Registration number: CR 75763 (Cayman Islands)

Yorkshire Power Finance Limited

Non-Statutory Directors' Report and Financial Statements

for the Year Ended 31 December 2018

Yorkshire Power Finance Limited
Company Information

Directors	T E Fielden T H France P A Jones S J Lockwood
Company secretary	M & C Corporate Services Limited
Registered office	P O 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

During and as at the end of the year, none of the directors was interested in any contract, which was significant in relation to the business of the Company.

During the year and up to the date of approval of the Report of the Directors, an indemnity contained in the Company's Articles of Association was in force for the benefit of the directors of the Company and as directors of associated companies, which was a qualifying indemnity provision for the purposes of the Companies Act 2006.

FUTURE DEVELOPMENTS AND FUTURE OUTLOOK

The financial position of the Company, as at the year end, is shown in the Statement of Financial Position on page 12. There have been no significant events since the year end. There are no plans to change the existing business model.

RESEARCH AND DEVELOPMENT

The Company does not undertake research and development.

POLITICAL DONATIONS

During the year, no contributions were made to political organisations (2017: £nil).

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 N Reynolds - Non-executive Director - Northern Powergrid Holdings Company (Chairman)
- T E Fielden - Finance Director
- M Knowles - Independent member - Northern Powergrid Holdings Company (appointed 17 July 2018)

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 Company's 7.25% £200 million 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:

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 is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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.

REAPPOINTMENT OF 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.

Approved by the Board on 15 April 2019 and signed on its behalf by:

....

P A Jones
Director

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 the 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.

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.

Valuation of loans and the associated interest

Key audit matter description

The company acts as a financing company within the group, therefore, the largest balances in the financial statements relate to the borrowings and the associated interest. As disclosed in note 12 to the financial statements, borrowings as at 31 December 2018 totalled £189 million (2017: £189m) and consist of the 2028 7.25% bonds. The associated interest payable on these loans for the year ended 31 December 2018 is disclosed in note 5 to the financial statements. The accounting policy as disclosed in note 2.

The key inputs into the calculation of the value of the loan and associated interest include the amortisation of initial costs and the effective interest rate.

How the scope of the audit responded to the key audit matter

In response to this key audit matter, we have completed the following procedures:

- analysis of the original loan agreements to assess whether the value of the loan is in compliance with IFRS requirements: and
- recalculation of amortised costs and analysis of the effective interest rate, comparing it to prior year and reviewing whether the base calculation was correct.

Key observations

Based on the work performed, no material differences were identified. We have therefore concluded that the valuation of borrowings and associated interest are appropriate and in line with IFRS requirements.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 FRC's website at: 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

26 April 2019

Yorkshire Power Finance Limited
Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000	2017 £ 000
Profit for the year	445	359
Total comprehensive income for the year	445	359

The notes on pages 15 to 30 form an integral part of these financial statements.

Yorkshire Power Finance Limited
Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Retained earnings £ 000	Share premium £ 000	Total £ 000
At 1 January 2018	1	11,493	19,999	31,493
Profit for the year	-	445	-	445
Total comprehensive income	-	445	-	445
Dividends	-	(11,899)	-	(11,899)
At 31 December 2018	1	39	19,999	20,039

	Share capital £ 000	Retained earnings £ 000	Share premium £ 000	Total £ 000
At 1 January 2017	1	11,134	19,999	31,134
Profit for the year	-	359	-	359
Total comprehensive income	-	359	-	359
At 31 December 2017	1	11,493	19,999	31,493

1 General information

The Company is a public company limited by share capital, incorporated and domiciled in Cayman Islands and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group").

The address of its registered office is P O Box 309, Ugland House, South Church Street, George Town, Grand Cayman.

2 Accounting policies

Statement of compliance
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.

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

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;

2 Accounting policies (continued)

IFRS 16 - Leases (1 January 2019)
IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 distinguishes between leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases and finance leases are removed for lessee accounting, and are replaced by a model where right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short term leases and leases of low-value assets. As of 31 December 2018, the Company has no non-cancellable operating leases.

None of the other standards, interpretations and amendments which are effective for periods beginning after 1 January 2018 and which have not been adopted early, are expected to have a material effect on the financial statements.

Finance income and costs policy
All borrowing costs are recognised in profit or loss in the period which they are incurred.

Tax
The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

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.

Trade receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

2 Accounting policies (continued)

Classification and measurement
Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)
A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:
· the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

2 Accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities
If the terms of a financial liabilities are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment and the valuation of financial instruments as explained in more detail below.

Provisions for impairment

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

8 Income tax

Tax charged in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	104	85

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2017 - the same as the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	549	444
Corporation tax at standard rate	104	85
Total tax charge	104	85

Finance Act No.2 2015 included provisions to reduce the corporation tax from 20% 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.

Deferred Taxation

The Company has no deductible temporary differences, unused tax losses nor unusued tax credits for which no deferred tax asset is recognised in the Statement of Financial Position.

9 Trade and other receivables

	31 December 2018 £ 000	31 December 2017 £ 000
Current trade receivables		
Interest receivable from Group undertakings	5,684	5,684
	5,684	5,684
Non-current trade receivables		
Amounts owed by Group undertakings	181,730	181,730
	187,414	187,414

12 Reserves

	Retained earnings £ 000
At 1 January 2018	11,493
Profit for the year	445
Total comprehensive income	445
Dividends	(11,899)
At 31 December 2018	39

	Retained earnings £ 000
At 1 January 2017	11,134
Profit for the year	359
Total comprehensive income	359
At 31 December 2017	11,493

13 Loans and borrowings

	31 December 2018 £ 000	31 December 2017 £ 000
Non-current loans and borrowings		
Bonds	184,378	184,260
Current loans and borrowings		
Bonds	5,492	5,492
	189,870	189,752

	Book value		Fair value	
	31 December 2018 £ 000	31 December 2017 £ 000	31 December 2018 £ 000	31 December 2017 £ 000
2028 - 7.25% bonds	189,870	189,752	263,212	274,463

16 Classification of financial and non-financial assets and financial and non-financial liabilities

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2018 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000	Non-financial assets & liabilities £ 000
Assets			
Non-current assets			
Trade and other receivables	181,730	-	-
Current assets			
Trade and other receivables	5,684	-	-
Cash and cash equivalents	22,545	-	-
	28,229	-	-
Total assets	209,959	-	-
Liabilities			
Non-current liabilities			
Loans and borrowings	-	(184,378)	-
Current liabilities			
Loans and borrowings	-	(5,492)	-
Income tax liability	-	-	(50)
	-	(5,492)	(50)
Total equity and liabilities	-	(189,870)	(50)

17 Financial risk review (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

There is no expected credit loss as the receivables are with a related party, Yorkshire Power Group Ltd., which, through its investment in Yorkshire Electricty Group plc, owns Northern Powergrid (Yorkshire) plc, an investment grade company within the Northern Powergrid Group.

Liquidity risk

Ultimate responsibility of liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium, and long-term funding and liquidity management requirements. The Company manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Maturity analysis for financial liabilities and financial assets

The following tables set out the remaining contractual maturities of the company's financial assets and financial liabilities by type.

2018 Non-derivative liabilities	Total outflow £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000
Fixed interest rate liability	319,988	13,449	53,795	252,744

2017 Non-derivative liabilities	Total outflow £ 000	3 months - 1 year £ 000	1-5 years £ 000	More than 5 years £ 000
Fixed interest rate liability	333,436	13,449	53,795	266,192

Market risk

The Company's activities do not expose it to significant financial risks of changes in foregin currency exchange rates and interest rates. Materially all income and expenses are denominated in pound sterling. All loans are at fixed interest rates and expose the Company to fair value interest rate risk.