

NORTHERN POWERGRID (YORKSHIRE) plc

HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 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 2020

The Company made a profit after tax of £42.1 million, a decrease of £16.5 million when compared to the six months ended 30 June 2019 due to lower revenues, higher operating expenses and the impact of change in tax legislation.

Revenue

Revenue at £213.5 million was £5.3 million lower than for the six months ended 30 June 2019 mainly due to impact of COVID-19 offset by higher tariffs.

Cash flow

Cash and cash equivalents as at 30 June 2020 were £206.6 million, representing a decrease of £207.1 million when compared with the position at 31 December 2019, primarily due to the repayment of a £200 million bond.

Dividends

No ordinary dividends were paid in the period resulting in £42.1 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 2019, 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 2020.

Going concern

In the Company’s latest annual reports and accounts for the year to 31 December 2019 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 2020, which alter the view expressed in the annual reports and accounts to 31 December 2019.

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 2020; and
- (b) the interim management report contains a fair review of the information required by DTR 4.2.7R.

By order of the board



T E Fielden
Director

10 September 2020

CONDENSED STATEMENT OF PROFIT OR LOSS – SIX MONTHS ENDED 30 JUNE 2020

	6 Months ended 30 June 2020 (unaudited) £m	6 Months ended 30 June 2019 (Restated) (unaudited) £m
Revenue	213.5	218.8
Cost of sales	<u>(9.6)</u>	<u>(10.2)</u>
Gross profit	203.9	208.6
Operating expenses	<u>(114.9)</u>	<u>(111.8)</u>
Operating profit	89.0	96.8
Other gains	0.4	-
Finance income	0.6	0.7
Finance costs	<u>(19.8)</u>	<u>(25.0)</u>
Profit before tax	70.2	72.5
Income tax expense	<u>(28.1)</u>	<u>(13.9)</u>
Profit from ordinary activities after tax	<u>42.1</u>	<u>58.6</u>

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - SIX MONTHS ENDED 30 JUNE 2020

There is no other comprehensive income for the Company for the six months to 30 June 2020 or the comparative six month period in 2019 other than the profits reported above.

CONDENSED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30 JUNE 2020

	30 June 2020 (unaudited) £m	31 December 2019	30 June 2019 (unaudited) (Restated) £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3,506.4	3,443.9	3,366.2
Right of use asset	7.6	7.1	8.0
Intangible assets	-	0.1	0.2
	<u>3,514.0</u>	<u>3,451.1</u>	<u>3,374.4</u>
CURRENT ASSETS			
Inventories	0.6	0.5	0.2
Trade and other receivables	59.0	69.6	58.9
Cash and cash equivalents	206.6	413.7	170.8
	<u>266.2</u>	<u>483.8</u>	<u>229.9</u>
TOTAL ASSETS	<u>3,780.2</u>	<u>3,934.9</u>	<u>3,604.3</u>
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	290.0	290.0	290.0
Retained earnings	1,241.9	1,199.8	1,173.7
TOTAL EQUITY	<u>1,531.9</u>	<u>1,489.8</u>	<u>1,463.7</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Deferred revenue	819.2	821.1	813.6
Borrowings	1,118.6	1,118.4	824.5
Lease liabilities	5.7	5.3	6.4
Deferred tax	140.0	125.5	127.1
Provisions	0.6	0.6	0.6
	<u>2,084.1</u>	<u>2,070.9</u>	<u>1,767.8</u>
CURRENT LIABILITIES			
Trade and other payables	100.4	84.9	90.2
Deferred revenue	33.3	32.0	31.9
Borrowings	21.8	234.9	225.3
Lease liabilities	2.0	1.9	2.0
Tax payable	5.6	19.3	17.9
Provisions	1.1	1.2	1.1
	<u>164.2</u>	<u>374.2</u>	<u>372.8</u>
TOTAL LIABILITIES	<u>2,248.3</u>	<u>2,445.1</u>	<u>2,140.6</u>
TOTAL EQUITY AND LIABILITIES	<u>3,780.2</u>	<u>3,934.9</u>	<u>3,604.3</u>

The interim financial statements were approved by the board of directors and authorised for issue on 10 September 2020 and were signed on its behalf by:

T E Fielden
Director

CONDENSED STATEMENT OF CHANGE IN EQUITY - SIX MONTHS ENDED 30 JUNE 2020

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2020	290.0	1,199.8	1,489.8
Profit for the period (unaudited)	-	42.1	42.1
Balance at 30 June 2020	290.0	1,241.9	1,531.9

	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	290.0	1,173.7	1,463.7

	Share Capital £m	Retained Earnings £m	Total £m
Balance at 1 January 2019	290.0	1,115.1	1,405.1
Profit for the year	-	117.2	117.2
Equity dividends paid	-	(32.5)	(32.5)
Balance at 31 December 2019	290.0	1,199.8	1,489.8

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

	6 Months ended 30 June 2020 (unaudited) £m	6 Months ended 30 June 2019 (unaudited) (Restated) £m
Profit for the year	42.1	58.6
Depreciation and amortisation	57.1	54.5
Amortisation of deferred revenue	(16.2)	(15.6)
Net finance costs	19.2	24.3
Income tax expense	28.1	13.9
Cash flow before working capital movements	130.3	135.7
Decrease in inventory	0.1	0.7
Decrease in trade receivables	10.7	8.9
Increase in trade and other payables	15.4	1.7
Cash generated from operations	156.5	147.0
Net interest paid	(32.6)	(32.6)
Tax paid	(27.3)	(13.2)
Net cash from operating activities	96.6	101.2
Investing activities		
Proceeds from disposal of property, plant and equipment	0.4	-
Purchase of property, plant and equipment	(121.1)	(119.1)
Acquisition of intangible assets	-	-
Receipt of customer contributions	17.8	18.2
Net cash used in investing activities	(102.9)	(100.9)
Financing activities		
Repayment of short-term borrowings	-	(15.0)
Repayment of long-term borrowing	(200.0)	
Lease payment	(0.8)	
Net cash used in financing activities	(200.8)	(15.0)
Net decrease in cash and cash equivalents	(207.1)	(14.7)
Cash and cash equivalents at beginning of period	413.7	185.5
Cash and cash equivalents at end of period	206.6	170.8

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 2019 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 2019 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 2020, which alter the view expressed in the annual reports and accounts to 31 December 2019.

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 2019, 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 2020:

None of the standards, interpretations and amendments which are effective for periods beginning 1 January 2020 has had a material effect on the financial statements:

- Amendments to IFRS 3- Definition of a Business;
- Amendments to IAS 1 and IAS 8- Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9 Financial instruments- Hedging

3. PRIOR PERIOD ADJUSTMENT

Adopted assets and intangible assets

The Financial Statements have been restated to incorporate the impact of under reporting of the value of distributions network assets adopted from other parties and the reclassification of IT software assets from property, plant and machinery to intangible assets.

Distribution network assets are on occasions constructed by other parties who then transfer them to the group. At the date of transfer the value of property, plant and equipment is increased with an equal increase in the value of deferred revenue. The assets are depreciated in line with the depreciation policy for those assets with a similar amortisation of the deferred revenue. It was discovered during 2019 that not all adopted assets had been captured in the Financial Statements. A new process has been introduced during the 6 month period to June 2020.

In previous years certain operational IT software assets had been included in property plant and equipment rather than intangible assets.

These had no impact on prior years' profits or net assets, however impacted the constituent parts of the previously reported figures in the Income Statement, the Statement of Financial Position and Statement of Cash Flows as shown below.

Statement of Profit or Loss:

	June 2019 (unaudited) £m
Revenue	1.0
Operating expenses	<u>(1.0)</u>
Profit for the year	<u>-</u>

Statement of Financial Position:

	June 2019 (unaudited) £m
Property, plant and equipment	20.4
Intangibles	0.2
Deferred revenue non-current	(18.6)
Deferred revenue current	<u>(2.0)</u>
Total equity and liabilities	<u>-</u>

3. PRIOR PERIOD ADJUSTMENT (CONTINUED)

Statement of Cash Flows:

	June 2019 (unaudited) £m
Depreciation and amortisation	1.0
Amortisation of deferred revenue	<u>(1.0)</u>
Cash flows from operating activities	<u>-</u>

4. 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.

5. INCOME TAX EXPENSE

Tax for the six month period ended 30 June 2020 is charged at 19.08% (six months ended 30 June 2019: 19.07%), 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 six month period to June 2020 is 40%.

	6 months ended 30 June 2020 (unaudited) £m	6 months ended 30 June 2019 (unaudited) £m
Current tax	13.6	14.0
Deferred tax	<u>14.5</u>	<u>(0.1)</u>
Total income tax expense	<u>28.1</u>	<u>13.9</u>

Finance Bill 2016 included provisions to reduce the main rate of corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the cut in the rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. This was substantively enacted through the Provisional Collection of Taxes Act on 17 March 2020. This has led to a one off deferred tax adjustment of £14.7m which is included within the £14.5m deferred tax charge in the income statement.

6. 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 2020 (unaudited) £m	31 December 2019 £m	30 June 2020 (unaudited) £m	31 December 2019 £m
Financial liabilities				
Bond 2020 – 9.25%	-	217.7	-	217.7
Bond 2025 – 2.5%	149.5	151.3	159.7	160.0
Bond 2032 – 4.375%	154.2	150.9	201.2	191.4
Bond 2035 – 5.125%	198.9	204.3	288.3	284.8
Bond 2059- 2.25%	298.5	295.2	335.4	295.9
EIB Loan – 4.133%	156.9	153.7	165.8	164.5
EIB Loan – 2.564%	131.8	130.1	143.4	139.5
EIB Loan – 2.073%	50.6	50.1	52.9	51.7
	<u>1,140.4</u>	<u>1,353.3</u>	<u>1,346.7</u>	<u>1,505.5</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	Borrowings to related parties £m	Interest from related parties £m
Related party				
<i>Six months ended 30 June</i>				
<i>2020:</i>				
Integrated Utility Services Limited	0.1	0.9	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.2	-	-
Northern Electric plc	-	1.3	-	-
Northern Powergrid Metering Limited	0.3	-	-	-
Northern Powergrid (Northeast) plc	5.1	11.9	-	-
Vehicle Lease and Service Limited	-	3.0	-	-
Yorkshire Electricity Group plc	-	-	206.6	0.6
	<u>5.5</u>	<u>17.3</u>	<u>206.6</u>	<u>0.6</u>
<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) plc	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>170.8</u>	<u>0.7</u>

	Sales to related parties £m	Purchases from related parties £m	Borrowings to related parties £m	Interest from related parties £m
<i>Year ended 31 December 2019:</i>				
Integrated Utility Services Limited	0.1	3.2	-	-
Integrated Utility Services Limited (registered in Eire)	-	0.4	-	-
Northern Electric plc	-	2.5	-	-
Northern Powergrid Metering Limited	0.5	-	-	-
Northern Powergrid (Northeast) plc	10.7	22.7	-	-
Vehicle Lease and Service Limited	0.1	4.9	-	-
Yorkshire Electricity Group plc	-	-	413.7	1.6
	<u>11.4</u>	<u>33.6</u>	<u>413.7</u>	<u>1.6</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.