-	-
Northern Powergrid Metering Limited	0.1	-	-	-	-
Northern Powergrid (Northeast) Limited	4.5	9.4	-	-	-
Vehicle Lease and Service Limited	-	2.0	0.2	-	-
Yorkshire Electricity Group plc	-	-	-	86.3	0.3
	<u>4.7</u>	<u>14.9</u>	<u>0.2</u>	<u>86.3</u>	<u>0.3</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

7. RELATED PARTY TRANSACTIONS – (CONTINUED)

	Sales to related parties £m	Purchases from related parties £m	Amounts owed to related parties £m	Borrowings to related parties £m	Interest from related parties £m
<i>Year ended 31 December 2015:</i>					
Integrated Utility Services Limited	0.1	1.4	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.2	-	-	-
Northern Electric plc	-	4.0	-	-	-
Northern Powergrid Insurance Services Limited	-	0.6	-	-	-
Northern Powergrid Metering Limited	0.3	-	-	-	-
Northern Powergrid (Northeast) Limited	9.3	17.9	-	-	-
Vehicle Lease and Service Limited	0.1	3.9	0.4	-	-
Yorkshire Electricity Group plc	-	-	-	145.7	0.8
	<u>9.8</u>	<u>28.0</u>	<u>0.4</u>	<u>145.7</u>	<u>0.8</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.