

Registered Number: 03070482

**NORTHERN ELECTRIC FINANCE plc**

**HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2017**

## **INTERIM MANAGEMENT REPORT**

### **Cautionary Statement**

This interim management report has been prepared solely to provide additional information to shareholders to assess the business of Northern Electric Finance plc (the “Company”) and should not be relied on by any other party or for any other purpose.

### **Business Model**

The Company is part of the Northern Powergrid Holdings Company group of companies (the “Northern Powergrid Group”) and is a subsidiary of Northern Powergrid (Northeast) Limited. The Company’s principal activity during the six months to 30 June 2017 was to act as the issuer of long-term bonds.

### **Results for the six months ended 30 June 2017**

During the period ended 30 June 2017, the Company made a loss after tax of £0.1 million (period ended 30 June 2016: loss of £0.1 million).

There were no significant events during the period ended 30 June 2017 such that there was no material impact on the financial statements. The Company met its obligations to make the annual interest payment on its 2035 debt securities on 4 May 2017. The annual interest payment on the Company’s 2020 debt securities is due to be paid on 16 October 2017.

### **Income statement**

Investment income and finance costs were in line with the same period in the prior year.

### **Cash flow**

Cash equivalents as at 30 June 2017 were £1.5m lower than the position at 31 December 2016 due to interest paid in the period.

### **Financial position**

The loss after tax at £0.1 million was in line with the same period in the prior year.

### **Related party transactions**

Details of the related party transactions entered into by the Company and changes therein are included in Note 6 to this half-yearly financial report.

### **Dividends**

No ordinary dividends were paid in the period such that reserves were reduced by the loss of £0.1 million.

### **Risks and uncertainties**

The principal risks and uncertainties facing the Company are included in the Company’s latest annual reports and accounts for the year to 31 December 2016, which is available at [www.northernpowergrid.com](http://www.northernpowergrid.com).

It is anticipated that these risks will continue to be the principal risks facing the business for the remaining six months of 2017.

**Going concern**

In the Company's latest annual reports and accounts for the year to 31 December 2016 the directors set out a number of factors taken into account when considering continuing to adopt the going concern basis in preparing that annual report and accounts.

The directors confirm that no events have occurred during the six months to 30 June 2017, which alter the view expressed in the Company's annual report and accounts for the year to 31 December 2016.

**Future strategy and objectives**

The Company will continue to act as the issuer of long-term debt securities.

**Responsibility Statement**

The 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, gives a true and fair view of the assets, liabilities, financial position and profit of the Company as required by DTR 4.2.4R for the six months to 30 June 2017; and
- (b) the interim management report contains a fair review of the information required by DTR 4.2.7R.

By order of the board



P A Jones  
Director

21 September 2017

**CONDENSED STATEMENT OF PROFIT OR LOSS – SIX MONTHS ENDED TO 30 JUNE 2017**

|                               | Six months<br>ended 30 June<br>2017<br>(unaudited)<br>£m | Six months<br>ended 30<br>June 2016<br>(unaudited)<br>£m |
|-------------------------------|--|--|
| <b>CONTINUING OPERATIONS</b>  |  |  |
| Finance income                | 8.5  | 8.5  |
| Finance costs                 | <u>(8.6)</u>   | <u>(8.6)</u>   |
| <b>LOSS BEFORE INCOME TAX</b> | (0.1)  | (0.1)  |
| Income tax                    | <u>-</u>   | <u>-</u>   |
| <b>LOSS FOR THE PERIOD</b>    | <u>(0.1)</u>   | <u>(0.1)</u>   |

**CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2017**

There is no other comprehensive income for the Company for the six months to 30 June 2017 or the comparative six month period in 2016 other than the losses reported above.

*James J. ...*

# CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

|                                     | 30 June 2017<br>(unaudited)<br>£m | 31 December<br>2016<br>£m |
|-------------------------------------|-----------------------------------|---------------------------|
| <b>ASSETS</b>                       |                                   |                           |
| <b>NON-CURRENT ASSETS</b>           |                                   |                           |
| Trade and other receivables         | 248.1                             | 248.0                     |
| <b>CURRENT ASSETS</b>               |                                   |                           |
| Trade and other receivables         | 9.2                               | 3.5                       |
| Cash and cash equivalents           | -                                 | 1.5                       |
|                                     | 9.2                               | 5.0                       |
| <b>TOTAL ASSETS</b>                 | <b>257.3</b>                      | <b>253.0</b>              |
| <b>EQUITY</b>                       |                                   |                           |
| <b>SHAREHOLDERS' EQUITY</b>         |                                   |                           |
| Called up share capital             | 0.1                               | 0.1                       |
| Retained earnings                   | (1.4)                             | (1.3)                     |
| <b>TOTAL EQUITY</b>                 | <b>(1.3)</b>                      | <b>(1.2)</b>              |
| <b>LIABILITIES</b>                  |                                   |                           |
| <b>NON-CURRENT LIABILITIES</b>      |                                   |                           |
| Borrowings                          | 247.5                             | 247.3                     |
| Deferred tax                        | 0.1                               | 0.1                       |
|                                     | 247.6                             | 247.4                     |
| <b>CURRENT LIABILITIES</b>          |                                   |                           |
| Borrowings                          | 11.0                              | 6.8                       |
| <b>TOTAL LIABILITIES</b>            | <b>258.6</b>                      | <b>254.2</b>              |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>257.3</b>                      | <b>253.0</b>              |

The half-yearly financial statements were approved by the board of directors and authorised for issue on 21 September 2017 and were signed on its behalf by:



P A Jones  
Director

**CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED  
30 JUNE 2017**

|  | Share<br>Capital<br>£m | Retained<br>Earnings<br>£m | Total<br>Equity<br>£m |
|--|------------------------|----------------------------|-----------------------|
| <b>Balance at 1 January 2017</b>                   | 0.1                    | (1.3)                      | (1.2)                 |
| Comprehensive income for the<br>period (unaudited) | <u>-</u>               | <u>(0.1)</u>               | <u>(0.1)</u>          |
| <b>Balance at 30 June 2017<br/>(unaudited)</b>     | <u>0.1</u>             | <u>(1.4)</u>               | <u>(1.3)</u>          |

|  | Share<br>Capital<br>£m | Retained<br>Earnings<br>£m | Total<br>Equity<br>£m |
|--|------------------------|----------------------------|-----------------------|
| <b>Balance at 1 January 2016</b>                   | 0.1                    | (1.2)                      | (1.1)                 |
| Comprehensive income for the<br>period (unaudited) | <u>-</u>               | <u>(0.1)</u>               | <u>(0.1)</u>          |
| <b>Balance at 30 June 2016<br/>(unaudited)</b>     | <u>0.1</u>             | <u>(1.3)</u>               | <u>(1.2)</u>          |

|  | Share<br>Capital<br>£m | Retained<br>Earnings<br>£m | Total<br>Equity<br>£m |
|--|------------------------|----------------------------|-----------------------|
| <b>Balance at 1 January 2016</b>       | 0.1                    | (1.2)                      | (1.1)                 |
| Comprehensive income for the<br>period | <u>-</u>               | <u>(0.1)</u>               | <u>(0.1)</u>          |
| <b>Balance at 31 December 2016</b>     | <u>0.1</u>             | <u>(1.3)</u>               | <u>(1.2)</u>          |

# CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2017

|   | 6 Months<br>ended 30<br>June 2017<br>(unaudited)<br>£m | 6 Months<br>ended 30<br>June 2016<br>(unaudited)<br>£m |
|---|--|--|
| <b>Cash generated from operations</b>                   | -  | -  |
| Net interest paid                                       | <u>(5.1)</u>   | <u>(5.1)</u>   |
| <b>Net cash used in operating activities</b>            | <u>(5.1)</u>   | <u>(5.1)</u>   |
| <b>Financing activities</b>                             |  |  |
| Movement in loan from group undertakings                | <u>3.6</u>   | <u>3.6</u>   |
| <b>Net cash generated from financing activities</b>     | <u>3.6</u>   | <u>3.6</u>   |
| <b>Net decrease in cash equivalents</b>                 | (1.5)  | (1.5)  |
| <b>Cash and cash equivalents at beginning of period</b> | <u>1.5</u>   | <u>1.5</u>   |
| <b>Cash and cash equivalents at end of period</b>       | <u>-</u>   | <u>-</u>   |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

The information included within these condensed financial statements that refer to the year ended 31 December 2016 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 report and accounts for the year to 31 December 2016 the directors set out a number of factors taken into account when considering continuing to adopt the going concern basis in preparing that annual report and accounts.

The directors confirm that no events have occurred during the six months to 30 June 2017, which alter the view expressed in the Company's annual report and accounts for the year to 31 December 2016.

#### **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 2016. The Company has not adopted any new or revised accounting standards in the current year.

### 3. INCOME TAX EXPENSE

Tax for the six month period to 30 June 2017 is charged at 19.25% (six months ended 30 June 2016: 20.00%; year ended 31 December 2016: 20.00%), 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.

The Finance No2 Act 2015 reduced the rate of corporation tax to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020. The Finance Act 2016, which was substantively enacted on 6 September, 2016 further reduced the rate of corporation tax effective from 1 April 2020 to 17%. Accordingly deferred tax assets and liabilities have been calculated at the tax rates which will be in force when the underlying temporary differences are expected to reverse.



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 4. NOTES TO THE CASH FLOW STATEMENT

|                                       | 6 Months<br>ended 30<br>June 2017<br>(unaudited)<br>£m | 6 Months<br>ended 30<br>June 2016<br>(unaudited)<br>£m |
|---------------------------------------|--|--|
| Loss before income tax                | (0.1)  | (0.1)  |
| Finance costs                         | 8.6  | 8.6  |
| Finance income                        | <u>(8.5)</u>   | <u>(8.5)</u>   |
| <b>Cash generated from operations</b> | <u>-</u>   | <u>-</u>   |

### 5. 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:

|                                    | <b>Carrying Value</b>                |                           | <b>Fair Value</b>                    |                           |
|------------------------------------|--------------------------------------|---------------------------|--------------------------------------|---------------------------|
|                                    | 30 June<br>2017<br>(unaudited)<br>£m | 31 December<br>2016<br>£m | 30 June<br>2017<br>(unaudited)<br>£m | 31 December<br>2016<br>£m |
| <b>Financial assets</b>            |                                      |                           |                                      |                           |
| Amounts owed by group undertakings | <u>257.3</u>                         | <u>253.0</u>              | <u>344.3</u>                         | <u>339.0</u>              |
| <b>Financial liabilities</b>       |                                      |                           |                                      |                           |
| Intercompany short-term loan       | 3.6                                  | -                         | 3.6                                  | -                         |
| 2020 – 8.875% bonds                | 105.7                                | 101.2                     | 130.8                                | 130.3                     |
| 2035 – 5.125% bonds                | <u>149.2</u>                         | <u>152.9</u>              | <u>203.4</u>                         | <u>207.5</u>              |
|                                    | <u>258.5</u>                         | <u>254.1</u>              | <u>337.8</u>                         | <u>337.8</u>              |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

### 6. RELATED PARTY TRANSACTIONS

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

| Related party                              | Interest<br>received<br>from related<br>parties<br>£m | Borrowings<br>owed<br>(to)/from<br>related<br>parties<br>£m |
|--|---|---|
| Six months ended 30 June 2017 (unaudited): |   |   |
| Northern Powergrid (Northeast) Limited     | 8.5   | 257.3   |
| Yorkshire Electricity Group plc            | -   | (3.6)   |
|  | <u>8.5</u>  | <u>253.7</u>  |
| Six months ended 30 June 2016 (unaudited): |   |   |
| Northern Powergrid (Northeast) Limited     | 8.5   | 257.2   |
| Yorkshire Electricity Group plc            | -   | (3.6)   |
|  | <u>8.5</u>  | <u>253.5</u>  |
| Year ended 31 December 2016:               |   |   |
| Northern Powergrid (Northeast) Limited     | 17.0  | 251.5   |
| Yorkshire Electricity Group plc            | -   | 1.5   |
|  | <u>17.0</u>   | <u>253.0</u>  |

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