

REGISTERED NUMBER: 04112320

NORTHERN POWERGRID (YORKSHIRE) plc
HALF-YEARLY FINANCIAL REPORT FOR THE
SIX MONTHS ENDED 30 JUNE 2019

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 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 2019 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 2019

The Company made a profit after tax of £58.6 million was £0.8 million higher than the 6 months ended 30 June 2018 due to higher DUoS revenues offset by higher depreciation.

Revenue

Revenue at £217.8 million was £3.4 million higher than for the six months ended 30 June 2018 mainly due to higher tariffs and higher amortisation of customer contributions.

Cash flow

Cash and cash equivalents as at 30 June 2019 were £170.8 million, representing a decrease of £14.7 million when compared with the position at 31 December 2018.

The Company has access to £75.0 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 £19.0 million overdraft facility provided by Lloyds Bank plc.

Dividends

No ordinary dividends were paid in the period resulting in £58.6 million being transferred to reserves.

Principal risks and uncertainties

Information concerning 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 2018, which is available at www.northernpowergrid.com. It is anticipated that these risks will continue to be the principal risks facing the Company for the remaining six months of 2019.

Going concern

In the Company’s latest annual reports and accounts for the year to 31 December 2018 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 2019, which alter the view expressed in the annual reports and accounts to 31 December 2018.

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 the remainder of the ED1 period.

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, gives a true and fair view of the assets, liabilities, financial position and profit of the Company as required by Disclosure and Transparency Rules ("DTR") 4.2.4R for the six months to 30 June 2019; and
- (b) the interim management report contains a fair review of the information required by DTR 4.2.7R.

By order of the board

A handwritten signature in black ink, appearing to read 'P A Jones', with a stylized flourish at the end.

P A Jones
Director

5 September 2019

CONDENSED STATEMENT OF PROFIT OR LOSS – SIX MONTHS ENDED 30 JUNE 2019

	6 Months ended 30 June 2019 (unaudited) £m	6 Months ended 30 June 2018 (unaudited) £m
Revenue	217.8	214.4
Cost of sales	<u>(10.2)</u>	<u>(9.0)</u>
Gross profit	207.6	205.4
Operating expenses	<u>(110.8)</u>	<u>(109.3)</u>
Operating profit	96.8	96.1
Other gains	-	-
Finance income	0.7	0.5
Finance costs	<u>(25.0)</u>	<u>(25.4)</u>
Profit before tax	72.5	71.2
Income tax expense	<u>(13.9)</u>	<u>(13.4)</u>
Profit from ordinary activities after tax	<u>58.6</u>	<u>57.8</u>

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - SIX MONTHS ENDED 30 JUNE 2019

There is no other comprehensive income for the Company for the six months to 30 June 2019 or the comparative six month period in 2018 other than the profits reported above.

**CONDENSED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30
JUNE 2019**

	30 June 2019 (unaudited) £m	31 December 2018 £m
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	3,345.8	3,278.1
Right of use asset	8.0	-
Intangible assets	-	-
	<u>3,353.8</u>	<u>3,278.1</u>
CURRENT ASSETS		
Inventories	0.2	0.9
Trade and other receivables	58.9	68.0
Cash and cash equivalents	170.8	185.5
	<u>229.9</u>	<u>254.4</u>
TOTAL ASSETS	<u>3,583.7</u>	<u>3,532.5</u>
EQUITY		
SHAREHOLDERS' EQUITY		
Share capital	290.0	290.0
Retained earnings	1,173.7	1,115.1
TOTAL EQUITY	<u>1,463.7</u>	<u>1,405.1</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Deferred revenue	795.0	789.6
Borrowings	824.5	1,024.1
Lease liabilities	2.0	-
Deferred tax	127.1	127.2
Provisions	0.6	0.7
	<u>1,749.2</u>	<u>1,941.6</u>
CURRENT LIABILITIES		
Trade and other payables	90.2	90.1
Deferred revenue	29.9	29.3
Borrowings	225.3	48.3
Lease liabilities	6.4	-
Tax payable	17.9	17.1
Provisions	1.1	1.0
	<u>370.8</u>	<u>185.8</u>
TOTAL LIABILITIES	<u>2,120.0</u>	<u>2,127.4</u>
TOTAL EQUITY AND LIABILITIES	<u>3,583.7</u>	<u>3,532.5</u>

The interim financial statements were approved by the board of directors and authorised for issue on 5 September 2019 and were signed on its behalf by:



P A Jones
Director

CONDENSED STATEMENT OF CHANGES IN EQUITY - SIX MONTHS ENDED 30 JUNE 2019

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2019	290.0	1,115.1	1,405.1
Profit for the period (unaudited)	-	58.6	58.6
Balance at 30 June 2019	<u>290.0</u>	<u>1,173.7</u>	<u>1,463.7</u>

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2018	290.0	1,032.7	1,322.7
Profit for the period (unaudited)	-	57.8	57.8
Balance at 30 June 2018	<u>290.0</u>	<u>1,090.5</u>	<u>1,380.5</u>

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2018	290.0	1,032.7	1,322.7
Profit for the year	-	113.6	113.6
Equity dividends paid	-	(31.2)	(31.2)
Balance at 31 December 2018	<u>290.0</u>	<u>1,115.1</u>	<u>1,405.1</u>

CONDENSED STATEMENT OF CASH FLOWS – SIX MONTHS ENDED 30 JUNE 2019

	6 Months ended 30 June 2019 (unaudited) £m	6 Months ended 30 June 2018 (unaudited) £m
Profit for the year	58.6	57.8
Depreciation and amortisation	53.5	53.0
Amortisation of deferred revenue	(14.6)	(14.0)
Net finance costs	24.3	24.9
Income tax expense	13.9	13.4
Cash flow before working capital movements	135.7	135.1
Decrease in inventory	0.7	0.4
Decrease in trade receivables	8.9	11.0
Increase in trade and other payables	1.7	3.7
Increase in provisions	-	0.1
Cash generated from operations	147.0	150.3
Net interest paid	(32.6)	(32.6)
Tax paid	(13.2)	(12.6)
Net cash from operating activities	101.2	105.1
Investing activities		
Proceeds from disposal of property, plant and equipment	-	-
Purchase of property, plant and equipment	(119.1)	(109.6)
Receipt of customer contributions	18.2	15.7
Net cash used in investing activities	(100.9)	(93.9)
Financing activities		
Repayment of short-term borrowings	(15.0)	-
Net cash used in financing activities	(15.0)	-
Net (decrease)/increase in cash and cash equivalents	(14.7)	11.2
Cash and cash equivalents at beginning of period	185.5	186.7
Cash and cash equivalents at end of period	170.8	197.9

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 2018 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 2018 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 2019, which alter the view expressed in the annual reports and accounts to 31 December 2018.

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 2018, with the only changes being outlined below.

Application of new and revised IFRS

In the current year, the company has a number of amendments to IFRS by the International Accounting standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2019:

IFRS 16 - Leases

IFRS 16 supersedes the current lease guidance including IAS 17 Leases and the related interpretations. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and is replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.48%.

The Company did not have any leases previously classified as finance leases.

The recognition of right of use assets relate to the following types of assets:

	30 June 2019 £m	1 January 2019 £m
Fleet vehicles	7.5	6.3
Properties	<u>0.5</u>	<u>0.5</u>
Right of use assets	<u>8.0</u>	<u>6.8</u>

The lease liability recognised as at 1 January 2019 is as follows:

	1 January 2019 £m
Operating lease commitments as at 31 December 2018	11.1
Discounted using the lessee's incremental cost of borrowing	9.8
Less short-term leases recognised on a straight-line basis	<u>(3.0)</u>
Lease liability recognised as at 1 January 2019	6.8
Of which:	
Current lease liabilities	1.6
Non-current lease liabilities	<u>5.2</u>

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

None of the other standards, interpretations and amendments which are effective for periods beginning 1 January 2019 has had a material effect on the financial statements:

- Amendments to IAS 28 - Long-term interests in associates and joint ventures;
- Amendments to IAS 19 - Plan amendment, curtailment or settlement; and
- Annual improvements to IFRS 2015-2017 cycle.

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 2019 is charged at 19.17% (six months ended 30 June 2018: 18.82%), 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 2019 (unaudited) £m	6 months ended 30 June 2018 (unaudited) £m
Current tax	14.0	13.9
Deferred tax	(0.1)	(0.5)
Total income tax expense	<u>13.9</u>	<u>13.4</u>

The Finance No2 Act 2015 reduced the rate of corporation tax to 19% effective from 1 April 2018 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. FINANCIAL INSTRUMENTS

Except as detailed in the following table, the directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost are approximately equal to their fair values:

	Carrying value		Fair value	
	30 June 2019 (unaudited) £m	31 December 2018 £m	30 June 2019 (unaudited) £m	31 December 2018 £m
Financial liabilities				
Short-term loan	-	15.0	-	15.0
Bond 2020 – 9.25%	208.3	217.5	208.4	233.2
Bond 2025 – 2.5%	149.3	204.1	157.5	262.9
Bond 2032 – 4.375%	154.1	150.8	192.7	179.1
Bond 2035 – 5.125%	198.8	153.7	274.2	168.2
EIB Loan – 4.133%	156.9	151.0	169.2	155.2
EIB Loan – 2.564%	131.8	130.2	139.8	137.3
EIB Loan – 2.073%	50.6	50.1	51.7	49.6
	<u>1,049.8</u>	<u>1,072.4</u>	<u>1,193.4</u>	<u>1,200.5</u>

6. 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>2019:</i>					
Integrated Utility Services Limited	-	1.0	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.2	-	-	-
Northern Electric plc	-	1.8	-	-	-
Northern Powergrid Metering Limited	0.3	-	-	-	-
Northern Powergrid (Northeast) Limited	5.9	10.6	-	-	-
Vehicle Lease and Service Limited	-	2.4	-	-	-
Yorkshire Electricity Group plc	-	-	-	170.8	0.7
	<u>6.2</u>	<u>16.0</u>	<u>0.3</u>	<u>170.8</u>	<u>0.7</u>
<i>Six months ended 30 June</i>					
<i>2018:</i>					
Integrated Utility Services Limited	-	1.0	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.2	-	-	-
Northern Electric plc	-	2.0	-	-	-
Northern Powergrid Metering Limited	0.3	-	-	-	-
Northern Powergrid (Northeast) Limited	6.9	10.4	-	-	-
Vehicle Lease and Service Limited	-	2.4	0.3	-	-
Yorkshire Electricity Group plc	-	-	-	197.9	0.5
	<u>7.2</u>	<u>16.0</u>	<u>0.3</u>	<u>197.9</u>	<u>0.5</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 2018:</i>					
Integrated Utility Services Limited	0.1	2.1	-	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.3	0.3	-	-
Northern Electric plc	-	3.6	-	-	-
Northern Powergrid Metering Limited	0.5	-	-	-	-
Northern Powergrid (Northeast) Limited	11.5	21.5	-	-	-
Vehicle Lease and Service Limited	-	4.7	-	-	-
Yorkshire Electricity Group plc	-	-	-	185.5	1.2
	<u>12.1</u>	<u>32.2</u>	<u>0.3</u>	<u>185.5</u>	<u>1.2</u>

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

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

