

NORTHERN POWERGRID (NORTHEAST) plc
HALF-YEARLY FINANCIAL REPORT FOR THE
SIX MONTHS ENDED 30 JUNE 2021

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 (Northeast) plc (the “Company”) and its subsidiaries (together the “Group”) 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 and its subsidiaries group of companies (the “Northern Powergrid Group”) and its principal activity during the six months to 30 June 2021 was to act as an authorised distributor under the Electricity Act 1989. The Company distributes electricity to approximately 1.6 million customers connected to its electricity distribution network within its distribution services area. The Company’s subsidiary, Northern Electric Finance plc, provides finance to the Company.

Results for the six months ended 30 June 2021

The Group made a profit after tax of £22.5 million, a decrease of £2.0 million when compared to the 6 months ended 30 June 2020 due to the impact of change in tax legislation largely offset by higher revenues.

Revenue

Revenue at £187.5 million was £13.9 million higher than for the six months ended 30 June 2020 mainly due to higher tariffs and the reduced impact of COVID-19 when compared to the 6 months ended 30 June 2020.

Cash flow

Cash and cash equivalents as at 30 June 2021 were nil, representing a decrease of £0.3 million when compared with the position at 31 December 2020.

Northern Powergrid has access to £75.0 million under a three-year committed revolving credit facility provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc, which is due to expire in October 2023, with a one year option to extend.

In addition, the Group has access to short-term borrowing facilities provided by Yorkshire Electricity Group plc, a related party, and to a £22.0 million overdraft facility provided by Lloyds Bank plc.

Dividends

No ordinary dividends were paid in the period resulting in £22.5 million being transferred to reserves.

Principal risks and uncertainties

Information concerning the principal risks and uncertainties facing the Group are included in the Group’s latest annual reports and accounts for the year to 31 December 2020, 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 2021.

Going concern

In the Group's latest annual reports and accounts for the year to 31 December 2020 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 2021, which alter the view expressed in the annual reports and accounts to 31 December 2020.

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 Group as required by Disclosure and Transparency Rules ("DTR") 4.2.4R for the six months to 30 June 2021; 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 be 'T H France', with a long, sweeping horizontal line extending to the right.

T H France
Director

16 September 2021

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS – SIX MONTHS
ENDED 30 JUNE 2021**

	6 Months ended 30 June 2021 (unaudited) £m	6 Months ended 30 June 2020 (unaudited) £m
Revenue	187.5	173.6
Cost of sales	<u>(6.4)</u>	<u>(7.2)</u>
Gross profit	181.1	166.4
Operating expenses	<u>(104.1)</u>	<u>(106.9)</u>
Operating profit	77.0	59.5
Gain/(loss) on disposals	0.2	(0.3)
Finance costs	<u>(13.4)</u>	<u>(15.8)</u>
Profit before tax	63.8	43.4
Income tax expense	<u>(41.3)</u>	<u>(18.9)</u>
Profit from ordinary activities after tax	<u>22.5</u>	<u>24.5</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME - SIX MONTHS ENDED 30 JUNE 2021**

There is no other comprehensive income for the Group for the six months to 30 June 2021 or the comparative six month period in 2020 other than the profits reported above.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30 JUNE 2021

	30 June 2021 (unaudited) £m	31 December 2020 £m
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	2,726.7	2,682.5
Right of use asset	12.8	13.0
Intangible assets	50.9	51.2
	<u>2,790.4</u>	<u>2,746.7</u>
CURRENT ASSETS		
Inventories	19.2	18.2
Trade and other receivables	47.7	52.4
Tax receivable	-	2.9
Cash and cash equivalents	-	0.3
	<u>66.9</u>	<u>73.8</u>
TOTAL ASSETS	<u>2,857.3</u>	<u>2,820.5</u>
EQUITY		
SHAREHOLDERS' EQUITY		
Share capital	200.0	200.0
Retained earnings	942.1	919.6
TOTAL EQUITY	<u>1,142.1</u>	<u>1,119.6</u>
LIABILITIES		
NON-CURRENT LIABILITIES		
Deferred revenue	644.3	641.7
Borrowings	810.3	810.2
Lease liabilities	9.7	9.0
Deferred tax	130.2	101.4
Provisions	0.1	0.1
	<u>1,594.6</u>	<u>1,562.4</u>
CURRENT LIABILITIES		
Trade and other payables	75.2	79.4
Deferred revenue	28.2	27.6
Borrowings	12.3	26.2
Lease liabilities	3.4	4.3
Tax payable	0.5	-
Provisions	1.0	1.0
	<u>120.6</u>	<u>138.5</u>
TOTAL LIABILITIES	<u>1,715.1</u>	<u>1,700.9</u>
TOTAL EQUITY AND LIABILITIES	<u>2,857.3</u>	<u>2,820.5</u>

The interim financial statements were approved by the board of directors and authorised for issue on 16 September 2021 and were signed on its behalf by:



T H France
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - SIX MONTHS ENDED 30 JUNE 2021

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2021	200.0	919.6	1,119.6
Profit for the period (unaudited)	-	22.5	22.5
Balance at 30 June 2021	200.0	942.1	1,142.1

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2020	200.0	879.7	1,079.7
Profit for the period (unaudited)	-	24.2	24.2
Balance at 30 June 2020	200.0	903.9	1,103.9

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2020	200.0	879.7	1,079.7
Profit for the year	-	65.3	65.3
Equity dividends paid	-	(25.4)	(25.4)
Balance at 31 December 2020	200.0	919.6	1,119.6

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – SIX MONTHS
ENDED 30 JUNE 2021**

	6 Months ended 30 June 2021 (unaudited) £m	6 Months ended 30 June 2020 (unaudited) £m
Profit for the year	22.5	24.5
Depreciation and amortisation	53.1	50.5
Amortisation of deferred revenue	(13.8)	(13.2)
(Profit)/loss on disposal of fixed assets	(0.2)	0.3
Net finance costs	13.4	15.8
Income tax expense	41.3	18.9
Cash flow before working capital movements	116.3	96.8
(Increase)/decrease in inventory	(1.0)	0.6
Decrease in trade receivables	4.4	6.8
(Decrease)/increase in trade and other payables	(4.2)	5.8
Increase in provisions	-	0.1
Cash generated from operations	115.5	110.1
Net interest paid	(13.8)	(9.8)
Tax paid	(8.9)	(16.7)
Net cash from operating activities	92.8	83.6
Investing activities		
Proceeds from disposal of property, plant and equipment	0.2	(0.3)
Purchase of property, plant and equipment	(96.0)	(97.8)
Purchase of intangibles	(2.0)	(0.1)
Receipt of customer contributions	16.9	12.2
Net cash used in investing activities	(80.9)	(86.0)
Financing activities		
Repayment of borrowings	-	(39.3)
Movement in short term borrowings	5.0	
Movement in intercompany borrowings	(14.6)	(103.2)
Lease payment	(2.6)	(2.0)
Issue of long-term borrowings	-	294.3
Net cash (used in)/generated by financing activities	(12.2)	149.8
Net (decrease)/increase in cash and cash equivalents	(0.3)	147.4
Cash and cash equivalents at beginning of period	0.3	-
Cash and cash equivalents at end of period	-	147.4

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The information included within these condensed financial statements that refer to the year ended 31 December 2020 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 International Accounting Standards Board ("IASB"). 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 IASB.

Going concern

In the Company's latest annual reports and accounts for the year to 31 December 2020 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 2021, which alter the view expressed in the annual reports and accounts to 31 December 2020.

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 Company's financial statements for the year ended 31 December 2020.

Application of new and revised IFRS

In the current year, the company has a number of amendments to IFRS by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2021:

None of the standards, interpretations and amendments which are effective for periods beginning 1 January 2021 has had a material effect on the financial statements:

- Amendments to IFRS 16- COVID 19 related rent concessions;
- Amendments to IAS 1 – Presentation of financial statements; and
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark reform.

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 2021 is charged at 18.80% (six months ended 30 June 2020: 19.00%) 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. However, due to the tax rate change discussed below, the effective tax rate for the period to June 2021 is 64.7%.

	6 months ended 30 June 2021 (unaudited) £m	6 months ended 30 June 2020 (unaudited) £m
Current tax	12.5	8.1
Deferred tax	<u>28.8</u>	<u>10.8</u>
Total income tax expense	<u>41.3</u>	<u>18.9</u>

Finance Bill 2020 was enacted in July 2020 and as a result, the rate of corporation tax has been held at 19% as the Finance Bill 2020 effectively removed the proposed reduction to 17% which was included within Finance Bill 2016.

In addition, the March 2021 Budget announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This increase in tax rate was included within Finance Bill 2021 which was substantively enacted on 24 May 2021 and received Royal Assent on 10 June 2021. As a result, deferred tax balances have been re-measured at the 25% rate and this remeasurement has given rise to an increased deferred tax liability of £29.3m which is reflected within the above tax charge.

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 2021 (unaudited) £m	31 December 2020 £m	30 June 2021 (unaudited) £m	31 December 2020 £m
Financial liabilities				
Short-term loan	5.0	-	5.0	-
Intercompany loan- YEG	1.2	15.8	1.2	15.8
2035- 5.125%	149.3	153.2	204.3	225.3
2049- 2.750%	147.9	150.0	171.9	194.1
2062- 1.875%	294.7	297.3	283.0	338.4
NPGH 2037- 5.9%	102.9	100.0	153.7	164.7
EIB Loan 2027- 2.564%	121.7	120.1	131.5	134.4
	<u>822.7</u>	<u>836.4</u>	<u>950.6</u>	<u>107.7</u>

6. RELATED PARTY TRANSACTIONS

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

Group

	Sales to related parties £m	Purchases from related parties £m	Borrowings from/(to) related parties £m	Interest to related parties £m
Related party				
<i>Six months ended 30 June 2021:</i>				
Integrated Utility Services Limited	0.2	4.0	-	-
Integrated Utility Services Limited (registered in Eire)	-	1.0	-	-
Northern Electric plc	-	2.4	-	-
Northern Powergrid Holdings Company	-	-	102.9	(2.9)
Northern Powergrid (Yorkshire) plc	11.8	5.4	-	-
Vehicle Lease and Service Limited	-	3.3	-	-
Yorkshire Electricity Group plc	-	-	1.2	(0.4)
	<u>12.0</u>	<u>16.1</u>	<u>104.1</u>	<u>(3.3)</u>
<i>Six months ended 30 June 2020:</i>				
Integrated Utility Services Limited	0.1	2.2	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.7	-	-
Northern Electric plc	-	2.5	-	-
Northern Powergrid Holdings Company	-	-	103.2	(2.9)
Northern Powergrid (Yorkshire) plc	11.9	5.1	-	-
Vehicle Lease and Service Limited	-	3.1	-	-
Yorkshire Electricity Group plc	-	-	(147.4)	(0.4)
	<u>12.0</u>	<u>13.6</u>	<u>(44.2)</u>	<u>(3.3)</u>

	Sales to related parties £m	Purchases from related parties £m	Borrowings from/(to)to related parties £m	Interest to related parties £m
<i>Year ended 31 December 2020:</i>				
Integrated Utility Services Limited	0.3	4.6	-	-
Integrated Utility Services Limited (registered in Eire)	-	1.5	-	-
Northern Electric plc	-	5.0	-	-
Northern Powergrid Holdings Company	-	-	100.0	(5.9)
Northern Powergrid (Yorkshire) plc	23.0	10.5	-	-
Vehicle Lease and Service Limited	-	4.9	-	-
Yorkshire Electricity Group plc	-	-	15.8	(0.3)
	<u>23.3</u>	<u>26.5</u>	<u>115.8</u>	<u>(6.2)</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.

Company

	Sales to related parties £m	Purchases from related parties £m	Borrowings from/(to) related parties £m	Interest to related parties £m
Related party				
<i>Six months ended 30 June 2021:</i>				
Integrated Utility Services Limited	0.2	4.0	-	-
Integrated Utility Services Limited (registered in Eire)	-	1.0	-	-
Northern Electric plc	-	2.4	-	-
Northern Powergrid Holdings Company	-	-	102.9	(2.9)
Northern Powergrid (Yorkshire) plc	11.8	5.4	-	-
Vehicle Lease and Service Limited	-	3.3	-	-
Northern Electric Finance plc	-	-	298.9	(3.5)
Yorkshire Electricity Group plc	-	-	1.5	(0.4)
	<u>12.0</u>	<u>16.1</u>	<u>403.3</u>	<u>(6.8)</u>
<i>Six months ended 30 June 2020:</i>				
Integrated Utility Services Limited	0.1	2.2	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.7	-	-
Northern Electric plc	-	2.5	-	-
Northern Powergrid Holdings Company	-	-	103.2	(2.9)
Northern Powergrid (Yorkshire) plc	11.9	5.1	-	-
Vehicle Lease and Service Limited	-	3.1	-	-
Northern Electric Finance plc	-	-	405.0	(10.6)
Yorkshire Electricity Group plc	-	-	(151.0)	(0.4)
	<u>12.0</u>	<u>13.6</u>	<u>357.2</u>	<u>(13.9)</u>

	Sales to related parties £m	Purchases from related parties £m	Borrowings from/(to)to related parties £m	Interest to related parties £m
<i>Year ended 31 December 2020:</i>				
Integrated Utility Services Limited	0.3	4.6	-	-
Integrated Utility Services Limited (registered in Eire)	-	1.5	-	-
Northern Electric plc	-	5.0	-	-
Northern Powergrid Holdings Company	-	-	100.0	(5.9)
Northern Powergrid (Yorkshire) plc	23.0	10.5	-	-
Vehicle Lease and Service Limited	-	4.9	-	-
Northern Electric Finance plc	-	-	299.9	(19.5)
Yorkshire Electricity Group plc	-	-	17.4	(0.3)
	<u>23.3</u>	<u>26.5</u>	<u>417.3</u>	<u>(25.7)</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.