

NORTHERN POWERGRID HOLDINGS COMPANY
HALF-YEARLY FINANCIAL REPORT
SIX MONTHS ENDED 30 JUNE 2016

NORTHERN POWERGRID HOLDINGS COMPANY

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**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 2016

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 ("DNOs") 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 2015.

Financial strength

Results for the six months ended 30 June 2016

The half-yearly accounts for the six months ended 30 June 2016 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 2016 to the Registrar of Companies by 30 September 2017.

The Group delivered a satisfactory performance for the six months ended 30 June 2016, although profit after tax reduced by £22.8 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 £382.5 million was £20.6 million lower than for the six months ended 30 June 2015 mainly due to receipt of lower Distribution Use of System ("DUoS") revenues by Northern Powergrid, partially offset by higher smart meter rental income.

INTERIM MANAGEMENT REPORT (CONTINUED)

Financial strength (continued)

Key financials (continued)

Cash flow

Cash and cash equivalents as at 30 June 2016 were £23.8 million, representing a decrease of £34.1 million when compared with the position at 31 December 2015.

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

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 £143.5 million was £24.7 million lower than the six months ended 30 June 2015 mainly as a result of a decrease in DUoS revenue.

Dividends

No dividends were paid during the period resulting in £110.2 million being transferred to reserves.

Related party transactions

Details of the related party transactions entered into by companies in the Group and changes therein are included in Note 9 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 2016 (the "Regulatory Year"), both indicators were better than Ofgem's targets. As at the date of this half-yearly financial report, Northern Powergrid's currently reported performance for the Regulatory Year is as follows:

| | <u>NPg Northeast</u> | | | | <u>NPg Yorkshire</u> | | | |
|-----|--------------------------|--------|--------------------------|--------|--------------------------|--------|--------------------------|--------|
| | Year to 31 March 2016 | | Year to 31 March 2015 | | Year to 31 March 2016 | | Year to 31 March 2015 | |
| | Actual | Target | Actual | Target | Actual | Target | Actual | Target |
| CML | 49.7 | 65.9 | 56.1 | 70.6 | 42.1 | 63.1 | 50.4 | 76.0 |
| CI | 58.2 | 63.8 | 65.3 | 68.1 | 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 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. In that respect, NPg Northeast recorded an overall satisfaction score of 84.1% (2015: 81.9%) and NPg Yorkshire a 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. Northern Powergrid also recorded its best ever overall customer satisfaction result in May 2016 but a slightly reduced score in June 2016 placed Northern Powergrid 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.

Northern Powergrid 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 Northern Powergrid's goal to be the leading provider of customer service within the electricity distribution sector.

Operational excellence

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 distribution network's resilience and invested £216.5 million in the network during the six months to 30 June 2016, which was a decrease on the £257.4 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.

Northern Powergrid responded well to the high winds that impacted its network during Storm Gertrude on 29 January 2016, which resulted in Northern Powergrid invoking its major incident management plan. Storm Gertrude mainly affected Northumberland, Tyne and Wear and County Durham and resulted in some 25,000 customers being affected by power cuts, with 98% of those customers having their power restored within 12 hours and 82% within three hours.

INTERIM MANAGEMENT REPORT (CONTINUED)

Operational excellence (continued)

IUS continued to operate its engineering contracting business and saw a reduction in revenues in the six months to 30 June 2016, mainly due to lower activity in delivering contracts for Network Rail. Work on private electrical infrastructure for network owners in the North East of England and Yorkshire and on Multi-Utility contracts, which relate to the provision of electric, gas and water connections to housing developers, has increased in 2016. However, 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 to develop further 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.

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 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 Group experienced four lost time accidents (six months to 30 June 2015: 2) against an annual target of three and incurred 13 preventable vehicle accidents (six months to 30 June 2015: 10) against an annual target of 24.

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 Group'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 key performance indicators being ahead of target. That performance was supported by increased awareness of environmental matters across the Group'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, Northern Powergrid 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.

INTERIM MANAGEMENT REPORT (CONTINUED)

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 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. In addition, the following are likely to have an impact on Northern Powergrid'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.

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. There is also 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 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.

Northern Powergrid Metering operates as a meter asset provider, exposed to the risk of payment default, it reduces the risk by adhering to credit checking, payment terms, payment performance tracker and debt management, as a result its overdue debt position was not considered material.

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.

INTERIM MANAGEMENT REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Financial risk (continued)

As at 30 June 2016, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 10 years. No material currency risks are faced by the Group and it is policy that no trading in financial instruments should be undertaken.

Northern Powergrid operates a stable and regulated business, in respect of which its allowed income is set in respect of each regulatory year through the special conditions in the electricity distribution licence. The principal risk is of an increase to the deficit currently attributable to the defined benefit pension scheme, 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 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 Group'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 Group'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.

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.

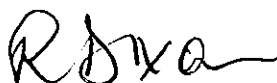
INTERIM MANAGEMENT REPORT (CONTINUED)

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 for the six months to 30 June 2016; 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



R Dixon
Director

23 September 2016

**NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER:
03476201)**

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

**CONDENSED CONSOLIDATED 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 | 382.5 | 403.1 |
| Cost of sales | <u>(27.9)</u> | <u>(29.9)</u> |
| Gross profit | 354.6 | 373.2 |
| Operating expenses | <u>(162.8)</u> | <u>(160.2)</u> |
| Operating profit | 191.8 | 213.0 |
| Other gains | 0.4 | 0.3 |
| Finance income | 0.7 | 0.5 |
| Finance costs | <u>(49.4)</u> | <u>(45.6)</u> |
| Profit before tax | 143.5 | 168.2 |
| Income tax expense | <u>(32.2)</u> | <u>(34.1)</u> |
| Profit from ordinary activities after tax | <u>111.3</u> | <u>134.1</u> |
| Owners of the parent | 110.2 | 133.0 |
| Non-controlling interests | <u>1.1</u> | <u>1.1</u> |
| | <u>111.3</u> | <u>134.1</u> |

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

**CONDENSED CONSOLIDATED 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 |
|--|--|--|
| PROFIT FOR THE PERIOD | 111.3 | 134.1 |
| OTHER COMPREHENSIVE INCOME | | |
| Items that will not be reclassified subsequently to profit or loss: | | |
| Employee benefit obligation | 15.8 | (15.0) |
| Income tax relating to items of other comprehensive income | (2.9) | 3.0 |
| | <u>12.9</u> | <u>(12.0)</u> |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange difference on translation of foreign operations | 3.5 | (2.4) |
| | <u>3.5</u> | <u>(2.4)</u> |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX | <u>16.4</u> | <u>(14.4)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>127.7</u> | <u>119.7</u> |
| Owners of the parent | 126.6 | 118.6 |
| Non-controlling interests | <u>1.1</u> | <u>1.1</u> |
| | <u>127.7</u> | <u>119.7</u> |

**NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER:
03476201)**

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

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

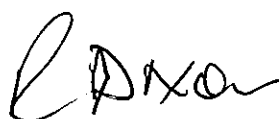
| | 30 June 2016 Unaudited £m | 31 December 2015 £m |
|-------------------------------|--|----------------------------------|
| ASSETS | | |
| NON-CURRENT ASSETS | | |
| Goodwill | 248.8 | 248.8 |
| Intangible assets | 53.3 | 44.1 |
| Property, plant and equipment | 5,320.9 | 5,159.6 |
| Investments | 20.1 | 15.7 |
| Pension asset | 119.8 | 88.1 |
| Tax receivable | 1.9 | 1.9 |
| Trade and other receivables | 9.5 | 8.8 |
| | <u>5,774.3</u> | <u>5,567.0</u> |
| CURRENT ASSETS | | |
| Inventories | 12.4 | 13.9 |
| Trade and other receivables | 132.2 | 131.5 |
| Tax receivables | 0.3 | 0.9 |
| Cash and cash equivalents | 23.8 | 57.9 |
| | <u>168.7</u> | <u>204.3</u> |
| TOTAL ASSETS | <u>5,943.0</u> | <u>5,771.3</u> |
| EQUITY | | |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 354.6 | 354.6 |
| Share premium account | (0.8) | (0.8) |
| Other reserves | (3.2) | (6.7) |
| Retained earnings | <u>1,759.4</u> | <u>1,636.3</u> |
| | 2,110.0 | 1,983.4 |
| | <u>30.0</u> | <u>28.9</u> |
| TOTAL EQUITY | <u>2,140.0</u> | <u>2,012.3</u> |

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

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

| | 30 June 2016 Unaudited £m | 31 December 2015 £m |
|-------------------------------------|--|----------------------------------|
| LIABILITIES | | |
| NON-CURRENT LIABILITIES | | |
| Trade and other payables | 1,309.1 | 1,271.6 |
| Borrowings | 1,890.2 | 1,891.5 |
| Deferred tax | 266.7 | 254.9 |
| Provisions | 6.2 | 5.3 |
| | <u>3,472.2</u> | <u>3,423.3</u> |
| CURRENT LIABILITIES | | |
| Trade and other payables | 248.6 | 269.6 |
| Borrowings | 61.8 | 53.3 |
| Tax payable | 18.0 | 9.1 |
| Provisions | 2.4 | 3.7 |
| | <u>330.8</u> | <u>335.7</u> |
| TOTAL LIABILITIES | <u>3,800.0</u> | <u>3,759.0</u> |
| TOTAL EQUITY AND LIABILITIES | <u>5,943.0</u> | <u>5,771.3</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:



R Dixon
Director

**NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER:
03476201)**

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

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

| | Share Capital £m | Share Premium Account £m | Other Reserves £m | Retained Earnings £m | Total £m |
|--|------------------------|-----------------------------------|-------------------------|--|-----------------------|
| Balance at 1 January 2016 | 354.6 | (0.8) | (6.7) | 1,636.3 | 1,983.4 |
| Profit for the period (unaudited) | - | - | - | 110.2 | 110.2 |
| Other comprehensive income (unaudited) | - | - | - | 12.9 | 12.9 |
| Foreign exchange translation adjustment | - | - | 3.5 | - | 3.5 |
| Balance at 30 June 2016 | <u>354.6</u> | <u>(0.8)</u> | <u>(3.2)</u> | <u>1,759.4</u> | <u>2,110.0</u> |
| | | | | Non- Controlling Interests £m | Total Equity £m |
| Balance at 1 January 2016 | | | | 28.9 | 2,012.3 |
| Profit for the period (unaudited) | | | | 1.1 | 111.3 |
| Other comprehensive income (unaudited) | | | | - | 12.9 |
| Foreign exchange translation adjustment | | | | - | 3.5 |
| Balance at 30 June 2016 | | | | <u>30.0</u> | <u>2,140.0</u> |

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - SIX
MONTHS ENDED 30 JUNE 2016 (CONTINUED)**

| | 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 FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - SIX
MONTHS ENDED 30 JUNE 2016 (CONTINUED)**

| | Share Capital £m | Share Premium Account £m | Other Reserves £m | Retained Earnings £m | Total £m |
|--|------------------------|-----------------------------------|-------------------------|----------------------------|----------------|
| Balance at 1 January 2015 | 354.6 | (0.8) | (4.8) | 1,471.0 | 1,820.1 |
| Profit for the year | - | - | - | 267.7 | 267.7 |
| Other comprehensive income | - | - | - | (2.5) | (2.5) |
| Equity dividends paid | - | - | - | (100.0) | (100.0) |
| Foreign exchange translation adjustment | - | - | (1.9) | - | (1.9) |
| Balance at 31 December 2015 | 354.6 | (0.8) | (6.7) | 1,636.2 | 1,983.4 |

| | Non- Controlling Interests £m | Total Equity £m |
|--|--|-----------------------|
| Balance at 1 January 2015 | 28.2 | 1,848.2 |
| Profit for the year | 1.8 | 269.5 |
| Other comprehensive income | - | (2.5) |
| Equity dividends paid | (1.1) | (101.1) |
| Foreign exchange translation adjustment | - | (1.9) |
| Balance at 31 December 2015 | 28.9 | 2,012.3 |

**NORTHERN POWERGRID HOLDINGS COMPANY (REGISTERED NUMBER:
03476201)**

CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2016

CONSOLIDATED CASH FLOW STATEMENT

| | 6 Months ended 30 June 2016 Unaudited £m | 6 Months ended 30 June 2015 Unaudited £m |
|---|---|---|
| Cash inflow from operating activities | 241.9 | 248.9 |
| Net interest paid | (47.2) | (44.6) |
| Tax paid | (13.7) | (29.5) |
| Net cash from operating activities | 181.0 | 174.8 |
| Investing activities | | |
| Proceeds from disposal of property, plant and equipment | 0.4 | 0.3 |
| Purchase of property, plant and equipment | (258.5) | (291.8) |
| Purchase of intangible assets | (11.4) | (7.7) |
| Investment in associate | (4.0) | (5.5) |
| Dividends received from joint venture | - | 0.5 |
| Receipt of customer contributions | 54.9 | 58.1 |
| Net cash used in investing activities | (218.6) | (246.1) |
| Financing activities | | |
| Dividends paid | - | (50.0) |
| Movement in external loans | - | 121.3 |
| Net cash generated by financing activities | - | 71.3 |
| Foreign exchange differences | 3.5 | (0.7) |
| Net decrease in cash and cash equivalents | (34.1) | (0.7) |
| Cash and cash equivalents at beginning of period | 57.9 | 3.2 |
| Cash and cash equivalents at end of period | 23.8 | 2.5 |

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

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 Group 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 Group'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 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 2015. The Group 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

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 2016 (unaudited):

| | Distribution £m | Other £m | Total £m |
|----------------------------------|--------------------|-------------|-------------|
| REVENUE | | | |
| External sales | 357.4 | 22.1 | 379.5 |
| Inter-segment sales | 0.5 | (0.5) | - |
| | <hr/> | <hr/> | <hr/> |
| Total Revenue | 357.9 | 21.6 | 379.5 |
| | <hr/> | <hr/> | <hr/> |
| SEGMENT RESULTS | | | |
| Operating profit | 181.0 | 10.8 | 191.8 |
| | <hr/> | <hr/> | |
| Other gains | | | 0.4 |
| Finance income | | | 0.7 |
| Finance costs | | | (49.4) |
| | | | <hr/> |
| Profit before tax | | | 143.5 |
| | | | <hr/> |
| OTHER INFORMATION | | | |
| Capital additions | 214.2 | 45.1 | 259.3 |
| Depreciation and amortisation | 86.0 | 6.9 | 92.9 |
| Amortisation of deferred revenue | 23.2 | - | 23.2 |
| | <hr/> | <hr/> | <hr/> |

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED 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 2015 (unaudited):

| | Distribution £m | Other £m | Total £m |
|----------------------------------|--------------------|-------------|-------------|
| REVENUE | | | |
| External sales | 381.5 | 21.6 | 403.1 |
| Inter-segment sales | 0.5 | (0.5) | - |
| | <hr/> | <hr/> | <hr/> |
| Total Revenue | 382.0 | 21.1 | 403.1 |
| | <hr/> | <hr/> | <hr/> |
| SEGMENT RESULTS | | | |
| Operating profit | 205.4 | 7.6 | 213.0 |
| | <hr/> | <hr/> | |
| Other gains | | | 0.3 |
| Finance income | | | 0.5 |
| Finance costs | | | (45.6) |
| | | | <hr/> |
| Profit before tax | | | 168.2 |
| | | | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> |

"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 2016 of £93.4 million (30 June 2015: £111.0 million) are included within the Distribution segment.

External sales to British Gas Ltd in the six months ended 30 June 2016 were £68.0 million (30 June 2015: £79.8m) are included within the Distribution segment.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED 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 2016 Unaudited £m | 31 December 2015 £m |
|---------------------------------------|--|--|
| Distribution | 3,793.0 | 3,700.8 |
| Other | <u>322.7</u> | <u>194.1</u> |
| Total net assets by segment | 4,115.7 | 3,894.9 |
| Unallocated net corporate liabilities | <u>(1,975.7)</u> | <u>(1,882.6)</u> |
| Total net assets | <u><u>2,140.0</u></u> | <u><u>2,012.3</u></u> |

Unallocated net corporate liabilities include cash and cash equivalents of £23.8 million (December 2014: £2.5 million), borrowings of £1,895.5 million (December 2015: £1,811.6 million) and taxation of £282.6 million (December 2015: £291.1 million).

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

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 2015: 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 | 25.7 | 27.8 |
| Deferred tax | <u>6.5</u> | <u>6.3</u> |
| Total income tax expense | <u>32.2</u> | <u>34.1</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.

5. DIVIDENDS

No dividends were distributed to the shareholders in the six month period ended 30 June 2016 (six months ended 30 June 2015: £50m)

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

6. 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 | 143.5 | 168.1 |
| Depreciation charges | 92.9 | 87.0 |
| Profit on disposal of fixed assets | (0.4) | (0.3) |
| Amortisation of deferred revenue | (23.2) | (23.2) |
| Retirement benefit obligations | (15.9) | (18.0) |
| (Decrease)/increase in provisions | (0.4) | (0.5) |
| Finance costs | 49.4 | 45.6 |
| Finance income | (0.7) | (0.5) |
| | <u>245.2</u> | <u>258.2</u> |
| Decrease/(increase) in inventories | 1.5 | (1.4) |
| (Increase)/decrease in trade and other receivables | (3.5) | 16.6 |
| (Decrease) in trade and other payables | (1.3) | (24.5) |
| | <u>241.9</u> | <u>248.9</u> |
| Cash generated from operations | <u>241.9</u> | <u>248.9</u> |

7. RETIREMENT BENEFIT SCHEMES

The defined benefit obligation as at 30 June 2016 is calculated on a year-to-date basis, using the annual actuarial valuation as at 31 December 2015. If the current market conditions as at 30 June 2016 were to be adopted, the amount recognised pre-tax in Other Comprehensive Income would be £247.4m and the pension expense for the year ended 31 December 2017 would increase by £1.1 to £13.6m. However, due to the current volatility of the market these interim accounts have not been adjusted and the 2016 annual reports and accounts will reflect market conditions as at 31 December 2016.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

8. 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 | 31 December 2015 | 30 June 2016 | 31 December 2015 |
| | Unaudited £m | £m | Unaudited £m | £m |
| Financial liabilities | | | | |
| Short-term loans | - | 0.1 | - | 0.1 |
| Inter-company short-term loan | 4.6 | 1.7 | 4.6 | 1.7 |
| Bond 2020 – 8.875% (Northern Electric Finance plc) | 105.6 | 101.1 | 136.7 | 130.6 |
| Bond 2020 – 9.25% (Northern Powergrid (Yorkshire) plc) | 220.3 | 231.2 | 262.0 | 269.8 |
| Bond 2022 – 7.25% (Northern Powergrid Holdings Company) | 203.6 | 196.1 | 271.0 | 249.4 |
| Bond 2025 – 2.5% (Northern Powergrid (Yorkshire) plc) | 148.5 | 150.3 | 156.7 | 146.6 |
| Bond 2028 – 7.25% (Yorkshire Power Finance Limited) | 202.2 | 195.7 | 282.9 | 253.9 |
| Bond 2032 4.375% (Northern Powergrid (Yorkshire) plc) | 153.7 | 150.4 | 186.0 | 164.5 |
| Bond 2035 – 5.125% (Northern Electric Finance plc) | 149.2 | 152.9 | 197.6 | 180.5 |
| Bond 2035 – 5.125% (Northern Powergrid (Yorkshire) plc) | 198.9 | 203.8 | 264.0 | 240.3 |
| EIB loans 2018-2020* | 277.6 | 277.0 | 315.8 | 305.7 |
| EIB loans 2027 – 2.564% | 253.5 | 250.3 | 272.7 | 244.0 |
| Cumulative preference shares | 34.1 | 34.1 | 51.0 | 50.5 |
| | <u>1,951.8</u> | <u>1,944.7</u> | <u>2,114.4</u> | <u>2,237.6</u> |

* The borrowings from the European Investment Bank were drawn down in twelve tranches, repayable in 2018, 2019 and 2020. The interest rates shown are average rates for those repayment dates. The spread of interest rates 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 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

9. 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 | | | | | |
| <i>Six months ended 30 June 2016:</i> | | | | | |
| Immediate Parent Companies* | - | - | 4.6 | - | - |
| Vehicle Lease and Service Limited | 0.1 | 4.2 | 0.2 | - | - |
| | <u>0.1</u> | <u>4.5</u> | <u>4.8</u> | <u>-</u> | <u>-</u> |
| <i>Six months ended 30 June 2015:</i> | | | | | |
| 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 |
| | <u>0.2</u> | <u>4.5</u> | <u>0.2</u> | <u>0.6</u> | <u>(49.5)</u> |
| <i>Year ended 31 December 2015:</i> | | | | | |
| Immediate Parent Companies* | - | - | 5.0 | - | (100.0) |
| Northern Powergrid Insurance Services Limited | - | 1.1 | - | - | - |
| Vehicle Lease and Service Limited | 0.3 | 7.6 | 0.9 | - | 0.5 |
| | <u>0.3</u> | <u>8.7</u> | <u>5.9</u> | <u>-</u> | <u>0.4</u> |

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

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

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2016

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

9. RELATED PARTY TRANSACTIONS (CONTINUED)

Company

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

| | Borrowings to/(from) related parties £m | Interest from/(to) related parties £m | Dividends from/(to) related parties £m |
|---------------------------------------|---|---|--|
| Related party | | | |
| <i>Six months ended 30 June 2016:</i> | | | |
| Northern Powergrid UK Holdings | 264.2 | 9.2 | - |
| Yorkshire Electricity Group plc | - | 2.4 | - |
| | <u>264.2</u> | <u>11.6</u> | <u>-</u> |
| <i>Six months ended 30 June 2015:</i> | | | |
| Immediate Parent Companies* | - | - | (50.0) |
| Northern Powergrid UK Holdings | 264.2 | 9.2 | - |
| Yorkshire Electricity Group plc | (36.3) | (7.3) | - |
| | <u>227.9</u> | <u>1.9</u> | <u>(50.0)</u> |
| <i>Year ended 31 December 2015:</i> | | | |
| Immediate Parent Companies* | - | - | (100.0) |
| Northern Powergrid UK Holdings | 264.2 | 18.5 | - |
| Yorkshire Electricity Group plc | - | (0.3) | - |
| | <u>264.2</u> | <u>18.2</u> | <u>(100.0)</u> |

* 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 2016 two directors (six months ended 30 June 2015: 2, year ended 31 December 2015: 2) utilised the services provided by Northern Transport Finance Limited, a subsidiary company.