

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

**NON-STATUTORY REPORT OF THE DIRECTORS AND  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017  
FOR  
YORKSHIRE POWER FINANCE LIMITED**

**YORKSHIRE POWER FINANCE LIMITED**

**CONTENTS OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<b>Page</b>
<b>Company Information</b>	<b>1</b>
<b>Report of the Directors</b>	<b>2</b>
<b>Responsibility Statement of the Directors</b>	<b>6</b>
<b>Report of the Independent Auditor</b>	<b>7</b>
<b>Statement of Profit or Loss</b>	<b>11</b>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>	<b>12</b>
<b>Statement of Financial Position</b>	<b>13</b>
<b>Statement of Changes in Equity</b>	<b>14</b>
<b>Statement of Cash Flows</b>	<b>15</b>
<b>Notes to the Financial Statements</b>	<b>16</b>

**YORKSHIRE POWER FINANCE LIMITED**

**COMPANY INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**DIRECTORS:**

T E Fielden  
T H France  
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  
Statutory Auditor  
Newcastle upon Tyne  
United Kingdom

## **YORKSHIRE POWER FINANCE LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present the non-statutory annual report and financial statements of Yorkshire Power Finance Limited (the "Company") for the year ended 31 December 2017. 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. As permitted by the Companies Act 2006, the directors have applied the small companies' exemption from preparing a Strategic Report.

#### **PRINCIPAL ACTIVITY AND RESULT FOR THE YEAR**

The Company is registered in the Cayman Islands and 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"). The Company met its obligation to make the annual interest payment on its debt securities on 4 August 2017.

The Company made a profit after tax for the year of £359,000 (2016: £388,000). The profit before tax at £444,000 was £41,000 lower than 2016, mainly reflecting lower finance income as a result of lower interest rates received on the Company's cash and cash equivalents.

#### **KEY PERFORMANCE INDICATORS**

The Directors manage the Company's operations on a group basis. The development, performance and position of Northern Powergrid Holdings Company, which include those of the Company, are discussed in the annual report and financial statements of Northern Powergrid Holdings Company.

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

The principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties, which include those of this Company, are discussed in the annual report and financial statements of Northern Powergrid Holdings Company. Details of financial risks can be found on page 3 of the Report of the Directors.

## **YORKSHIRE POWER FINANCE LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **DIVIDENDS**

No dividend was paid during the year (2016: £Nil) and the directors recommend that no final dividend be paid in respect of the year.

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.

#### **RESEARCH AND DEVELOPMENT**

The Company does not undertake research and development.

#### **FUTURE DEVELOPMENTS AND FUTURE OUTLOOK**

The financial position of the Company, as at 31 December 2017, is shown in the statement of financial position on page 11. There have been no significant events since the year end. The Company will continue to raise finance, as required, in the future. There are no plans to change the existing business model.

#### **DIRECTORS**

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

T E Fielden	Finance Director, Northern Powergrid
T H France	General Counsel
P J Goodman	Executive Vice President & Chief Financial Officer, Berkshire Hathaway Energy Company (resigned 25 May 2017)
P A Jones	President & Chief Executive Officer, Northern Powergrid
S J Lockwood	Group Financial Controller, Northern Powergrid

#### **POLITICAL DONATIONS AND EXPENDITURE**

During the year, no contributions were made to political organisations (2016: £nil).

#### **FINANCIAL RISK MANAGEMENT**

##### **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 2017, 100% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 11 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 2017 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 2017**

#### **CORPORATE GOVERNANCE STATEMENT**

The directors have elected to apply the exception set out in Section 1B.1.6R of the Disclosure and Transparency Rules ("DTR").

#### **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 carries out the functions required by DTR 7.1.3 R.

Committee members:

J Reynolds Non-Executive Director (appointed as Chairman on 26 October 2017)

R Dixon Non-Executive Director (retired 26 October 2017)

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 in 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.

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.

## **YORKSHIRE POWER FINANCE LIMITED**

### **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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:

- a) so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

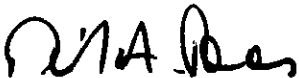
This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

#### **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

24 April 2018

## **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 24 April 2018 and signed on its behalf by:

P A Jones  
Director and President and Chief Executive Officer

24 April 2018



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

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 which would have applied if the financial statements were United Kingdom statutory financial statements.

We have audited the financial statements of Yorkshire Power Finance Limited (the 'company') which comprise:

- the statement of profit and 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
- the notes 1 to 15 to the financial statements..

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 and the provisions of the United Kingdom Companies Act 2006 that would have applied were these statutory financial statements.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Summary of audit approach**

- Key audit matters            The key audit matters that we identified in the current year were:
  - Management override of controls
  - Loan Valuation
- Materiality                The materiality that we used in the current year was £945k which was determined on the basis of 3% of net assets.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued**

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Management override of controls**

Key audit matter description	The risk of management override of controls due to fraud is a pervasive risk of material misstatement in the financial statements. It includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Company's controls. The key area of risk for the Company included the posting of inappropriate journal entries or other adjustments.
------------------------------	---

How the scope of our audit responded to the key audit matter	We identified journal entries recorded in the general ledger during the year, and other adjustments made in the preparation of financial reporting, exhibiting characteristics with an increased risk of fraud or which were unexpected based on the nature of the business. The journals were identified with the use of data analytics and were tested by obtaining supporting documentation.
--	---

We have evaluated the design and implementation of key controls around the financial reporting process.

Key observations	No matters were noted during the course of our testing that warranted reporting to those charged with governance.
------------------	---

**Loan Valuation**

Key audit matter description	The main activity of the entity is to obtain external financing for the group and to lend this to other group companies. The book value of this external financing at year end was £189.7m. These listed external borrowings can be seen in note 12, with the associated accounting policy disclosed in note 2. As these loans are highly material for the company their fair value and book value recorded in this disclosure to the accounts were a key focus of our audit resource to ascertain whether the values were reflective of an estimate of the market value at year end.
------------------------------	--

How the scope of our audit responded to the key audit matter	We have recalculated the fair value column of the borrowings note in the financial statements by taking the market value calculated, and adjusting for expected accrued interest and payments.
--	--

We have recalculated the book value adjusting the brought forward amounts for accrued interest and amortisation of deferred finance fees.

We have reviewed board meeting minutes for any indication of changes to the terms or quantum of loans outstanding.

Key observations	No matters were noted during the course of our testing that warranted reporting to those charged with governance.
------------------	---

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YORKSHIRE POWER FINANCE LIMITED - continued

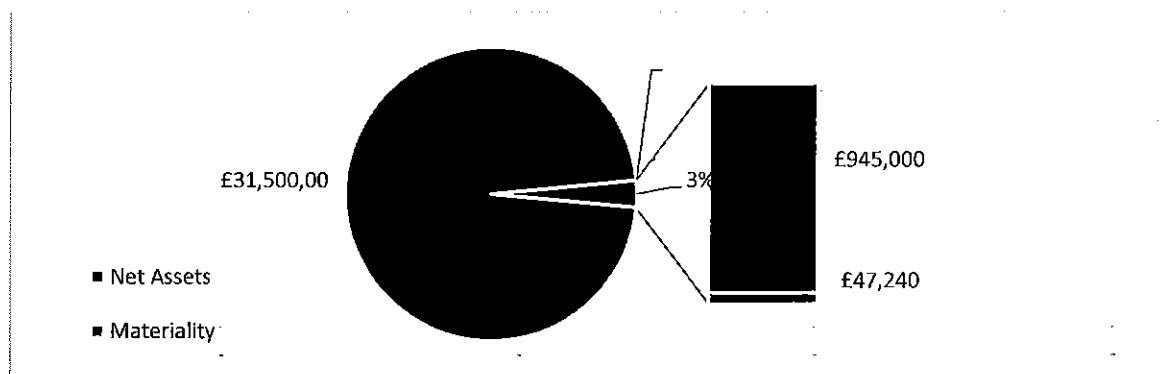
### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS - continued

#### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£945k
Basis for determining materiality	3% of net assets.
Rationale for the benchmark applied	This company is not a trading company and therefore net assets is considered the most appropriate base as its function is to hold listed debt.



We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £47,240, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### An overview of the scope of our audit

Yorkshire Power Finance Limited is a wholly owned subsidiary of Northern Powergrid Holdings Company. The primary purpose of the entity is to obtain external finance to be provided to the remainder of the group. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The focus of our audit work is to test the borrowing and lending activities of the company and associated interest, and to consider the risk of management override of controls. There have been no changes to our audit scope from the prior year.

#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including the Report of the Directors, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS – continued**

**Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Use of our report**

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. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



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

25 April 2018

**YORKSHIRE POWER FINANCE LIMITED****STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
<b>CONTINUING OPERATIONS</b>			
Administrative expenses		<u>(7)</u>	<u>(7)</u>
<b>OPERATING LOSS</b>		<b>(7)</b>	<b>(7)</b>
Finance costs	5	<b>(13,566)</b>	(13,566)
Finance income	5	<b><u>14,017</u></b>	<u>14,058</u>
<b>PROFIT BEFORE INCOME TAX</b>	6	<b>444</b>	485
Income tax	7	<u><b>(85)</b></u>	<u>(97)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>359</u></b>	<b><u>388</u></b>

The notes on pages 16 to 22 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 2017**

	<b>2017</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
<b>PROFIT FOR THE YEAR</b>	<b>359</b>	<b>388</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>—</b>	<b>—</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>359</u></b>	<b><u>388</u></b>

The notes on pages 16 to 22 form part of these financial statements

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

**STATEMENT OF FINANCIAL POSITION  
31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'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>33,873</u>	<u>33,400</u>
		<u>39,557</u>	<u>39,084</u>
<b>TOTAL ASSETS</b>		<u><b>221,287</b></u>	<u><b>220,814</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>11,493</u>	<u>11,134</u>
<b>TOTAL EQUITY</b>		<u><b>31,493</b></u>	<u><b>31,134</b></u>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Borrowings			
Interest bearing loans and borrowings	12	<u>184,260</u>	<u>184,143</u>
<b>CURRENT LIABILITIES</b>			
Borrowings			
Interest bearing loans and borrowings	12	5,492	5,492
Tax payable		<u>42</u>	<u>45</u>
		<u>5,534</u>	<u>5,537</u>
<b>TOTAL LIABILITIES</b>		<u><b>189,794</b></u>	<u><b>189,680</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>221,287</b></u>	<u><b>220,814</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 24 April 2018 and were signed on its behalf by:



P A Jones  
Director

The notes on pages 16 to 22 form part of these financial statements

**YORKSHIRE POWER FINANCE LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	<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 2016</b>	1	10,746	19,999	30,746
<b>Changes in equity</b>				
Total comprehensive income	-	388	-	388
<b>Balance at 31 December 2016</b>	1	11,134	19,999	31,134
<b>Changes in equity</b>				
Total comprehensive income	-	359	-	359
<b>Balance at 31 December 2017</b>	1	11,493	19,999	31,493

The notes on pages 16 to 22 form part of these financial statements



**YORKSHIRE POWER FINANCE LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>			
Cash used in operations	14	(7)	(7)
Interest paid		(13,449)	(13,449)
Interest received		14,017	14,058
Tax paid		<u>(88)</u>	<u>(101)</u>
Net cash from operating activities		<u>473</u>	<u>501</u>
 <b>Increase in cash and cash equivalents</b>		 473	 501
 <b>Cash and cash equivalents at beginning of year</b>		 <u>33,400</u>	 <u>32,899</u>
 <b>Cash and cash equivalents at end of year</b>	9	 <u>33,873</u>	 <u>33,400</u>

The notes on pages 16 to 22 form part of these financial statements

## **YORKSHIRE POWER FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **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. The company is limited by shares.

#### **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.

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 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; 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.

##### **Capital management**

The Group manages its capital centrally to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

The capital structure of the Company consists of net debt (borrowings as detailed in note 12) offset by cash and cash equivalents (detailed in note 9) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 10 and 11).

## **YORKSHIRE POWER FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017**

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

##### **Capital management - continued**

The Company is not subject to externally imposed capital requirements

##### **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.

##### **Judgements in applying accounting policies and key sources of estimation uncertainty**

The fair value of amounts borrowed from other Group undertakings included in the financial statements involves the use of judgement. These judgements are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from the amounts included in the financial statements. There are no other areas where judgements or estimation uncertainty are applicable.

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

Amendments to IFRSs made by the International Accounting Standards Board ("IASB") that are effective mandatorily for an accounting period that begins on or after 1 January 2017:

- Annual Improvements to IFRS 2014-2016 Cycle.

The Annual Improvements to IFRS 2014-2016 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 2017. The directors of the Company do not anticipate that the application of the new and revised IFRS will have a material 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.

##### **Finance income**

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

## YORKSHIRE POWER FINANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

#### 2. ACCOUNTING POLICIES- continued

##### 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.

#### 3. FINANCE INCOME

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

	2017 £'000	2016 £'000
Investment revenue (note 5)	<u>14,017</u>	<u>14,058</u>

#### 4. EMPLOYEES AND DIRECTORS

No directors' or key personnel remuneration was charged for the year (2016: £nil). There are no directors' emoluments that are required to be disclosed under the Act (2016: £nil).

There were no employees of the Company during the year (2016: nil).

#### 5. NET FINANCE INCOME

	2017 £'000	2016 £'000
Finance income:		
Interest receivable on amounts owed by Group undertakings	<u>14,017</u>	<u>14,058</u>
Finance costs:		
Interest payable on other loans	<u>13,566</u>	<u>13,566</u>
Net finance income	<u>451</u>	<u>492</u>

# YORKSHIRE POWER FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

### 6. PROFIT BEFORE INCOME TAX

Analysis of auditor's remuneration is as follows:

	2017 £'000	2016 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>7</u>	<u>7</u>
Total fees payable to the Company's auditor	<u>7</u>	<u>7</u>

### 7. INCOME TAX

Analysis of tax expense

	2017 £'000	2016 £'000
Current tax	<u>85</u>	<u>97</u>
Total tax expense in statement of profit or loss at 19.25% (2016: 20%)	85	97
	2017 £'000	2016 £'000
Tax expense comprises:		
Payment for use of group losses	<u>85</u>	<u>97</u>

Finance Act No.2 2015 included provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from 1 April 2020.

### 8. TRADE AND OTHER RECEIVABLES

	Book Value		Fair Value	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Non-current:				
Amounts owed by Group undertakings	<u>181,730</u>	<u>181,730</u>	<u>270,423</u>	<u>272,740</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>276,107</u>	<u>278,424</u>

# YORKSHIRE POWER FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

### 8. TRADE AND OTHER RECEIVABLES -continued

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 liquidity risk, credit risk, and market risk associated with these receivables, and the management thereof, is covered within Financial Risk Management on page 3 of these financial statements. The maximum exposure to risk to the Company is the book value of these loans.

### 9. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Short-term deposits	<u>33,873</u>	<u>33,400</u>

Cash and cash equivalents represent 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.

### 10. CALLED UP SHARE CAPITAL

	2017 £'000	2016 £'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	Total £'000
At 1 January 2017	11,134	19,999	31,133
Profit for the year	<u>359</u>	<u>-</u>	<u>359</u>
At 31 December 2017	<u>11,493</u>	<u>19,999</u>	<u>31,492</u>
	Retained earnings £'000	Share premium £'000	Total £'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>

# YORKSHIRE POWER FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

### 12. BORROWINGS

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

	Book Value		Fair Value	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans	<u>189,752</u>	<u>189,635</u>	<u>274,463</u>	<u>276,344</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>184,260</u>	<u>184,143</u>	<u>268,971</u>	<u>270,852</u>
	<u>189,752</u>	<u>189,635</u>	<u>274,463</u>	<u>276,344</u>
Analysis of borrowings:				
Sterling denominated Eurobonds due 2028 - 7.25%	<u>189,752</u>	<u>189,635</u>	<u>274,463</u>	<u>276,344</u>

The Company's 7.25% sterling denominated Eurobonds due 2028 are guaranteed by Yorkshire Power Group Limited, its immediate parent company, and their fair value 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 liquidity risk, credit risk, and market risk associated with these borrowings, and the management thereof, is covered within Financial Risk Management on page 3 of these financial statements.

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.

	Less than 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2017:					
Fixed interest rate liability	<u>-</u>	<u>13,449</u>	<u>53,795</u>	<u>266,192</u>	<u>333,436</u>
2016:					
Fixed interest rate liability	<u>-</u>	<u>13,449</u>	<u>53,795</u>	<u>279,641</u>	<u>346,885</u>

# YORKSHIRE POWER FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - continued FOR THE YEAR ENDED 31 DECEMBER 2017

### 13. RELATED PARTY DISCLOSURES

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

Related Party	Finance income from related parties £'000	Amounts owed by related parties £'000
2017:		
Yorkshire Power Group Limited	13,921	187,414
Yorkshire Electricity Group plc	96	33,873
	<u>14,017</u>	<u>221,287</u>
2016:		
Yorkshire Power Group limited	13,921	187,414
Yorkshire Electricity Group plc	137	33,400
	<u>14,058</u>	<u>220,814</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 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

	2017 £'000	2016 £'000
Profit before income tax	444	485
Finance costs	13,566	13,566
Finance income	<u>(14,017)</u>	<u>(14,058)</u>
Cash used in operations	<u>(7)</u>	<u>(7)</u>

### 15. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking of the Company is Yorkshire Power Group Limited. The ultimate controlling party and ultimate parent undertaking of Yorkshire Power Group Limited is Berkshire Hathaway, Inc., (3555 Farnam Street, Omaha, Nebraska 68131), 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 the Company 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.