

NORTHERN POWERGRID (YORKSHIRE) 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 and strategies of Northern Powergrid (Yorkshire) 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 its principal activity during the six months to 30 June 2017 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.

Results for the six months ended 30 June 2017

The Company delivered a satisfactory performance for the six months ended 30 June 2017 although profit after tax reduced by £5.0 million when compared to the previous year mainly as a result of higher depreciation and operating costs.

Revenue

Revenue at £207.9 million was £1.3 million higher than for the six months ended 30 June 2016 mainly due to higher amortisation of customer contributions and recharge of staff costs to Northern Powergrid (Northeast) Limited, partly offset by lower units distributed.

Cash flow

Cash and cash equivalents as at 30 June 2017 were £221.0 million, representing an increase of £21.7 million when compared with the position at 31 December 2016.

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.

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 £70.9 million was £7.2 million lower than the six months ended 30 June 2016 mainly as a result of higher depreciation and operating costs.

Dividends

No ordinary dividends were paid in the period resulting in £57.0 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.

Strategic review

During the period to 30 June 2017, the Company remained focused on delivering activity in support of the achievement of the Northern Powergrid Group's six core principles and underlying strategic objectives.

Core Principle	Strategic Objective	Activity undertaken to 30 June 2017
Financial strength	Effective stewardship of the Company's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Company's future strength.	<ul style="list-style-type: none"> • Retained a grade A credit rating • Further detail can be found in the 'results for the year ended 30 June 2017' above
Customer service	Delivering reliability, dependability, fair prices and exceptional service.	<ul style="list-style-type: none"> • Implemented initiatives from the Company's customer experience improvement plan to improve the Broad Measure of Customer Satisfaction scores • Enhanced the content of written communications and provided a text and email service ahead of planned power cuts • Embedded a revised stakeholder improvement strategy • Invested in technology to support customer relationship management • Further developed services for vulnerable customers • Expanded education initiatives to promote safety and energy conservation
Operational excellence	Setting high standards for the Company's operations, system investment and maintenance.	<ul style="list-style-type: none"> • Invested significantly in network improvements including innovative technologies • Utilised the major incident management procedure at times of adverse weather to minimise disruption to supply • Continued to deploy the flood defences programme to increase network resilience
Employee commitment	Equipping employees with the resources and support they need to operate successfully and in a safe and rewarding work environment.	<ul style="list-style-type: none"> • Promoted safety in all areas of the business at all times • Completed the telematics installation programme • Supported employees by providing dedicated welfare services • Retained and recruited key talent • Continued to instil the values embedded in the Berkshire Hathaway Energy code of business conduct
Environmental respect	Using natural resources wisely and protecting the environment where it is impacted by the Company's operations.	<ul style="list-style-type: none"> • Replaced fluid filled cables to reduce environmental damage from oil leaks • Improved the distribution networks impact on the landscape by undergrounding overhead lines • Initiated several new innovation projects

		in the area of fault detection and domestic energy storage • Actively engaged with stakeholders on the Open Networks Project
Regulatory integrity	Adhering to a policy of strict compliance with applicable laws, regulations, standards and policies.	• Operated without any material regulatory non-compliances • Commenced preparation for the General Data Protection Regulation • Managed risks through regular meetings of the Governance and Risk Management Group

Principal risks and uncertainties

The Company operates a stable and regulated electricity distribution business, in respect of which the Company's allowed income is set for each regulatory year through the special conditions in the electricity distribution licence.

Information on the principal risks and uncertainties facing the Company and the internal control system 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.

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 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 2017, which alter the view expressed in the annual reports and accounts to 31 December 2016.

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:

- 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
- 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 30 JUNE 2017

	6 Months ended 30 June 2017 (unaudited) £m	6 Months ended 30 June 2016 (unaudited) £m
Revenue	207.9	206.6
Cost of sales	<u>(9.5)</u>	<u>(8.0)</u>
Gross profit	198.4	198.6
Operating expenses	<u>(103.2)</u>	<u>(97.3)</u>
Operating profit	95.2	101.3
Other gains	0.2	0.3
Net finance costs	<u>(24.5)</u>	<u>(23.5)</u>
Profit before tax	70.9	78.1
Income tax expense	<u>(13.9)</u>	<u>(16.1)</u>
Profit from ordinary activities after tax	<u>57.0</u>	<u>62.0</u>

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - SIX MONTHS 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 profits reported above.

**CONDENSED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30
JUNE 2017**

	30 June 2017 (unaudited) £m	31 December 2016 £m
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	3,104.9	3,054.6
	<u>3,104.9</u>	<u>3,054.6</u>
CURRENT ASSETS		
Inventories	0.3	0.3
Trade and other receivables	50.3	68.5
Cash and cash equivalents	221.0	199.3
	<u>271.6</u>	<u>268.1</u>
TOTAL ASSETS	<u>3,376.5</u>	<u>3,322.7</u>
EQUITY		
SHAREHOLDERS' EQUITY		
Share capital	290.0	290.0
Retained earnings	1,005.9	948.9
TOTAL EQUITY	<u>1,295.9</u>	<u>1,238.9</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Trade and other payables	768.3	762.5
Borrowings	1,023.1	1,022.8
Deferred tax	127.9	127.7
Provisions	1.1	1.2
	<u>1,920.4</u>	<u>1,914.1</u>
CURRENT LIABILITIES		
Trade and other payables	115.3	115.3
Borrowings	25.8	33.3
Tax payable	18.0	20.1
Provisions	1.1	1.0
	<u>160.2</u>	<u>169.7</u>
TOTAL LIABILITIES	<u>2,080.6</u>	<u>2,083.8</u>
TOTAL EQUITY AND LIABILITIES	<u>3,376.5</u>	<u>3,322.7</u>

The interim 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 - SIX MONTHS ENDED 30 JUNE 2017

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2017	290.0	948.9	1,238.9
Profit for the period (unaudited)	-	57.0	57.0
Balance at 30 June 2017	<u>290.0</u>	<u>1,005.9</u>	<u>1,295.9</u>

	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 2016	290.0	829.5	1,119.5
Profit for the year	-	148.1	148.1
Equity dividends paid	-	(28.7)	(28.7)
Balance at 31 December 2016	<u>290.0</u>	<u>948.9</u>	<u>1,238.9</u>

CONDENSED STATEMENT OF CASH FLOWS – SIX MONTHS ENDED 30 JUNE 2017

	6 Months ended 30 June 2017 (unaudited) £m	6 Months ended 30 June 2016 (unaudited) £m
Cash generated from operations	150.3	138.6
Net interest paid	(32.8)	(32.6)
Tax paid	(17.0)	(9.6)
Net cash from operating activities	<u>100.5</u>	<u>96.4</u>
Investing activities		
Proceeds from disposal of property, plant and equipment	0.2	0.3
Purchase of property, plant and equipment	(103.0)	(117.6)
Receipt of customer contributions	24.0	28.3
Net cash used in investing activities	<u>(78.8)</u>	<u>(89.0)</u>
Financing activities		
Movement in external loans	-	-
Movement in loan from group undertaking	-	-
Net cash generated by financing activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	21.7	7.4
Cash and cash equivalents at beginning of period	<u>199.3</u>	<u>145.7</u>
Cash and cash equivalents at end of period	<u>221.0</u>	<u>153.1</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 reports and accounts for the year to 31 December 2016 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 2017, which alter the view expressed in the annual reports and accounts 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. 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 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.

	6 months ended 30 June 2017 (unaudited) £m	6 months ended 30 June 2016 (unaudited) £m
Current tax	13.7	15.6
Deferred tax	0.2	0.5
Total income tax expense	13.9	16.1

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.

5. NOTES TO THE CASH FLOW STATEMENT

	6 Months ended 30 June 2017 (unaudited) £m	6 Months ended 30 June 2016 (unaudited) £m
Profit before income tax	70.9	78.1
Depreciation charges	50.2	46.6
Profit on disposal of fixed assets	(0.2)	(0.3)
Amortisation of deferred revenue	(13.1)	(12.2)
Movement in provisions	0.1	(0.1)
Finance costs	24.5	23.5
	<u>132.4</u>	<u>135.6</u>
Decrease in inventories	-	0.1
Decrease/(increase) in trade and other receivables	0.3	(5.4)
Increase in trade and other payables	17.6	8.3
	<u>150.3</u>	<u>138.6</u>
Cash generated from operations	150.3	138.6

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 2017 (unaudited) £m	31 December 2016 £m	30 June 2017 (unaudited) £m	31 December 2016 £m
Financial liabilities				
Bond 2020 – 9.25%	208.1	217.3	248.7	266.4
Bond 2025 – 2.5%	148.8	150.5	158.5	160.4
Bond 2032 – 4.375%	153.8	150.5	190.6	187.2
Bond 2035 – 5.125%	199.0	203.9	271.2	276.7
EIB Loan – 4.133%	156.8	153.7	180.4	179.9
EIB Loan – 2.564%	131.8	130.1	141.6	139.5
EIB Loan – 2.073%	50.6	50.1	51.3	50.7
	<u>1,048.9</u>	<u>1,056.1</u>	<u>1,242.3</u>	<u>1,260.8</u>

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>2017:</i>					
Integrated Utility Services Limited	0.1	0.4	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.1	-	-	-
Northern Electric plc	-	2.0	-	-	-
Northern Powergrid Metering Limited	0.2	-	-	-	-
Northern Powergrid (Northeast) Limited	5.9	9.5	-	-	-
Vehicle Lease and Service Limited	-	2.0	0.2	-	-
Yorkshire Electricity Group plc	-	-	-	221.0	0.3
	<u>6.2</u>	<u>14.0</u>	<u>0.2</u>	<u>221.0</u>	<u>0.3</u>
<i>Six months ended 30 June</i>					
<i>2016:</i>					
Integrated Utility Services Limited	0.1	0.2	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.1	-	-	-
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>13.0</u>	<u>0.2</u>	<u>153.1</u>	<u>0.4</u>

	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</i>					
<i>2016:</i>					
Integrated Utility Services Limited	0.1	1.2	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.3	-	-	-
Northern Electric plc	-	4.9	-	-	-
Northern Powergrid Insurance Services Limited	-	0.6	-	-	-
Northern Powergrid Metering Limited	0.4	-	-	-	-
Northern Powergrid (Northeast) Limited	10.8	17.4	-	-	0.1
Vehicle Lease and Service Limited	0.1	4.0	0.4	-	-
Yorkshire Electricity Group plc	-	-	-	199.3	(0.6)
	<u>11.4</u>	<u>28.4</u>	<u>0.4</u>	<u>199.3</u>	<u>(0.5)</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.

