

**REGISTERED NUMBER: CR 75763 (Cayman Islands)**

**NON-STATUTORY REPORT OF THE DIRECTORS AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016  
FOR  
YORKSHIRE POWER FINANCE LIMITED**

## **YORKSHIRE POWER FINANCE LIMITED**

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**YORKSHIRE POWER FINANCE LIMITED**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**DIRECTORS:**  
T E Fielden  
T H France  
P J Goodman  
P A Jones  
S J Lockwood

**COMPANY SECRETARY:** M&C Corporate Services Limited

**REGISTERED OFFICE:**  
PO Box 309  
Ugland House  
South Church Street  
George Town  
Grand Cayman

**REGISTERED NUMBER:** CR 75763 (Cayman Islands)

**AUDITOR:**  
Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle upon Tyne  
United Kingdom

## **YORKSHIRE POWER FINANCE LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present the non-statutory annual report and financial statements of Yorkshire Power Finance Limited (the "Company") for the year ended 31 December 2016, which includes the Report of the Directors and the audited, non-statutory financial statements for that year. Pages 2 to 5 inclusive of this annual report comprise a Report of the Directors that has been drawn up and presented in line with the relevant provisions of the United Kingdom Companies Act 2006 ("the Act").

The Company is registered in the Cayman Islands and is a subsidiary of Northern Powergrid Holdings Company, which is incorporated in the United Kingdom. The directors have prepared these non-statutory financial statements to enable the Company to comply with its obligations under an agreement known as the "Trust Deed" pertaining to the issue, management and amortisation of the bond issue of £200 million 7.25% notes due in 2028. The directors have elected to prepare these non-statutory financial statements in accordance with International Financial Reporting Standards ("IFRS") and the provisions of the Act.

#### **Cautionary statement regarding forward-looking statements**

The Company, its directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. Any forward-looking statements contained in this annual report, involve risk and uncertainty because they relate to events and depend on circumstances, which may or may not occur in the future. Any forward-looking statements reflect the knowledge and information available at the date of preparation of this annual report and will not be updated during the year. Nothing in this annual report should be construed as a profit forecast.

#### **REVIEW OF BUSINESS**

The Company acts as the issuer of long-term debt securities in order to raise finance for Yorkshire Power Group Limited, its immediate parent company, and other companies in the Northern Powergrid Holdings Company group (the "Northern Powergrid Group"), including Northern Powergrid (Yorkshire) plc. The Company's financial instruments include borrowings and loans. In that respect, the Company met its obligation to make the annual interest payment on its debt securities on 4 August 2016.

The Directors manage the Company's operations on a Group basis. For this reason, the Company's Directors believe that the analysis using key performance indicators of the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance or position of Northern Powergrid Holdings Company, which includes those of the Company, are discussed in the report and financial statements of Northern Powergrid Holdings Company.

Details of the key risks faced by the Company in respect of its borrowings can be found on page 3 of this Report of the Directors and in Note 12 to the accounts.

#### **Financial review**

##### **Results and dividends**

The Company made a profit after tax for the year of £388,000 (2015: £410,000). No dividend was paid during the year (2015: £Nil) and the directors recommend that no final dividend be paid in respect of the year.

##### **Statement of profit or loss commentary**

The profit before tax at £485,000 was £29,000 lower than 2015, mainly reflecting lower finance income as a result of lower interest rates received on the Company's cash and cash equivalents.

##### **Cash flow statement commentary**

The net cash inflow from operating activities at £501,000 was £37,000 lower than 2015, mainly reflecting lower interest receipts and higher tax payments in the year.

##### **Share capital and debt structure**

There were no changes to the Company's share capital or debt structure during the year.

## **YORKSHIRE POWER FINANCE LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **Financial review - continued**

##### **Dividend policy**

The Company's dividend policy is that dividends will be paid only after having due regard to available distributable reserves, available liquid funds and the financial resources and facilities needed to enable the Company to carry on its business for at least the next year.

##### **Taxation**

Details of the Company's taxation charge are provided in Note 7 to the accounts.

#### **RESEARCH AND DEVELOPMENT**

The Company does not undertake research and development.

#### **FUTURE DEVELOPMENTS**

The financial position of the Company, as at 31 December 2016, is shown in the statement of financial position on page 11. There have been no significant events since the year end and it is the intention of the directors that the Company will continue to raise finance, as required, in the future.

#### **DIRECTORS**

The directors who held office during the year under review and to the date of signing were:

G E Abel	Chairman (Stood down from the board on 16 December 2016)
T E Fielden	Finance Director, Northern Powergrid
T H France	General Counsel (appointed 16 December 2016)
P J Goodman	Executive Vice President & Chief Financial Officer, Berkshire Hathaway Energy Company
P A Jones	President & Chief Executive Officer, Northern Powergrid
S J Lockwood	Group Financial Controller, Northern Powergrid

#### **POLITICAL DONATIONS**

During the year, no contributions were made to political organisations (2015: £nil).

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

##### **Liquidity risk**

The principal risk facing the Company is not having sufficient liquidity to enable the Company to meet its liabilities as they fall due and to provide adequately for contingencies. In this respect, borrowing facilities are made available to the Company by other companies in the Northern Powergrid Group, if required. The Company continues to maintain its investment grade issuer credit rating.

##### **Interest rate risk**

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2016, 100% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 12 years.

##### **Currency risk**

No material currency risks are faced by the Company.

##### **Trading risk**

Throughout the year under review, the Company's policy was that no trading in financial instruments should be undertaken.

##### **Financial derivatives**

As at 31 December 2016 and during the year it was the Company's policy not to hold any derivative financial instruments.

## **YORKSHIRE POWER FINANCE LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **CORPORATE GOVERNANCE STATEMENT**

In accordance with Disclosure and Transparency Rule (DTR) 7.2.9, the directors have elected to set out the information required by DTR 7.2.1 to DTR 7.2.7 R in the Group annual report and audited consolidated financial statements of Northern Powergrid Holdings Company, a copy of which can be found on Northern Powergrid's corporate website. The Company has sought to apply a number of provisions in the UK Corporate Governance Code 2014 (the "Code") in so far as it considers them to be appropriate.

#### **Audit committee**

The board of Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference which include monitoring the financial reporting process, the effectiveness of internal controls, internal audit and risk management systems, the statutory audit of the accounts, and the independence of and the provision of non-audit services by the auditor.

The audit committee comprises three members, two of whom are considered as independent and one who has competence in accounting. At its meetings, the committee receives reports from the Governance and Risk Management Group and from the Northern Powergrid Group's Head of Internal Audit on the internal audits undertaken during the year and the audit plan for the following year.

#### **Committee members:**

R Dixon	Non-Executive Director (Chairman)
J Reynolds	Non-Executive Director (appointed 20 January 2016)
T E Fielden	Finance Director

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the non-statutory Annual Report and the financial statements and have elected to prepare the financial statements for the Company in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and the provisions of the United Kingdom Companies Act 2006, being the national law of the Member State of the European Union in which Northern Powergrid Holdings Company, the Company's parent company in the United Kingdom, is incorporated and which would have been applied if the financial statements were United Kingdom financial statements.

International Accounting Standard 1 requires that financial statements present fairly, for each financial year, the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all IFRS.

In accordance with the Yorkshire Power Finance Limited - 7.25% £200m Bonds 2028 Trust Deed, the directors are also required to prepare accounts in such a form as will comply with all relevant legal and accounting requirements. Therefore, the directors are required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

## **YORKSHIRE POWER FINANCE LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES – continued**

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company, which is included on the Northern Powergrid Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **GOING CONCERN**

The Company's business activities, together with details regarding its future development, performance and position are set out in the Report of the Directors. In addition, the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are included in the Report of the Directors and the appropriate notes to the accounts.

When considering continuing to adopt the going concern basis in preparing the annual report and accounts, the directors have taken account of a number of factors that arise due to the Company being part of the Northern Powergrid Group and raising finance on behalf of Northern Powergrid (Yorkshire) plc, including the following:

- a) The Company is profitable with net current assets and access to cash as detailed in note 9 to the accounts; and
- b) Northern Powergrid (Yorkshire) plc has considerable financial resources, in the form of short-term borrowings made available by Yorkshire Electricity Group plc, a fellow company in the Northern Powergrid Group, and committed revolving credit facilities from Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### **STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the directors, who is a director of the Company as at the date of this report, confirms that so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and he/she has taken all the steps he ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

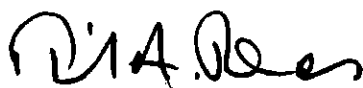
This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

#### **AUDITOR**

Deloitte LLP will continue in office in accordance with the provisions in section 487 of the Companies Act 2006 and has indicated its willingness to do so.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

#### **ON BEHALF OF THE BOARD:**



P A Jones  
Director  
21 April 2017

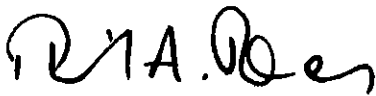
**YORKSHIRE POWER FINANCE LIMITED**

**RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS**

Each of the directors, as at the date of the Annual Report and Accounts, whose names and functions are set out on page 3 of the Report of the Directors confirms that, to the best of their knowledge:

- a) The Company's financial statements, prepared in accordance with applicable law and in conformity with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- b) The Management Report (which is comprised of the Report of the Directors) includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

This responsibility statement was approved by the Board of Directors on 21 April 2017 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P A Jones', with a stylized flourish at the end.

P A Jones  
Director and President and Chief Executive Officer

21 April 2017



## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF YORKSHIRE POWER FINANCE LIMITED**

We have audited the non-statutory financial statements of Yorkshire Power Finance Limited ("the Company") for the year ended 31 December 2016, which comprise the Statement of Profit or Loss, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely for the exclusive use of the directors and solely for the purposes of compliance with the Yorkshire Power Finance - 7.25% £200 million bonds 2028 Trust Deed (the "Trust Deed"). Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.


In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Report of the Directors.

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF YORKSHIRE POWER FINANCE LIMITED - continued**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or
- returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from preparing a Strategic Report or in preparing the Report of the Directors.

  
David M Johnson FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle upon Tyne  
United Kingdom

Date: 26 April 2017

**YORKSHIRE POWER FINANCE LIMITED**

**STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 £'000	2015 £'000
<b>CONTINUING OPERATIONS</b>			
Administrative expenses		<u>(7)</u>	<u>(5)</u>
<b>OPERATING LOSS</b>		<b>(7)</b>	<b>(5)</b>
Finance costs	5	(13,566)	(13,566)
Finance income	5	<u>14,058</u>	<u>14,085</u>
<b>PROFIT BEFORE INCOME TAX</b>	6	<b>485</b>	<b>514</b>
Income tax	7	<u>(97)</u>	<u>(104)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>388</u></b>	<b><u>410</u></b>

The notes on pages 14 to 20 form part of these financial statements

**YORKSHIRE POWER FINANCE LIMITED**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>2016</b> <b>£'000</b>	<b>2015</b> <b>£'000</b>
<b>PROFIT FOR THE YEAR</b>	<b>388</b>	<b>410</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>—</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>388</u></b>	<b><u>410</u></b>

The notes on pages 14 to 20 form part of these financial statements

**YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)**

**STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2016**

	Notes	2016 £'000	2015 £'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	8	<u>181,730</u>	<u>181,730</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	8	5,684	5,684
Cash and cash equivalents	9	<u>33,400</u>	<u>32,899</u>
		<u>39,084</u>	<u>38,583</u>
<b>TOTAL ASSETS</b>		<u><b>220,814</b></u>	<u><b>220,313</b></u>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Called up share capital	10	1	1
Share premium	11	19,999	19,999
Retained earnings	11	<u>11,134</u>	<u>10,746</u>
<b>TOTAL EQUITY</b>		<u><b>31,134</b></u>	<u><b>30,746</b></u>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Borrowings			
Interest bearing loans and borrowings	12	<u>184,143</u>	<u>184,026</u>
<b>CURRENT LIABILITIES</b>			
Borrowings			
Interest bearing loans and borrowings	12	5,492	5,492
Tax payable		<u>45</u>	<u>49</u>
		<u>5,537</u>	<u>5,541</u>
<b>TOTAL LIABILITIES</b>		<u><b>189,680</b></u>	<u><b>189,567</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>220,814</b></u>	<u><b>220,313</b></u>

These financial statements have been prepared in accordance with the special provisions relating to small companies under Section 415a of the Companies Act 2006.

The financial statements were approved by the Board of Directors on 21 April 2017 and were signed on its behalf by:



P A Jones  
Director

The notes on pages 14 to 20 form part of these financial statements

**YORKSHIRE POWER FINANCE LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	<b>Called up share capital £'000</b>	<b>Retained earnings £'000</b>	<b>Share premium £'000</b>	<b>Total equity £'000</b>
<b>Balance at 1 January 2015</b>	1	10,336	19,999	30,336
<b>Changes in equity</b>				
Total comprehensive income	-	410	-	410
<b>Balance at 31 December 2015</b>	<u>1</u>	<u>10,746</u>	<u>19,999</u>	<u>30,746</u>
<b>Changes in equity</b>				
Total comprehensive income	-	388	-	388
<b>Balance at 31 December 2016</b>	<u><u>1</u></u>	<u><u>11,134</u></u>	<u><u>19,999</u></u>	<u><u>31,134</u></u>

The notes on pages 14 to 20 form part of these financial statements

**YORKSHIRE POWER FINANCE LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

		<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>
<b>Cash flows from operating activities</b>			
Cash used in operations	14	(7)	(5)
Interest paid		(13,449)	(13,449)
Interest received		14,058	14,085
Tax paid		<u>(101)</u>	<u>(93)</u>
Net cash from operating activities		<u>501</u>	<u>538</u>
 <b>Increase in cash and cash equivalents</b>		 <b>501</b>	 <b>538</b>
 <b>Cash and cash equivalents at beginning of year</b>		 <u><b>32,899</b></u>	 <u><b>32,361</b></u>
 <b>Cash and cash equivalents at end of year</b>		 <u><u><b>33,400</b></u></u>	 <u><u><b>32,899</b></u></u>

The notes on pages 14 to 20 form part of these financial statements

## **YORKSHIRE POWER FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **1. GENERAL INFORMATION**

Yorkshire Power Finance Limited (the "Company") is a company incorporated in the Cayman Islands and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group"). The address of the registered office is PO Box 309, Uglund House, South Church Street, George Town, Grand Cayman.

The nature of the Company's operations and activities are set out in the Report of the Directors.

#### **2. ACCOUNTING POLICIES**

##### **Accounting convention and basis of preparation**

These non-statutory financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and with those parts of the Companies Act 2006 (the "Act") that are applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions which are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, 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 measurements 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 Company 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; and
- Level 3 inputs are unobservable inputs for the asset or liability.

##### **Going concern**

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further detail is contained within the Going Concern Statement in the Report of the Directors.

##### **Critical accounting policies**

The critical accounting policy adopted by the directors relates to borrowing costs and is described below. The accounting policies have been applied consistently throughout the year and the preceding year.



## **YORKSHIRE POWER FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016**

#### **2. ACCOUNTING POLICIES- continued**

##### **Adoption of new or revised standards**

Amendments to IFRS made by the International Accounting Standards Board ("IASB") that are effective mandatorily for an accounting period that begins on or after 1 January 2016:

- Annual Improvements to IFRS 2012-2014 Cycle.

The Annual Improvements to IFRS 2012-2014 Cycle include a number of amendments to various IFRS. The application of these amendments has had no material impact on the Company's financial statements.

The Company has not applied the new and revised IFRS that have been issued but are not yet effective for the year ending 31 December 2016. The directors of the Company do not anticipate that the application of the new and revised IFRS will have a significant impact on the Company's financial statements.

##### **Financial instruments**

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions on the instrument.

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

##### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

##### **Cash and cash equivalents**

Loans advanced to the parent company are included within cash equivalents, having a maturity of less than three months on the basis that they are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

##### **Revenue**

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

##### **Taxation**

The income tax expense represents the sum of the tax currently payable.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

##### **Borrowings**

Borrowings are classified as other financial liabilities at amortised cost. They are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement for redemption and direct issue costs, are accounted for on an accruals basis in the statement of profit or loss using the effective interest rate method. They are added to the carrying amount of the instruments to the extent that they are not settled in the period in which they arise.

## YORKSHIRE POWER FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016

#### 3. REVENUE

The following is an analysis of the Company's revenue for the year from continuing operations:

	2016 £'000	2015 £'000
Investment revenue (note 5)	<u>14,058</u>	<u>14,085</u>

#### 4. EMPLOYEES AND DIRECTORS

No directors' or key personnel remuneration was charged for the year (2015: £nil). There are no directors' emoluments that are required to be disclosed under the Act (2015: £nil).

There were no employees of the Company during the year (2015: nil).

#### 5. NET FINANCE INCOME

	2016 £'000	2015 £'000
Finance income:		
Interest receivable on amounts owed by Group undertakings	<u>14,058</u>	<u>14,085</u>
Finance costs:		
Interest payable on other loans	<u>13,566</u>	<u>13,566</u>
Net finance income	<u>492</u>	<u>519</u>

#### 6. PROFIT BEFORE INCOME TAX

Analysis of auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>7</u>	<u>5</u>
Total fees payable to the Company's auditor	<u>7</u>	<u>5</u>

#### 7. INCOME TAX

Analysis of tax expense:

	2016 £'000	2015 £'000
Current tax	<u>97</u>	<u>104</u>
Total tax expense in statement of profit or loss at 20% (2015: 20.25%)	<u>97</u>	<u>104</u>

# **YORKSHIRE POWER FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS - continued** **FOR THE YEAR ENDED 31 DECEMBER 2016**

### **7. INCOME TAX - continued**

	2016 £'000	2015 £'000
Tax expense comprises:		
Payment for use of group losses	<u>97</u>	<u>104</u>

The Finance Act 2013, which was substantively enacted in July 2013, included provisions to reduce the main rate of corporation tax in the United Kingdom from 21% to 20% with effect from 1 April 2015.

### **8. TRADE AND OTHER RECEIVABLES**

	Book Value		Fair Value	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Non-current:				
Amounts owed by Group undertakings	<u>181,730</u>	<u>181,730</u>	<u>272,740</u>	<u>256,381</u>
Current:				
Amounts owed by Group undertakings	<u>5,684</u>	<u>5,684</u>	<u>5,684</u>	<u>5,684</u>
Aggregate amounts	<u>187,414</u>	<u>187,414</u>	<u>278,424</u>	<u>262,065</u>

The directors' estimate of the fair value is calculated by discounting the future cash flows at the market rate at the statement of financial position date. The valuation of assets set out above is based on Level 1 inputs. None of these debts are past due or impaired at the statement of financial position date as the directors do not consider there to be any doubt over their recoverability.

Loans to Group undertakings are made to Yorkshire Power Group Limited, a company within the Northern Powergrid Group, and are at fixed rates of interest. The maximum exposure to risk to the Company is the book value of these loans.

### **9. CASH AND CASH EQUIVALENTS**

	2016 £'000	2015 £'000
Short-term deposits	<u>33,400</u>	<u>32,899</u>

Cash and cash equivalents represent net amounts owed by companies within the Northern Powergrid Group (see related party disclosures note), which have a maturity date of less than three months and which are subject to an insignificant risk of changes in value. The fair value of cash and cash equivalents is equal to their book value.

**YORKSHIRE POWER FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - continued  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**10. CALLED UP SHARE CAPITAL**

	2016 £'000	2015 £'000
Ordinary shares of \$1 each		
Authorised (50,000)	35	35
Allotted, called up and fully paid (2,000)	<u>1</u>	<u>1</u>

The Company has one class of ordinary shares which carries no right to fixed income.

**11. RESERVES**

	Retained earnings £'000	Share premium £'000	Totals £'000
At 1 January 2016	10,746	19,999	30,745
Profit for the year	<u>388</u>	<u>-</u>	<u>388</u>
At 31 December 2016	<u>11,134</u>	<u>19,999</u>	<u>31,133</u>
	Retained earnings £'000	Share premium £'000	Totals £'000
At 1 January 2015	10,336	19,999	30,335
Profit for the year	<u>410</u>	<u>-</u>	<u>410</u>
At 31 December 2015	<u>10,746</u>	<u>19,999</u>	<u>30,745</u>

# **YORKSHIRE POWER FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS - continued** **FOR THE YEAR ENDED 31 DECEMBER 2016**

### **12. BORROWINGS**

The directors' consideration of liquidity, interest rate and foreign currency risk are described in the Report of the Directors.

	<b>Book Value</b>		<b>Fair Value</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Loans	<u>189,635</u>	<u>189,518</u>	<u>276,344</u>	<u>253,895</u>
The borrowings are repayable as follows:				
On demand or within one year	5,492	5,492	5,492	5,492
After five years	<u>184,143</u>	<u>184,026</u>	<u>270,852</u>	<u>248,403</u>
	<u>189,635</u>	<u>189,518</u>	<u>276,344</u>	<u>253,895</u>
Analysis of borrowings:				
Sterling denominated Eurobond due 2028 - 7.25%	<u>189,635</u>	<u>189,518</u>	<u>276,344</u>	<u>253,895</u>

The fair value of the sterling denominated Eurobond due 2028 is determined by reference to market prices.

The valuation of liabilities set out above is based on Level 1 inputs.

Interest on the fixed interest rate loans exposes the Company to fair value interest rate risk.

The loans are non-secured.

The Company has no undrawn committed borrowing facilities.

The following table details the remaining contractual maturities for the non-derivative financial liabilities included in the table above. The table has been drawn up based on the discounted cash flows of financial liabilities based on the earliest possible date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>5+ years</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
2016:					
Fixed interest rate liability	<u>-</u>	<u>13,449</u>	<u>53,795</u>	<u>279,641</u>	<u>346,885</u>
2015:					
Fixed interest rate liability	<u>-</u>	<u>13,449</u>	<u>53,795</u>	<u>293,090</u>	<u>360,334</u>

# YORKSHIRE POWER FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2016

### 13. RELATED PARTY DISCLOSURES

Transactions entered into and balances outstanding at the year-end were as follows:

	Finance income from related parties £'000	Amounts owed by related parties £'000
Related Party		
2016:		
Yorkshire Power Group Limited	13,921	187,414
Yorkshire Electricity Group plc	<u>137</u>	<u>33,400</u>
	<u>14,058</u>	<u>220,814</u>
2015:		
Yorkshire Power Group limited	13,921	187,414
Yorkshire Electricity Group plc	<u>164</u>	<u>32,899</u>
	<u>14,085</u>	<u>220,313</u>

Interest on loans from Northern Powergrid Group companies is charged at a commercial rate.

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.

### 14. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH USED IN OPERATIONS

	2016 £'000	2015 £'000
Profit before income tax	485	514
Finance costs	13,566	13,566
Finance income	<u>(14,058)</u>	<u>(14,085)</u>
Cash used in operations	<u>(7)</u>	<u>(5)</u>

### 15. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of Yorkshire Power Finance Limited is Yorkshire Power Group Limited. The ultimate controlling party and ultimate parent undertaking of Yorkshire Power Group Limited is Berkshire Hathaway Inc., a company incorporated in the United States of America.

Copies of the group accounts of Berkshire Hathaway Inc. (the parent undertaking of the largest group preparing group accounts) which include Yorkshire Power Finance Limited and the group accounts of Northern Powergrid Holdings Company, the smallest parent undertaking to prepare group accounts in the UK, can both be obtained from the Company Secretary, Northern Powergrid Holdings Company, Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.