

NORTHERN ELECTRIC plc
HALF-YEARLY FINANCIAL REPORT
SIX MONTHS ENDED 30 JUNE 2014

NORTHERN ELECTRIC plc:

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ENDED 30 JUNE 2014**

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NORTHERN ELECTRIC plc
(REGISTERED NUMBER: 02366942)

INTERIM MANAGEMENT REPORT

Registered Number: 02366942

Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF

Cautionary Statement

This interim management report has been prepared solely to provide additional information to shareholders to assess the strategies of Northern Electric plc (the "Company") and its subsidiaries (together the "Group") and the potential for those strategies to succeed and should not be relied on by any other party or for any other purpose.

Review of the six months to 30 June 2014

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 2014 was to act as a holding company, with its main operating subsidiaries being Northern Powergrid (Northeast) Limited ("Northern Powergrid") and Integrated Utility Services Limited ("IUS").

Northern Powergrid distributes electricity to approximately 1.6 million customers connected to its electricity distribution network within its distribution services area in the northeast of England, which extends from North Northumberland, south to York and west to the Pennines, is an authorised distributor under the Electricity Act 1989 and holds an electricity distribution licence granted by the Secretary of State. IUS provides engineering contracting services to various clients. The Group operates a business model and strategy based on the Northern Powergrid Group's core principles, details of which can be found in the Group's annual reports and accounts for the year ended 31 December 2013.

Financial strength

Results for the six months ended 30 June 2014

The half-yearly accounts for the six months ended 30 June 2014 consolidate the results of the Company and its subsidiaries (the "Group") and are prepared under International Financial Reporting Standards. The half-yearly accounts do not comprise statutory accounts required to be delivered to the Registrar of Companies under the Companies Act 2006 and have not been subject to audit or review by the Group's auditor. The Group will deliver its statutory accounts for the current financial year ending on 31 December 2014 to the Registrar of Companies by 30 June 2015.

The Group delivered a satisfactory performance for the six months ended 30 June 2014, mainly due to increased revenue as a result of higher distribution tariffs and continued good cost control. A summary of the key financial results is set out below:

INTERIM MANAGEMENT REPORT (CONTINUED)

Financial strength (continued)

Key financials

Revenue

Revenue at £199.1m was £21.9m higher than for the six months ended 30 June 2013 mainly due to higher distribution tariffs and an increase in contracting revenues.

Cash flow

Cash and cash equivalents as at 30 June 2014 were £113.7m, representing an increase of £7.8m when compared with the position at 31 December 2013.

The Group has access to short-term borrowing facilities provided by Yorkshire Electricity Group plc, a related party, and to committed revolving credit facilities of £75 million provided by Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc. In addition, the Group has access to a £22 million committed overdraft facility provided by Lloyds Bank plc.

Financial position

Profit before tax at £90.1m was £8.1m higher than the six months ended 30 June 2013 mainly as a result of increased distribution revenues offset by increased depreciation and amortisation charges and other cost increases.

Dividends

No ordinary dividends were paid in the period resulting in £69.5 million being transferred to reserves.

Related party transactions

The Company provides certain corporate functions to the Northern Powergrid Group, including financial accounting and planning, treasury, taxation, pensions, internal audit, legal advice, insurance management, claims handling and litigation services.

Further details of the related party transactions entered into by the Group and the Company and changes therein are included in Note 5 to this half-yearly financial report.

INTERIM MANAGEMENT REPORT (CONTINUED)

Customer service

Although formal directions are awaited from Ofgem regarding the impact of certain incidents, as at the date of this half-yearly financial report, Northern Powergrid's reported performance for the regulatory year to 31 March 2014 (the "Regulatory Year") in respect of its key customer service performance indicators of customer interruptions ("CI") and customer minutes lost ("CML") is as follows:

| | Year to 31 March 2014 | | Year to 31 March 2013 | |
|-------------|-----------------------|-------------|-----------------------|--------|
| | Actual | Target | Actual | Target |
| CML: | 64.7 | 70.7 | 70.2 | 70.9 |
| CI: | 63.2 | 68.1 | 65.0 | 68.2 |

In respect of these key customer service performance indicators, the goal is to achieve performance that is below Ofgem's target number.

As part of the Broad Measure of Customer Satisfaction, an independent market research company, Accent, carries out telephone surveys with Northern Powergrid's customers to find out how satisfied they are with the services provided. Northern Powergrid recorded an overall satisfaction score of 81.8% for the Regulatory Year and expects that its customer service improvement plan, including the range of initiatives included in the well-justified business plan submitted to Ofgem, will improve the services provided to customers and so increase the satisfaction rating year-on-year.

The Regulatory Year was the fourth year in which the Ofgem discretionary reward for stakeholder engagement had been in operation and the second year that a financial incentive had been available and, on 30 May 2014, Northern Powergrid put forward a submission to Ofgem in respect of its stakeholder engagement during the Regulatory Year, which included initiatives with increased focus on its social obligations, such as the partnership with the Trussell Trust food banks and providing better on-line services for its customers.

On 9 July 2014, Northern Powergrid presented that submission to Ofgem's panel and improved its position from the previous year, being ranked in second place and securing a reward totalling £0.7 million for the Northern Powergrid Group. Northern Powergrid intends to reinvest its reward in its key initiatives and will continue to build on this strong stakeholder engagement performance.

Operational excellence

During the six months to 30 June 2014, Northern Powergrid continued to target its investment strategy at delivering improvements in the overall performance of its electricity distribution network in an efficient and cost-effective manner. Investment in the distribution network included the refurbishment, replacement and construction of assets such as substations, transformers, switchgear and overhead and underground cables and was targeted at improving the network's resilience in an efficient and cost-effective manner so that the number of power cuts that occur and number of customers affected by those power cuts are minimised as far as possible.

INTERIM MANAGEMENT REPORT (CONTINUED)

Operational excellence (continued)

Northern Powergrid invested £207.8 million in the distribution network during the Regulatory Year, which represented a 9% increase on the £190.1 million recorded in the regulatory year to 31 March 2013 such that Northern Powergrid remains well-placed in respect of the outputs it intends to deliver by the end of the current Distribution Price Control period to 31 March 2015 ("DPCR5").

IUS continued to operate its engineering contracting business and saw an improvement in revenues in the six months to 30 June 2014, mainly due to increased activity in delivering contracts for Network Rail and completing work on the largest contract secured for a number of years. Although competition for business in the sectors, within which IUS operates, remained strong, IUS continued to perform well in its UK Contracting activities and began to see some improvement in the multi-utility housing market.

Employee commitment – Health and safety

The safety of its employees continued to be of paramount importance to the Group, with the on-going focus being on the goal that no employees should be injured during their working time. During the six months to 30 June 2014, the Group did not experience any lost time accidents (six months to 30 June 2013: Nil) against an annual target of one but incurred six preventable vehicle accidents (six months to 30 June 2013: 7) against an annual target of 13. The Group's performance in respect of both lost time and preventable accidents was encouraging and none of the incidents resulted in serious injuries to the employees concerned. Nevertheless, work continues to reduce the accident rates, with the lessons learned from such incidents being incorporated into the Northern Powergrid Group's safety and health improvement plan and road risk management programme.

Regulatory integrity

Following Ofgem's announcement in November 2013 that it had decided that Northern Powergrid's well-justified business plan was not to proceed on the "fast track", Northern Powergrid revisited its plan and provided Ofgem with a revised version including further justification of the associated costs on 17 March 2014. Ofgem issued a draft determination containing its proposed price control settlement for Northern Powergrid on 29 July 2014. These proposals are under consultation until September 2014 and a final decision is expected in November 2014. On conclusion of the process, Northern Powergrid's base revenues will be set for the price control period from 2015 to 2023, which is known as ED1.

On 21 March 2014, Ofgem published its decision on the restatement of the 2009/2010 system losses data and closing out the Distribution Price Control Review 4 losses incentive scheme, together with details of the final sums to be returned by Northern Powergrid during ED1. The financial effect of that decision will be seen in future statutory accounting periods and, in accordance with International Financial Reporting Standards, the Group has not included any recognition of the issue in this half-yearly financial report.

INTERIM MANAGEMENT REPORT (CONTINUED)

Regulatory integrity (continued)

In the first quarter of 2014, the Department of Energy and Climate Change and Ofgem began reviews of the performance of the Distribution Network Operators (the "DNOs") affected by the severe weather experienced over the Christmas 2013 period so that future responses to such incidents can be improved and, therefore, the inconvenience to the affected customers can be minimised as far as possible. Northern Powergrid is actively involved in both reviews and is supporting the industry exercise to create a single, national telephone number, which customers can use to contact their DNO if their power supply is affected as a result of such an incident.

Northern Powergrid also recognises the need to improve the ways in which it communicates with its customers via both traditional methods and social media and is playing a central role in taking forward changes to the industry arrangements necessary for the DNOs to have access to better customer contact information that can be used to provide more proactive information during times of severe weather.

Risks and uncertainties

Regulatory risk

Most of Northern Powergrid's revenue is controlled by the distribution price control formula set out in the electricity distribution licence. One of the principal risks facing Northern Powergrid relates to possible changes in its allowed income as a result of modifications to the price control formulae that are set out within the special conditions of the electricity distribution licence. However, all of the changes to those special conditions required to give effect to Ofgem's final proposals in respect of DPCR5 were agreed and implemented with effect from 1 April 2010.

The price control formula does not constrain profits from year to year but sets a maximum permitted revenue for each regulatory year and is a control on revenue that operates independently of most of the electricity distribution licence holder's costs. Where the Company recovers more, or less, than this maximum the difference is carried forward, with interest. For amounts relating to the Regulatory Year, the carry forward is into the entitlement for the regulatory year ended 31 March 2015. For amounts relating to the regulatory year ended 31 March 2015, the carry forward will typically be into the entitlement for the regulatory year after the following regulatory year.

During DPCR5, the rate of inflation, as measured by the Retail Prices Index ("RPI"), is taken into account in setting Northern Powergrid's allowed income in respect of each regulatory year. Consequently, one of the risks faced by Northern Powergrid is that its costs may increase by more than RPI. Any changes in costs incurred will have a direct impact on Northern Powergrid's financial results, as will changes in performance under incentive schemes, such as in customer service, which can lead to adjustments to allowed revenues.

INTERIM MANAGEMENT REPORT (CONTINUED)

Risks and uncertainties (continued)

Regulatory risk (continued)

Northern Powergrid revisited the well-justified business plan that it submitted to Ofgem in 2013 and provided Ofgem with a revised version including further justification of the associated costs on 17 March 2014. Ofgem issued a draft determination containing its proposed price control settlement for Northern Powergrid on 29 July 2014. These proposals are under consultation until September 2014 and a final decision is expected in November 2014. On conclusion of the process, Northern Powergrid's revenues will be set for ED1.

Financial risk

The principal risks associated with the regulatory environment, within which Northern Powergrid operates are mentioned above. As IUS' business is primarily in the competitive engineering contracting market, it continues to be subject to the issues created by the general economic environment and trading conditions and the associated variations in demand for its services. In addition, there continues to be an enhanced risk of counter-party default, with the associated increase in the potential for IUS to be exposed to bad debt.

It is anticipated that these risks will continue for the main focus for the Group during the remainder of 2014.

The Group addresses interest rate risk by having a policy of providing a stable, low cost of financing over time, whilst observing approved risk parameters. The Group finances its activities by a combination of long-term borrowings at fixed rates of interest and by having access to short-term borrowing facilities at floating rates.

As at 30 June 2014, 100% of the Group's long-term borrowings were at fixed rates and the average maturity for these borrowings was 14 years. Despite this position, the Group remains mindful of the current economic climate and the associated potential impact on the cost of short-term borrowing. No material currency risks are faced by the Group and it is policy that no trading in financial instruments should be undertaken.

Further information on the principal long-term risks and uncertainties and the internal control system are included in the Company's latest annual reports and accounts for the year to 31 December 2013, which is available at www.northernpowergrid.com.

Going concern

In the Company's latest annual reports and accounts for the year to 31 December 2013 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 and confirm that no events have occurred during the six months to 30 June 2014 to alter the view expressed in the annual reports and accounts to 31 December 2013.

INTERIM MANAGEMENT REPORT (CONTINUED)

Future strategy and objectives

The Company will continue to develop its business as a holding company in a manner that concentrates on the Group's core skills of electricity distribution and engineering contracting.

The majority of Northern Powergrid's distribution revenues for DPCR5 have been set by Ofgem and Ofgem is considering Northern Powergrid's well-justified business plan, as part of the ED1 price control review process. That plan set out Northern Powergrid's priorities for and the challenges it expects to see during ED1, which will last for the eight years until March 2023. Northern Powergrid plans to provide its customers with more for less by improving performance in respect of all of the outputs expected of it, reducing prices in the first year of ED1 and then maintaining those prices at a relatively consistent level over the remainder of the period, delivering 20% shorter power cuts and providing a connections service that is 30% faster, together with a range of new and improved services.

Northern Powergrid resubmitted its well-justified business plan for Ofgem's consideration on 17 March 2014 and the directors intend to continue to develop the Group's business with the goal of Northern Powergrid out-performing the allowances in the price control, while efficiently investing in the network and improving the quality of supply and service provided to its customers. Ofgem issued its draft determination on 29 July 2014 and its final determination is expected in November 2014.


IUS will look to develop further its engineering contracting business by delivering a high standard of service to its existing clients and pursuing opportunities in other sectors.

Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34, "Interim Financial Reporting", and gives a true and fair view of the assets, liabilities, financial position and profit of the Group for the six months to 30 June 2014;
- (b) the interim management report contains a fair review of the information required by DTR 4.2.7 (indication of important events during the first six months of the year and description of the principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board



T E Fielden
Director
21 August 2014

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS - SIX MONTHS
ENDED 30 JUNE 2014**

| | 6 Months ended 30 June 2014 Unaudited £m | 6 Months ended 30 June 2013 Unaudited £m |
|--|--|--|
| Revenue | 199.1 | 177.2 |
| Cost of sales | (26.5) | (16.2) |
| Gross profit | 172.6 | 161.0 |
| Operating expenses | (66.2) | (62.2) |
| Operating profit | 106.4 | 98.8 |
| Other gains | 0.4 | 0.2 |
| Finance income | 0.7 | 0.8 |
| Finance costs | (17.4) | (17.8) |
| Profit before tax | 90.1 | 82.0 |
| Income tax expense | (20.6) | (19.7) |
| Profit from ordinary activities after tax | 69.5 | 62.3 |

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - SIX MONTHS ENDED 30 JUNE 2014

| | 6 Months ended 30 June 2014 Unaudited £m | 6 Months ended 30 June 2013 Unaudited £m |
|---|--|--|
| PROFIT FOR THE PERIOD | 69.5 | 62.3 |
| OTHER COMPREHENSIVE INCOME | | |
| Items that will not be reclassified subsequently to profit or loss | | |
| Employee benefit obligation | 11.1 | (39.6) |
| Income tax relating to items of other comprehensive income | (1.9) | 9.1 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX | 9.2 | (30.5) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>78.7</u> | <u>31.8</u> |

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - SIX MONTHS ENDED 30 JUNE 2014

| | Share Capital £m | Share Premium Account £m | Other Reserves £m | Retained Earnings £m | Total Equity £m |
|--|------------------------|-----------------------------------|-------------------------|----------------------------|-----------------------|
| Balance at 1 January 2014 | 72.2 | 158.8 | 6.2 | 518.8 | 756.0 |
| Total comprehensive income for the period (unaudited) | - | - | - | 78.7 | 78.7 |
| Balance at 30 June 2014 | <u>72.2</u> | <u>158.8</u> | <u>6.2</u> | <u>597.5</u> | <u>834.7</u> |

| | Share Capital £m | Share Premium Account £m | Other Reserves £m | Retained Earnings £m | Total Equity £m |
|--|------------------------|-----------------------------------|-------------------------|----------------------------|-----------------------|
| Balance at 1 January 2013 | 72.2 | 158.8 | 6.2 | 429.5 | 666.6 |
| Total comprehensive income for the period (unaudited) | - | - | - | 31.8 | 31.8 |
| Balance at 30 June 2013 | <u>72.2</u> | <u>158.8</u> | <u>6.2</u> | <u>461.3</u> | <u>698.4</u> |

| | Share Capital £m | Share Premium Account £m | Other Reserve s £m | Retained Earnings £m | Total Equity £m |
|--|------------------------|-----------------------------------|-----------------------------|----------------------------|-----------------------|
| Balance at 1 January 2013 | 72.2 | 158.8 | 6.2 | 429.4 | 666.6 |
| Dividends | - | - | - | (30.0) | (30.0) |
| Total comprehensive income for the year | - | - | - | 119.4 | 119.4 |
| Balance at 31 December 2013 | <u>72.2</u> | <u>158.8</u> | <u>6.2</u> | <u>518.8</u> | <u>756.0</u> |

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - SIX MONTHS ENDED 30 JUNE 2014

| | 30 June 2014 Unaudited £m | 31 December 2013 £m |
|-------------------------------------|------------------------------------|---------------------------|
| ASSETS | | |
| NON-CURRENT ASSETS | | |
| Intangible assets | 18.9 | 14.8 |
| Property, plant and equipment | 1,855.6 | 1,790.2 |
| Investments | 3.2 | 3.4 |
| Pension asset | 20.4 | - |
| Trade and other receivables | 6.2 | 6.1 |
| | <u>1,904.3</u> | <u>1,814.5</u> |
| CURRENT ASSETS | | |
| Inventories | 9.5 | 10.4 |
| Trade and other receivables | 63.2 | 50.2 |
| Cash and cash equivalents | 113.7 | 105.9 |
| | <u>186.4</u> | <u>166.5</u> |
| TOTAL ASSETS | <u>2,090.7</u> | <u>1,981.0</u> |
| EQUITY | | |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 72.2 | 72.2 |
| Share premium account | 158.8 | 158.8 |
| Other reserves | 6.2 | 6.2 |
| Retained earnings | 597.5 | 518.8 |
| TOTAL EQUITY | <u>834.7</u> | <u>756.0</u> |
| LIABILITIES | | |
| NON-CURRENT LIABILITIES | | |
| Trade and other payables | 496.0 | 484.5 |
| Borrowings | 466.8 | 466.8 |
| Pension liability | - | 10.6 |
| Deferred tax | 100.6 | 93.2 |
| Provisions | 2.0 | 2.1 |
| | <u>1,065.4</u> | <u>1,057.1</u> |
| CURRENT LIABILITIES | | |
| Trade and other payables | 117.5 | 119.7 |
| Borrowings | 63.2 | 44.5 |
| Tax payable | 8.1 | 2.0 |
| Provisions | 1.8 | 1.6 |
| | <u>190.6</u> | <u>167.9</u> |
| TOTAL LIABILITIES | <u>1,256.0</u> | <u>1,225.0</u> |
| TOTAL EQUITY AND LIABILITIES | <u>2,090.7</u> | <u>1,981.0</u> |

The interim financial statements were approved by the board of directors and authorised for issue on 21 August 2014 and were signed on its behalf by:



T E Fielden
Director

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)**CONDENSED FINANCIAL STATEMENTS – SIX MONTHS ENDED 30 JUNE 2014****CONSOLIDATED CASH FLOW STATEMENT**

| | 6 Months ended 30 June 2014 Unaudited £m | 6 Months ended 30 June 2013 Unaudited £m |
|---|---|---|
| Cash inflow from operating activities | 126.2 | 95.2 |
| Net interest paid | (17.8) | (17.6) |
| Tax paid | (7.9) | (15.5) |
| Net cash from operating activities | 100.5 | 62.1 |
| Investing activities | | |
| Proceeds from disposal of property, plant and equipment | 0.2 | 0.2 |
| Purchase of property, plant and equipment | (115.1) | (96.1) |
| Purchase of intangible assets | (5.0) | (3.8) |
| Receipt of customer contributions | 18.5 | 14.9 |
| Net cash used in investing activities | (101.4) | (84.8) |
| Financing activities | | |
| Movement in external loans | 8.7 | - |
| Net cash generated by financing activities | 8.7 | - |
| Net increase/(decrease) in cash and cash equivalents | 7.8 | (22.7) |
| Cash and cash equivalents at beginning of period | 105.9 | 150.0 |
| Cash and cash equivalents at end of period | 113.7 | 127.3 |

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These condensed interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which were prepared in accordance with IFRSs.

2. ACCOUNTING POLICIES

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 2013.

Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Pensions

The cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. A separate valuation is not carried out at interim periods. Pension costs in the interim accounts are accrued based upon the assumptions applicable at the actuarial valuation carried out for the year ended 31 December 2013.

Fair value measurements

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

The valuation of all financial assets and liabilities included within these condensed interim financial statements are based on Level 1 inputs.

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)**CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2014****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. SEGMENTAL ANALYSIS**

The Group operates in the principal area of activity of the distribution of electricity in the United Kingdom.

The accounting policies of the reportable segments are the same as the Group's accounting policies which are described in the Group's latest annual financial statements. The segment results represent the profit earned by each segment without allocation of the share of profits of joint ventures, finance income and finance costs and income tax expense.

Six Months Ended 30 June 2014 (Unaudited)

| | Distribution £m | Other £m | Consolidation Adjustments £m | Total £m |
|----------------------------------|--------------------|-------------|------------------------------------|--------------|
| REVENUE | | | | |
| External sales | 175.0 | 24.1 | - | 199.1 |
| Inter-segment sales | 0.3 | 2.6 | (2.9) | - |
| Total Revenue | 175.3 | 26.7 | (2.9) | 199.1 |
| SEGMENT RESULTS | | | | |
| Operating profit | 90.2 | (0.1) | 16.3 | 106.4 |
| Other gains | | | | 0.4 |
| Finance income | | | | 0.7 |
| Finance costs | | | | (17.4) |
| Profit before tax | | | | 90.1 |
| OTHER INFORMATION | | | | |
| Capital additions | 103.7 | 0.1 | (2.0) | 101.8 |
| Depreciation and amortisation | 32.7 | - | (0.8) | 31.9 |
| Amortisation of deferred revenue | (9.7) | - | - | (9.7) |

"Other" comprises Engineering Contracting and business support units such as head office overheads.

Sales and purchases between the different segments are made at commercial prices.

External sales to RWE Npower plc in the six months ended 30 June 2014 of £54.6m are included within the Distribution Segment.

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENTAL ANALYSIS (CONTINUED)

Six Months Ended 30 June 2013 (Unaudited)

| | Distribution £m | Other £m | Consolidation Adjustments £m | Total £m |
|----------------------------------|--------------------|--------------|------------------------------------|---------------|
| REVENUE | | | | |
| External sales | 161.0 | 16.2 | - | 177.2 |
| Inter-segment sales | 0.3 | 2.2 | (2.5) | - |
| Total Revenue | <u>161.3</u> | <u>18.4</u> | <u>(2.5)</u> | <u>177.2</u> |
| SEGMENT RESULTS | | | | |
| Operating profit | <u>83.0</u> | <u>(2.8)</u> | <u>18.6</u> | 98.8 |
| Other gains | | | | 0.2 |
| Finance income | | | | 0.8 |
| Finance costs | | | | <u>(17.8)</u> |
| Profit before tax | | | | <u>82.0</u> |
| OTHER INFORMATION | | | | |
| Capital additions | 89.6 | - | (1.8) | 87.8 |
| Depreciation and amortisation | 30.2 | - | (0.7) | 29.5 |
| Amortisation of deferred revenue | <u>(8.8)</u> | <u>-</u> | <u>-</u> | <u>(8.8)</u> |

“Other” comprises Engineering Contracting and business support units.

Sales and purchases between the different segments are made at commercial prices.

External sales to RWE Npower plc in the six months ended 30 June 2013 of £47.0m are included within the Distribution Segment.

NORTHERN ELECTRIC plc (REGISTERED NUMBER: 02366942)**CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2014****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. SEGMENTAL ANALYSIS (CONTINUED)****Segment net assets**

| | 30 June 2014 Unaudited £m | 31 December 2013 £m |
|---------------------------------------|---------------------------------|------------------------------|
| Distribution | 1,371.0 | 1,305.4 |
| Other | 11.5 | 15.4 |
| Consolidation adjustments | <u>(60.9)</u> | <u>(67.7)</u> |
| Total net assets by segment | 1,321.6 | 1,253.1 |
| Unallocated net corporate liabilities | <u>(486.9)</u> | <u>(497.1)</u> |
| Total net assets | <u>834.7</u> | <u>756.0</u> |

Consolidation Adjustments include the recognition of the £20.4m retirement benefit asset (December 2013: £10.6m liability).

Unallocated net corporate liabilities include cash and cash equivalents of £113.7m (December 2013: £105.9m), borrowings of £506.1m (December 2013: £511.3m) and taxation of £108.7m (December 2013: £95.2m).

4. INCOME TAX EXPENSE

| | 6 months ended 30 June 2014 Unaudited £m | 6 months ended 30 June 2013 Unaudited £m |
|--------------------------|--|--|
| Current tax | 19.5 | 14.3 |
| Deferred tax | <u>1.1</u> | <u>5.4</u> |
| Total income tax expense | <u>20.6</u> | <u>19.7</u> |

The underlying tax for the interim period is calculated by applying the effective average tax rate of 21.50% (2012: 23.25%) on profit before preference dividends accrued.

CONDENSED FINANCIAL STATEMENTS - SIX MONTHS ENDED 30 JUNE 2014**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. RELATED PARTY TRANSACTIONS****GROUP**

Details of transactions between the Group and other related parties are disclosed below.

Loans

The Group has made loans repayable on demand to companies in the Northern Powergrid Group. The total interest included in finance income in the income statement for the six months ended 30 June 2014 was £0.5m (six months ended 30 June 2013: £0.8m). Included within cash and cash equivalents is £113.7m as at 30 June 2014 (31 December 2013: £105.9m) in respect of these loans.

The Group has received loans from other companies in the Northern Powergrid Group. The total interest included in finance costs in the income statement for the six months ended 30 June 2014 was £3.1m (six months ended 30 June 2013: £2.8m). Included within borrowings is £102.9m as at 30 June 2014 (31 December 2013: £105.9m) in respect of these loans.

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

Trading transactions

During the year, Group entities entered into the following trading transactions with related parties that are not members of the Group:

| Related Party | Sales to Related Party £m | Purchases from Related Party £m | Amounts Owed to Related Party £m |
|---|------------------------------------|--|--|
| June 2014: | | | |
| CE Insurance Services Limited | - | 0.2 | - |
| CE UK Gas Holdings Limited | 0.1 | - | - |
| Integrated Utility Services Limited (Registered in Eire) | - | 0.8 | - |
| Vehicle Lease and Service Limited | - | 1.9 | 0.1 |
| Northern Powergrid (Yorkshire) plc | 7.7 | 4.4 | - |
| June 2013: | | | |
| CE Insurance Services Limited | - | 0.3 | - |
| CE UK Gas Holdings Limited | 0.1 | - | - |
| Integrated Utility Services Limited (Registered in Eire) | - | 0.5 | 0.1 |
| Vehicle Lease and Service Limited | - | 1.7 | 0.1 |
| Northern Powergrid (Yorkshire) plc | 8.7 | 3.6 | - |

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. RELATED PARTY TRANSACTIONS (CONTINUED)

GROUP (CONTINUED)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

During 2013, 2 directors (30 June 2013: 3) and 6 key personnel (30 June 2013: 8) utilised the services provided by Northern Transport Finance Limited, a company in the Group.

The amounts included in finance lease receivables owed by these directors and key personnel total £0.1m (31 December 2013: £0.1m) in respect of non-current receivables and £0.1m (31 December 2013: £0.1m) in respect of current receivables.

COMPANY

Details of transactions between the Company and other related parties are disclosed below.

Loans

The Company has made loans repayable on demand to companies in the Northern Powergrid Group. The total interest included in finance income in the income statement for the period ended 30 June 2014 was £0.1m (six months ended 30 June 2013: £0.4m). Included within cash and cash equivalents is £20.6m as at 30 June 2014 (31 December 2013: £33.2m) in respect of these loans.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. RELATED PARTY TRANSACTIONS (CONTINUED)

COMPANY (CONTINUED)

Trading transactions

During the year, the Company entered into the following trading transactions with other members of the Northern Powergrid Group:

| Related Party | Sales to Related Party £m | Purchases from Related Party £m | Dividends received from Related Party £m |
|---|------------------------------------|--|--|
| June 2014: | | | |
| CE UK Gas Holdings Limited | 0.1 | - | - |
| Integrated Utility Services Limited | 0.2 | - | - |
| Northern Powergrid (Northeast) Limited | 2.2 | 0.3 | - |
| Vehicle Lease and Service Limited | 0.1 | - | 0.4 |
| Northern Powergrid (Yorkshire) plc | 1.9 | - | - |
| | <hr/> | <hr/> | <hr/> |
| June 2013: | | | |
| CE UK Gas Holdings Limited | 0.1 | - | - |
| Integrated Utility Services Limited | 0.2 | - | - |
| Northern Powergrid (Northeast) Limited | 2.3 | 0.1 | - |
| Vehicle Lease and Service Limited | - | - | 0.4 |
| Northern Powergrid (Yorkshire) plc | 2.0 | - | - |
| | <hr/> | <hr/> | <hr/> |

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

There are no amounts outstanding to other members of the Northern Powergrid Group.