

NORTHERN ELECTRIC FINANCE 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 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 2019 was to act as the issuer of long-term bonds.

Results for the six months ended 30 June 2019

During the period ended 30 June 2019, the Company made a loss after tax of £0.1 million (period ended 30 June 2018: loss of £0.1 million).

The Company issued a bond of £150.0 million in May 2019 and used this to loan Northern Powergrid (Northeast) Limited £150.0 million. The Company met its obligations to make the annual interest payment on its 2035 debt securities on 4 May 2019. The annual interest payment on the Company’s 2020 debt securities is due to be paid on 16 October 2019.

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 2019 were £1.5 million lower than the position at 31 December 2018 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 5 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 2018, 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 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 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 2019, which alter the view expressed in the Company's annual report and accounts for the year to 31 December 2018.

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 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

P A Jones
Director

5 September 2019

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

	Six months ended 30 June 2019 (unaudited) £m	Six months ended 30 June 2018 (unaudited) £m
CONTINUING OPERATIONS		
Finance income	8.9	8.5
Finance costs	<u>(9.0)</u>	<u>(8.6)</u>
LOSS BEFORE INCOME TAX	(0.1)	(0.1)
Income tax	<u>-</u>	<u>-</u>
LOSS FOR THE PERIOD	<u>(0.1)</u>	<u>(0.1)</u>

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 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 losses reported above.

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	30 June 2019 (unaudited) £m	31 December 2018 £m
ASSETS		
NON-CURRENT ASSETS		
Trade and other receivables	395.6	248.1
CURRENT ASSETS		
Trade and other receivables	9.6	3.5
Cash and cash equivalents	-	1.5
	9.6	5.0
TOTAL ASSETS	405.2	253.1
EQUITY		
SHAREHOLDERS' EQUITY		
Called up share capital	0.1	0.1
Retained earnings	(1.7)	(1.6)
TOTAL EQUITY	(1.6)	(1.5)
LIABILITIES		
NON-CURRENT LIABILITIES		
Borrowings	395.3	247.8
Deferred tax	0.1	0.1
	395.4	247.9
CURRENT LIABILITIES		
Borrowings	11.1	6.7
Trade Payable	0.3	-
	11.4	6.7
TOTAL LIABILITIES	406.8	254.6
TOTAL EQUITY AND LIABILITIES	405.2	253.1

The half-yearly 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 FOR THE PERIOD ENDED
30 JUNE 2019**

	Share Capital £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2019	0.1	(1.6)	(1.5)
Comprehensive income for the period (unaudited)	<u>-</u>	<u>(0.1)</u>	<u>(0.1)</u>
Balance at 30 June 2019 (unaudited)	<u>0.1</u>	<u>(1.7)</u>	<u>(1.6)</u>

	Share Capital £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2018	0.1	(1.5)	(1.4)
Comprehensive income for the period (unaudited)	<u>-</u>	<u>(0.1)</u>	<u>(0.1)</u>
Balance at 30 June 2018 (unaudited)	<u>0.1</u>	<u>(1.6)</u>	<u>(1.5)</u>

	Share Capital £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2018	0.1	(1.5)	(1.4)
Comprehensive income for the period	<u>-</u>	<u>(0.1)</u>	<u>(0.1)</u>
Balance at 31 December 2018	<u>0.1</u>	<u>(1.6)</u>	<u>(1.5)</u>

CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2019

	6 Months ended 30 June 2019 (unaudited) £m	6 Months ended 30 June 2018 (unaudited) £m
Profit before income tax	(0.1)	(0.1)
Finance costs	9.0	8.6
Finance income	<u>(8.9)</u>	<u>(8.5)</u>
Cash generated from operations	<u>-</u>	<u>-</u>
Net interest paid	<u>(5.1)</u>	<u>(5.1)</u>
Net cash used in operating activities	<u>(5.1)</u>	<u>(5.1)</u>
Investing activities		
Loan to related party	<u>(147.4)</u>	<u>-</u>
Net cash used in investing activities	<u>(147.4)</u>	<u>-</u>
Financing activities		
Issue of long-term debt	147.4	-
Movement in loan from group undertakings	<u>3.6</u>	<u>3.6</u>
Net cash generated from financing activities	<u>151.0</u>	<u>3.6</u>
Net decrease in cash equivalents	(1.5)	(1.5)
Cash and cash equivalents at beginning of period	<u>1.5</u>	<u>1.5</u>
Cash and cash equivalents at end of period	<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 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 report and accounts for the year to 31 December 2018 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 2019, which alter the view expressed in the Company's annual report and accounts for the year 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

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. As of 30 June 2019, the Group has no non-cancellable operating lease commitments. As such the application of IFRS 16 has not had material impact on the financial statements.
-----------------	---

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. INCOME TAX EXPENSE

Tax for the six month period to 30 June 2019 is charged at 19.00% (six months ended 30 June 2018: 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.

The Finance No2 Act 2015 reduced the rate of corporation tax to 19% effective from 1 April 2018 and to 17% 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. 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 assets				
Amounts owed by group undertakings	<u>405.2</u>	<u>251.6</u>	<u>416.2</u>	<u>311.5</u>
Financial liabilities				
Intercompany short-term loan	3.3	-	3.3	-
2020 – 8.875% bonds	106.0	101.5	115.8	114.4
2035 – 5.125% bonds	149.3	153.0	205.9	197.1
2049 – 2.750% bonds	<u>147.8</u>	<u>-</u>	<u>156.2</u>	<u>-</u>
	<u>406.4</u>	<u>254.5</u>	<u>481.2</u>	<u>311.5</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

5. RELATED PARTY TRANSACTIONS

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

	Interest received from related parties £m	Borrowings owed (to)/from related parties £m
Related party		
Six months ended 30 June 2019 (unaudited):		
Northern Powergrid (Northeast) Limited	8.9	405.2
Yorkshire Electricity Group plc	-	(3.3)
	<u>8.9</u>	<u>408.5</u>
Six months ended 30 June 2018 (unaudited):		
Northern Powergrid (Northeast) Limited	8.5	257.4
Yorkshire Electricity Group plc	-	(3.6)
	<u>8.5</u>	<u>253.8</u>
Year ended 31 December 2018:		
Northern Powergrid (Northeast) Limited	17.0	251.6
Yorkshire Electricity Group plc	-	1.5
	<u>17.0</u>	<u>253.1</u>

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