

NORTHERN ELECTRIC FINANCE 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 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) plc. The Company’s principal activity during the six months to 30 June 2020 was to act as the issuer of long-term bonds.

Results for the six months ended 30 June 2020

During the period ended 30 June 2020, the Company made a loss after tax of £0.1 million (period ended 30 June 2019: loss of £0.1 million).

Income statement

Investment income and finance costs were £1.7 million higher than the same period in the prior year due to the new debt issued in May 2019 and subsequent loan to Northern Powergrid (Northeast) plc, the immediate parent company.

Cash flow

Cash equivalents as at 30 June 2020 were £1.5 million lower than the position at 31 December 2019 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 2019, 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 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 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 2020, which alter the view expressed in the Company's annual report and accounts for the year to 31 December 2019.

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 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 TO 30 JUNE 2020

	Six months ended 30 June 2020 (unaudited) £m	Six months ended 30 June 2019 (unaudited) £m
CONTINUING OPERATIONS		
Finance income	10.6	8.9
Finance costs	<u>(10.7)</u>	<u>(9.0)</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 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 losses reported above.

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	30 June 2020 (unaudited) £m	31 December 2019 £m
ASSETS		
NON-CURRENT ASSETS		
Trade and other receivables	295.7	295.7
CURRENT ASSETS		
Trade and other receivables	109.3	106.0
Cash and cash equivalents	-	1.5
	109.3	107.5
TOTAL ASSETS	405.0	403.2
EQUITY		
SHAREHOLDERS' EQUITY		
Called up share capital	0.1	0.1
Retained earnings	(1.9)	(1.8)
TOTAL EQUITY	(1.8)	(1.7)
LIABILITIES		
NON-CURRENT LIABILITIES		
Borrowings	295.7	295.7
	295.7	295.7
CURRENT LIABILITIES		
Borrowings	111.1	109.1
Trade Payable	-	0.1
	111.1	109.2
TOTAL LIABILITIES	406.8	404.9
TOTAL EQUITY AND LIABILITIES	405.0	403.2

The half-yearly 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 CHANGES IN EQUITY FOR THE PERIOD ENDED
30 JUNE 2020**

	Share Capital £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2020	0.1	(1.8)	(1.7)
Comprehensive income for the period (unaudited)	-	(0.1)	(0.1)
Balance at 30 June 2020 (unaudited)	0.1	(1.9)	(1.8)

	Share Capital £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2019	0.1	(1.7)	(1.6)
Comprehensive income for the period (unaudited)	-	(0.1)	(0.1)
Balance at 30 June 2019 (unaudited)	0.1	(1.8)	(1.7)

	Share Capital £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2019	0.1	(1.7)	(1.6)
Comprehensive income for the period	-	(0.1)	(0.1)
Balance at 31 December 2019	0.1	(1.8)	(1.7)

CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2020

	6 Months ended 30 June 2020 (unaudited) £m	6 Months ended 30 June 2019 (unaudited) £m
Profit before income tax	(0.1)	(0.1)
Finance costs	10.7	9.0
Finance income	<u>(10.6)</u>	<u>(8.9)</u>
Cash generated from operations	-	-
Net interest paid	<u>(5.0)</u>	<u>(5.1)</u>
Net cash used in operating activities	<u>(5.0)</u>	<u>(5.1)</u>
Investing activities		
Loan to related party	<u>-</u>	<u>(147.4)</u>
Net cash used in investing activities	<u>-</u>	<u>(147.4)</u>
Financing activities		
Issue of long-term debt	-	147.4
Movement in loan from group undertakings	<u>3.5</u>	<u>3.6</u>
Net cash generated from financing activities	<u>3.5</u>	<u>151.0</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 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 report and accounts for the year to 31 December 2019 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 2020, which alter the view expressed in the Company's annual report and accounts for the year 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONTINUED)

Application of new and revised IFRS

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. INCOME TAX EXPENSE

Tax for the six month period to 30 June 2020 is charged at 19.00% (six months ended 30 June 2019: 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.

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.

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 2020 (unaudited) £m	31 December 2019 £m	30 June 2020 (unaudited) £m	31 December 2019 £m
Financial assets				
Amounts owed by group undertakings	405.0	401.7	515.3	482.0
Cash and cash equivalents	-	1.5	-	1.5
	<u>405.0</u>	<u>403.2</u>	<u>515.3</u>	<u>483.5</u>
Financial liabilities				
Intercompany short-term loan	3.6	-	3.6	-
2020 – 8.875% bonds	106.2	101.7	106.2	101.8
2035 – 5.125% bonds	149.2	153.2	217.0	213.6
2049 – 2.750% bonds	147.8	149.9	183.0	163.5
	<u>406.8</u>	<u>404.8</u>	<u>509.8</u>	<u>478.9</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 2020 (unaudited):		
Northern Powergrid (Northeast) plc	10.6	405.0
Yorkshire Electricity Group plc	-	(3.6)
	<u>10.6</u>	<u>401.4</u>
Six months ended 30 June 2019 (unaudited):		
Northern Powergrid (Northeast) plc	8.9	405.2
Yorkshire Electricity Group plc	-	(3.3)
	<u>8.9</u>	<u>401.9</u>
Year ended 31 December 2019:		
Northern Powergrid (Northeast) plc	19.6	401.7
Yorkshire Electricity Group plc	-	1.5
	<u>19.6</u>	<u>403.2</u>

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