

Registration number: CR 75763 (Cayman Islands)

Yorkshire Power Finance Limited

Non-Statutory Directors' Report and Financial Statements

for the Year Ended 31 December 2022

Yorkshire Power Finance Limited

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4 to 7
Independent Auditor's Report	8 to 17
Income Statement	18
Statement of Financial Position	19
Statement of Changes in Equity	20
Statement of Cash Flows	21
Notes to the Financial Statements	22 to 44

Yorkshire Power Finance Limited
Company Information

Directors	T H France A P Jones P A Jones
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

Yorkshire Power Finance Limited

Strategic Report for the Year Ended 31 December 2022

The directors present the non-statutory annual report and audited financial statements of Yorkshire Power Finance Limited (the "Company") for the year ended 31 December 2022.

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 £200 million 7.25% Bonds due in 2028.

BUSINESS REVIEW

The Company (which is registered in the Cayman Islands) is part of the Northern Powergrid Holdings Company and its subsidiaries group of companies (the "Northern Powergrid Group") and acts as the issuer of long-term debt securities in order to raise finance for Yorkshire Power Group Limited ("YPG"), its immediate parent company, and other companies in the Northern Powergrid Group. The bonds are guaranteed by both YPG and Yorkshire Electricity Group plc. The Company met its obligation to make the annual interest payment required by its debt securities on 4 August 2022.

The profit after tax for the financial year ended 31 December 2022 was £491,000 (2021: £280,000). The favourable variance was mainly an increase in finance income due to higher floating rates on interest.

Net assets as at 31 December 2022 of £21.5 million (31 December 2021: £21.1 million) increased by £0.4 million due to profits earned in the year.

KEY PERFORMANCE INDICATORS

The directors manage the Company's operations on a Northern Powergrid Group basis. Accordingly, the development, performance and position of the Company, are discussed in the annual report and financial statements of Northern Electric plc.

SECTION 172(1) STATEMENT

The information pursuant to Section 414CZA of the Companies Act 2006 which describes how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172 is set out below:

- (a) the likely consequences of any decision in the long term. Decisions are made with due regard to the principal activity of the Company and the wider impact upon the Northern Powergrid Group.
- (b) the interests of the Company's employees. The Company does not have any employees.
- (c) the need to foster the Company's business relationships with suppliers, customers and others. The Company does not have customers or interact with suppliers. Relationships with bond holders are managed by the Northern Powergrid Group's treasury department and the relevant bond trustee.
- (d) the impact of the Company's operations on the community and the environment. The Company's operation has negligible impact on the community and environment.
- (e) the desirability of the Company maintaining a reputation for high standards of business conduct. In common with Northern Powergrid Group, the Company has adopted the Berkshire Hathaway Energy Company's Core Principles which includes Regulatory Integrity. This requires the Company's affairs are managed in accordance with the highest behavioural standards and adherence to a policy of strict compliance with all relevant standards, legislation and regulatory conditions.
- (f) the need to act fairly between members of the Company. The Company has one class of shares which are held by Yorkshire Power Group Limited (99%) and Yorkshire Electricity Group Plc (1%), companies owned by the Northern Powergrid Group.

Yorkshire Power Finance Limited
Strategic Report for the Year Ended 31 December 2022 (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties of the Company are integrated with the principal risks of the Northern Powergrid Group and are not managed separately. Accordingly, the principal risks and uncertainties, which include those of the Company, are discussed in the annual report and financial statements of Northern Electric plc.

Approved by the Board on 28 April 2023 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'A P Jones', with a horizontal line extending to the right.

A P Jones
Director

Yorkshire Power Finance Limited

Directors' Report for the Year Ended 31 December 2022

The directors present their report with the audited financial statements of the Company for the year ended 31 December 2022.

DIVIDENDS

During the year no dividend was paid (2021: £nil). The directors recommend that no final dividend be paid in respect of the year (2021: £nil).

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. In addition, the level of dividends is set to maintain sufficient equity in the Company so as not to jeopardise its investment grade issuer credit rating.

DIRECTORS OF THE COMPANY

The directors, who held office during the year from 1 January 2022, and up to the date of signing, were as follows:

T H France
A P Jones (appointed 14 April 2022)
P A Jones

During and as the end of the year, none of the directors had an interest in any contract which was material 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 third party 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. 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.

FINANCIAL RISK MANAGEMENT

Details of financial risks are covered in Note 18, within the notes to the financial statements.

POLITICAL DONATIONS

During the year, no contributions were made to political organisations (2021: £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") and to set out the information required by DTR 7.2.5R in a separate statement, a copy of which can be found on the Northern Powergrid Group's corporate website.

Yorkshire Power Finance Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

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 (Chairman)
- M Knowles - Independent member
- S J Lockwood - Director of Finance (Interim) (resigned 14 April 2022)
- A P Jones - Finance Director (appointed 20 April 2022)

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 (IASB'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:

- 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 and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible 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

Directors' Report for the Year Ended 31 December 2022 (continued)

GOING CONCERN

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Northern Powergrid Group, and companies may lend within the Northern Powergrid Group. For that reason, financial health is considered with reference to the Northern Powergrid Group. Those entities with net current liabilities position obtaining a letter of support from Northern Powergrid Holdings Company.

When considering whether to continue to adopt the going concern basis in preparing the annual report and financial statements, the directors have taken into account a number of factors, including the following:

- The Northern Powergrid Group's main subsidiaries, NPg Northeast and NPg Yorkshire, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority (“GEMA”). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, NPg Northeast and NPg Yorkshire hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 18 years and has access to short-term committed borrowing facilities of £242 million provided by Barclays Bank plc, Lloyds Bank plc, HSBC UK Bank plc and Royal Bank of Canada;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options including the capital markets. A successful bond issue by the Northern Powergrid Group in April 2022, demonstrates that the Northern Powergrid Group’s bonds remain attractive to investors and there is an active market with strong appetite to invest;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in NPg Northeast plc and NPg Yorkshire plc licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Northern Powergrid Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company, being an integral part of the Northern Powergrid Group, and the Northern Powergrid Group have 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 financial statements.

Yorkshire Power Finance Limited
Directors' Report for the Year Ended 31 December 2022 (continued)

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO DTR 4

Each of the directors as at the date of the annual reports and financial statements, whose names are set out on page 4 in the Directors' Report confirms that, to the best of their knowledge:

- 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
- The Management Report (which is comprised of the Directors' Report) 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.

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.

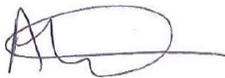
This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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 28 April 2023 and signed on its behalf by:



A P Jones
Director

Yorkshire Power Finance Limited
Independent Auditor's Report to the Members of Yorkshire Power Finance Limited
Report on the audit of the financial statements

1.Opinion

In our opinion the financial statements of Yorkshire Power Finance Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the UK Companies Act 2006 which would have been applied if the financial statements were United Kingdom statutory financial statements.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

2.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 Financial Reporting Council's (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.

Yorkshire Power Finance Limited

Independent Auditor's Report to the Members of Yorkshire Power Finance Limited

(continued)

3. Summary of our audit approach

Key audit matters

The key audit matter that we identified in the current year was:

- Valuation of borrowings and the associated interest.

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality

The materiality that we used in the current year was £283,000 which was determined on the basis of 2% of interest income.

Scoping

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Significant changes in our approach

There have been no significant changes in our approach from the previous year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The company is a subsidiary of the group headed by Northern Powergrid Holdings Company (the 'Powergrid group') and the going concern of the company is closely linked to the Powergrid group. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting has therefore been performed at the Powergrid group level, supplemented with procedures specific to the company, and included:

- Reviewing financing facilities by understanding the cash flows of the entity, analysing the borrowing agreement, and assessing the guarantees in place, including the ability of Northern Powergrid (Yorkshire) Plc to repay the obligations of Yorkshire Power Finance Limited;
- Analysing the current and forecast performance of the Northern Powergrid (Yorkshire) Plc, by assessing management's assumptions and sensitivity analysis against the budgets prepared for the next 12 months after the annual report issue date;
- Assessing the impact of the current macroeconomic conditions such as inflation on Northern Powergrid (Yorkshire) Plc; and
- Evaluating the sophistication of the model used to prepare the forecasts prepared by the Group, testing of clerical accuracy of those forecasts and assessing the historical accuracy of forecasts prepared by management; and
- Assessing the appropriateness of the going concern disclosures in the financial statements.

Yorkshire Power Finance Limited

Independent Auditor's Report to the Members of Yorkshire Power Finance Limited

(continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5.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.

5.1.Valuation of borrowings and the associated interest

Key audit matter description

The company acts as a financing company within the Northern Powergrid group, therefore, the largest balances in the financial statements relate to the borrowings and the associated interest reported, both of which are determined in accordance with IFRS 9 with reference to the relevant underlying loan agreements.

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. There is a risk that the balance is materially misstatement due to the information not being presented in line with the agreement, or the miscalculation of the amortised costs and effective interest rate

As disclosed in Note 13 to the financial statements, borrowings as at 31 December 2022 totalled £190m (2021: £190m) and consist of the 2028 7.25% bonds. The associated interest payable on these loans for the year ended 31 December 2022 is disclosed in Note 5 to the financial statements. The accounting policy is disclosed in Note 2 to the financial statements.

How the scope of our 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 9 requirements;
- Recalculation of amortised costs and analysis of the effective interest rate, comparing it to prior year and assessing whether the base calculation was appropriate; and
- Evaluation of the disclosures made in the financial statements in line with IFRS 9.

Key observations

Based on the work performed, we concluded that the valuation of borrowing and associated interest was appropriate and in line with the requirements of IFRS 9.

Yorkshire Power Finance Limited

Independent Auditor's Report to the Members of Yorkshire Power Finance Limited (continued)

6. Our application of materiality

6.1. Materiality

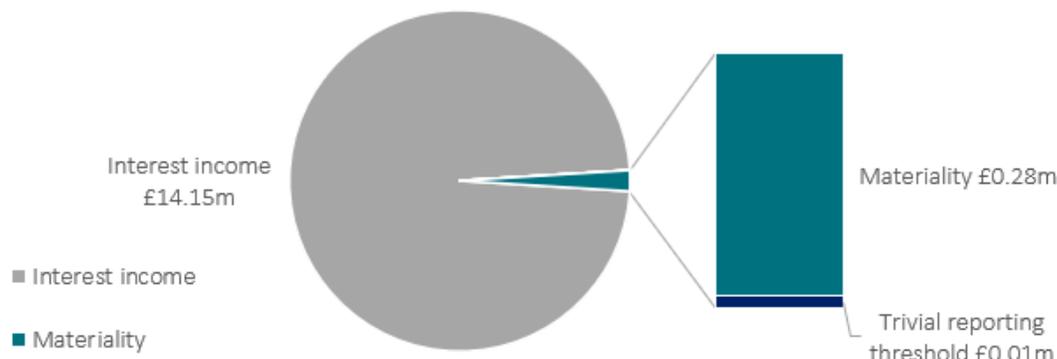
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

Materiality: £283,000 (2021: £278,000)

Basis for determining materiality: 2% of interest receivable (2021: 2% of interest receivable)

Rationale for the benchmark applied: The company is a wholly owned subsidiary used as a financing company, for the group. The entity, therefore, manages group financing (borrowing and lending) which are the key areas of interest for the group company. Interest receivables is the main source of income for the entity which allows the entity to pay off their liabilities. The interest income balance is hence the main focus area for the holding company who is the main user of the financial statements of the company.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the company's overall control environment; and
- Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Board of Directors that we would report to the board all audit differences in excess of £0.01 million (2021 £0.01 million), 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.

Yorkshire Power Finance Limited
Independent Auditor's Report to the Members of Yorkshire Power Finance Limited
(continued)

7. An overview of the scope of our audit

The company is a subsidiary of Northern Powergrid Holdings Company and is operated by the shared finance function at the group's head office located in Newcastle upon Tyne. Our audit was scoped by obtaining an understanding of the Company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Yorkshire Power Finance Limited
Independent Auditor's Report to the Members of Yorkshire Power Finance Limited
(continued)

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

9. 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.

10. 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.

Yorkshire Power Finance Limited
Independent Auditor's Report to the Members of Yorkshire Power Finance Limited
(continued)

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- Results of our enquiries of management, internal audit and the Board about their own identification and assessment of the risks of irregularities;
- Any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - o Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - o Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - o The internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- The matters discussed among the audit engagement team and relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

Yorkshire Power Finance Limited
Independent Auditor's Report to the Members of Yorkshire Power Finance Limited
(continued)

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Enquiring of management, the Board of Directors and legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Yorkshire Power Finance Limited
Independent Auditor's Report to the Members of Yorkshire Power Finance Limited
(continued)

Report on other legal and regulatory requirements

12. Opinions on other matters under the terms of our engagement letter

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

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and the directors' report have 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 strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the terms of our engagement letter we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the terms of our engagement letter we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Yorkshire Power Finance Limited
Independent Auditor's Report to the Members of Yorkshire Power Finance Limited
(continued)

14. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

A handwritten signature in black ink that reads "Anthony Matthews". The signature is written in a cursive style and is underlined with a single horizontal line.

Anthony Matthews FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP,
Statutory Auditor
Newcastle upon Tyne
United Kingdom

28 April 2023

Yorkshire Power Finance Limited
Income Statement for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Administrative expenses		<u>(23)</u>	<u>(21)</u>
Operating loss		(23)	(21)
Finance costs	5	(13,566)	(13,566)
Finance income	5	<u>14,198</u>	<u>13,933</u>
Profit before tax		609	346
Income tax expense	8	<u>(118)</u>	<u>(66)</u>
Profit for the year		<u><u>491</u></u>	<u><u>280</u></u>

There has been no other comprehensive income during the year (2021: £nil).

Yorkshire Power Finance Limited
(Registration number: CR 75763 (Cayman Islands))
Statement of Financial Position as at 31 December 2022

	Note	31 December 2022 £ 000	31 December 2021 £ 000
Assets			
Non-current assets			
Trade and other receivables	9	181,730	181,730
Current assets			
Trade and other receivables	9	5,684	5,684
Cash and cash equivalents	10	24,480	23,858
		<u>30,164</u>	<u>29,542</u>
Total assets		<u>211,894</u>	<u>211,272</u>
Equity and liabilities			
Equity			
Share capital	11	(1)	(1)
Share premium		(19,999)	(19,999)
Retained earnings		(1,542)	(1,051)
Total equity		<u>(21,542)</u>	<u>(21,051)</u>
Non-current liabilities			
Loans and borrowings	13	(184,847)	(184,729)
Current liabilities			
Loans and borrowings	13	(5,492)	(5,492)
Income tax liability		(13)	-
		<u>(5,505)</u>	<u>(5,492)</u>
Total liabilities		<u>(190,352)</u>	<u>(190,221)</u>
Total equity and liabilities		<u>(211,894)</u>	<u>(211,272)</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.

Approved by the Board on 28 April 2023 and signed on its behalf by:



A P Jones
Director

Yorkshire Power Finance Limited
Statement of Changes in Equity for the Year Ended 31 December 2022

	Share capital £ 000	Retained earnings £ 000	Share premium £ 000	Total £ 000
At 1 January 2022	1	1,051	19,999	21,051
Profit for the year	-	491	-	491
Total comprehensive income	-	491	-	491
At 31 December 2022	1	1,542	19,999	21,542
	Share capital £ 000	Retained earnings £ 000	Share premium £ 000	Total £ 000
At 1 January 2021	1	771	19,999	20,771
Profit for the year	-	280	-	280
Total comprehensive income	-	280	-	280
At 31 December 2021	1	1,051	19,999	21,051

The notes on pages 22 to 44 form an integral part of these financial statements.

Yorkshire Power Finance Limited
Statement of Cash Flows for the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Cash flows from operating activities			
Profit for the year		491	280
Adjustments to cash flows from non-cash items			
Finance income	5	(14,198)	(13,933)
Finance costs	5	13,566	13,566
Income tax charge	8	118	66
Cash used in operations		(23)	(21)
Interest received	5	14,198	13,933
Income taxes paid	8	(105)	(63)
Net cash (outflow)/inflow from operating activities		<u>14,070</u>	<u>13,849</u>
Cash flows used in financing activities			
Interest paid	5	<u>(13,448)</u>	<u>(13,449)</u>
Net increase in cash and cash equivalents		622	400
Cash and cash equivalents at 1 January		<u>23,858</u>	<u>23,458</u>
Cash and cash equivalents at 31 December		<u><u>24,480</u></u>	<u><u>23,858</u></u>

Yorkshire Electricity Group plc, a Northern Powergrid Group company, acting on behalf of other group companies was authorised to settle various liabilities against the relevant intercompany accounts. The Company has disclosed the underlying cash flows as operating, investing or financing according to their nature on the basis that, as a principal, the entity has the right to the cash inflows and/or the obligation to settle the liability and ensure clarity of disclosure of the cash costs of the business.

Yorkshire Power Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 General information

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

The address of its registered office is P O Box 309, Uglan 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 IFRS as adopted by the IASB 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.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

Yorkshire Power Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Going Concern

The Northern Powergrid Group is financed both in its operating companies and in other entities within the Northern Powergrid Group, and companies may lend within the Northern Powergrid Group. For that reason, financial health is considered with reference to the Northern Powergrid Group. Those entities with net current liabilities position obtaining a letter of support from Northern Powergrid Holdings Company.

When considering whether to continue to adopt the going concern basis in preparing the annual report and financial statements, the directors have taken into account a number of factors, including the following:

- The Northern Powergrid Group's main subsidiaries, NPg Northeast and NPg Yorkshire, are stable electricity distribution businesses operating an essential public service and are regulated by the Gas and Electricity Markets Authority (“GEMA”). In carrying out its functions, GEMA has a statutory duty under the Electricity Act 1989 to have regard to the need to secure that licence holders are able to finance the activities, which are the subject of obligations under Part 1 of the Electricity Act 1989 (including the obligations imposed by the electricity distribution licence) or by the Utilities Act 2000;
- The Northern Powergrid Group is profitable with strong underlying cash flows. Northern Powergrid Holdings Company, NPg Northeast and NPg Yorkshire hold investment grade credit ratings;
- The Northern Powergrid Group is financed by long-term borrowings with an average maturity of 18 years and has access to short-term committed borrowing facilities of £242 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group benefits from strong investment-grade credit ratings which allow access to a range of financing options including the capital markets. A successful bond issue by the Northern Powergrid Group in April 2022 demonstrates that the Northern Powergrid Group’s bonds remain attractive to investors and there is an active market with string appetite to invest;
- The Northern Powergrid Group has prepared forecasts which taking into account reasonable possible changes in trading performance, show that the Northern Powergrid Group has sufficient resources to settle its liabilities as they fall due for at least the 12 months from the date of these accounts. The directors have had discussions with the bank who have indicated that they would continue to provide the short-term facilities to the Northern Powergrid Group for the foreseeable future on acceptable terms; and
- Consideration was also given to the obligations contained in NPg Northeast plc and NPg Yorkshire plc licences to provide Ofgem with annual certificates, confirming that the directors have a reasonable expectation that the Northern Powergrid Group will have sufficient financial and operational resources available for the continuation of business for a period of at least 12 months.

Consequently, after making enquiries, the directors have a reasonable expectation that the Company, being an integral part of the Northern Powergrid Group, and the Northern Powergrid Group have 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 financial statements.

Finance income and costs policy

All borrowing costs are recognised in profit or loss in the period which they are incurred.

Yorkshire Power Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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 loaned to companies within the Northern Powergrid Group and the related accrued interest. 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.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Yorkshire Power Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The Company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss (FVTPL) are recognised on the trade date, i.e. the date on which the Company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

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 FVTPL.

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at 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:

Yorkshire Power Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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 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 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 FVTPL

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at FVTPL

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Derecognition

Financial assets

The Company derecognises a financial asset when;

- the contractual rights to the cash flows from the financial asset expire;
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the Company derecognises transferred financial assets in their entirety, but has continuing involvement in them then the entity should disclose for each type of continuing involvement at the reporting date:

- (a) The carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised;
- (b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;
- (c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined; and
- (d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

The Company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments, and
- Accounts and other receivables.

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the Company recognises the lifetime ECL.

The Company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Other financial instruments which relate to amounts owed by Group undertakings are considered by the Company to have a low credit risk.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

Yorkshire Power Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are not recoverable:

- when there is a breach of financial covenants by the debtor; and
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

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.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

Effective for periods beginning on or after 1 January 2022

- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IAS 16: Property, Plant & Equipment - Proceeds before Intended Use
- Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020

These amendments did not have a material impact on the financial statements.

The other amendments have had no material impact on the financial statements including the comparatives.

The directors have considered new accounting standards issued that are not yet applicable and have noted no material changes are likely to arise.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

In the preparation of financial statements in conformity with IFRS the Directors did not identify any critical accounting adjustments and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 Segmental Reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the President and Chief Executive Officer of the Northern Powergrid Group in order to allocate resources to these segments and to assess their performance. In practice, the President and Chief Executive Officer allocates resources and assesses performance based upon the aggregate results of the Company. Revenue, profit before tax and net assets are attributable to financing.

5 Finance income and costs

	2022	2021
	£ 000	£ 000
Finance income		
Interest on loans to Group undertakings	14,198	13,933
Finance costs		
Interest payable on borrowings	<u>(13,566)</u>	<u>(13,566)</u>
Net finance income	<u>632</u>	<u>367</u>

6 Employees and directors

No directors' or key personnel remuneration was charged for the year (2021: £nil). There were no employees during the year (2021: none).

At 31 December 2022 one director accrued benefits under a defined benefit scheme (2021: one) but remuneration was charged to the holding company.

7 Auditor's remuneration

	2022	2021
	£ 000	£ 000
Audit of the financial statements	<u>23</u>	<u>21</u>

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

8 Income tax

Tax charged in the income statement

	2022	2021
	£ 000	£ 000
Current taxation		
UK corporation tax	<u>118</u>	<u>66</u>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2021 - the same as the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022	2021
	£ 000	£ 000
Profit before tax	<u>609</u>	<u>346</u>
Corporation tax at standard rate	115	66
Decrease in current tax from adjustment for prior periods	<u>3</u>	<u>-</u>
Total tax charge	<u>118</u>	<u>66</u>

Finance Act 2021 was enacted on 10 June 2021 and the impact of the Finance Act has increased the rate of corporation tax from 19% to 25% from 1 April 2023. There has been no impact on the above tax charge on the basis the Company does not hold a deferred tax asset/(liability).

There is no uncertainty over the acceptable income tax treatment. Should any uncertainties arise the Company will apply adopted amendments to IFRIC 23.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

9 Trade and other receivables

	31 December 2022 £ 000	31 December 2021 £ 000
Current trade receivables		
Interest receivable from Group undertakings	5,684	5,684
	<u>5,684</u>	<u>5,684</u>
Non-current trade receivables		
Amounts owed by Group undertakings	181,730	181,730
	<u>181,730</u>	<u>181,730</u>
	<u>187,414</u>	<u>187,414</u>

The fair value of the trade and other receivables as at 31 December 2022 is estimated to be £206 million (2021: £251 million), determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions or dealer quotes for similar instruments. The valuation of assets set out above is based on Level 2 inputs. The fair value of the instruments classified as Level 2 was calculated using the discounted cash flow method. The gilt yield and spread of the external bonds with the same maturity in this Company was used for discounting future cash flows. 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.

Amounts owed by Group undertakings represent the value of loans made to Yorkshire Power Group Limited, the Company's immediate parent, and are at a fixed rate of interest of 7.66% with a maturity of 2028. Current trade receivables represent the accrued interest due on these loans. The maximum exposure to risk to the Company is the book value of these loans.

10 Cash and cash equivalents

	31 December 2022 £ 000	31 December 2021 £ 000
Other cash and cash equivalents	24,480	23,858
	<u>24,480</u>	<u>23,858</u>

Cash and cash equivalents represent amounts owed by companies within the Northern Powergrid Group (see related party disclosures note 19), which have a maturity of less than three months, are readily convertible to cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 Share capital

Allotted, called up and fully paid shares

	31 December 2022		31 December 2021	
	No. 000	£ 000	No. 000	£ 000
Ordinary Share Capital of \$1 each	<u>2</u>	<u>1</u>	<u>2</u>	<u>1</u>

The authorised share capital of the Company is 50,000 \$1 shares (2021: 50,000 \$1 shares) with a value of £35k (2021: £35k).

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

12 Reserves

	Retained earnings £ 000
At 1 January 2022	1,051
Profit for the year and other comprehensive income	<u>491</u>
At 31 December 2022	<u>1,542</u>
	Retained earnings £ 000
At 1 January 2021	771
Profit for the year and other comprehensive income	<u>280</u>
At 31 December 2021	<u>1,051</u>

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

13 Loans and borrowings

	31 December 2022 £ 000	31 December 2021 £ 000
Non-current loans and borrowings		
Borrowings	184,847	184,729
Current loans and borrowings		
Borrowings	<u>5,492</u>	<u>5,492</u>
	<u>190,339</u>	<u>190,221</u>

	Book value		Fair value	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
2028 - 7.25% bonds	<u>190,339</u>	<u>190,221</u>	<u>206,117</u>	<u>251,312</u>

The Company's 7.25% sterling denominated Bonds due 2028 are guaranteed by Yorkshire Power Group Limited, its immediate parent company, and their fair value is determined by reference to market prices. Borrowings are measured at amortised cost using the effective interest method.

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 liquidity risk, credit risk, and market risk associated with these borrowings, and the management thereof, is covered within Financial risk review note 18.

14 Dividends

No dividends have been paid nor proposed in the current nor prior year.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 Reconciliation of liabilities arising from financing activities

	At 1 January 2022 £ 000	Other changes £ 000	At 31 December 2022 £ 000
Long-term borrowings	184,729	118	184,847
Short-term borrowings	5,492	-	5,492
	<u>190,221</u>	<u>118</u>	<u>190,339</u>

	At 1 January 2021 £ 000	Other changes £ 000	At 31 December 2021 £ 000
Long-term borrowings	184,612	117	184,729
Short-term borrowings	5,492	-	5,492
	<u>190,104</u>	<u>117</u>	<u>190,221</u>

Other changes relate to amortisation of financing fees.

16 Statement of cash flows - net debt reconciliation

	At 1 January 2022 £ 000	Cash flows £ 000	Other changes £ 000	At 31 December 2022 £ 000
Cash and cash equivalents	23,858	622	-	24,480
Borrowings repayable within one year	(5,492)	-	-	(5,492)
Borrowings repayable after one year	<u>(184,729)</u>	<u>-</u>	<u>(118)</u>	<u>(184,847)</u>
Total Net Debt	<u>(166,363)</u>	<u>622</u>	<u>(118)</u>	<u>(165,859)</u>

	At 1 January 2021 £ 000	Cash flows £ 000	Other changes £ 000	At 31 December 2021 £ 000
Cash and cash equivalents	23,469	397	-	23,866
Borrowings repayable within one year	(5,492)	-	-	(5,492)
Borrowings repayable after one year	<u>(184,612)</u>	<u>-</u>	<u>(117)</u>	<u>(184,729)</u>
Total Net Debt	<u>(166,635)</u>	<u>397</u>	<u>(117)</u>	<u>(166,355)</u>

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 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 2022 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	24,480	-	-
	<u>30,164</u>	<u>-</u>	<u>-</u>
Total assets	<u>211,894</u>	<u>-</u>	<u>-</u>
Liabilities			
Non-current liabilities			
Loans and borrowings	-	(184,847)	-
Current liabilities			
Loans and borrowings	-	(5,492)	-
Income tax liability	-	-	(13)
	<u>-</u>	<u>(5,492)</u>	<u>(13)</u>
Total equity and liabilities	<u>-</u>	<u>(190,339)</u>	<u>(13)</u>

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Classification of financial and non-financial assets and financial and non-financial liabilities (continued)

The classification of financial assets and financial liabilities by accounting categorisation for the period ending 31 December 2021 was as follows:

	Financial assets at amortised cost £ 000	Financial liabilities at amortised cost £ 000
Assets		
Non-current assets		
Trade and other receivables	181,730	-
Current assets		
Trade and other receivables	5,684	-
Cash and cash equivalents	23,858	-
	<u>29,542</u>	<u>-</u>
Total assets	<u>211,272</u>	<u>-</u>
Liabilities		
Non-current liabilities		
Loans and borrowings	-	(184,729)
Current liabilities		
Loans and borrowings	<u>-</u>	<u>(5,492)</u>
Total equity and liabilities	<u>-</u>	<u>(190,221)</u>

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Financial risk review

This note presents information about the Company's exposure to financial risks and the Company's management of capital.

Capital management

The Northern Powergrid Group manages its capital centrally to ensure that entities in the Northern Powergrid 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 Northern Powergrid Group's overall strategy remains unchanged from 2021.

The capital structure of the Company consists of net debt (borrowings as detailed in note 13) offset by cash and cash equivalents (detailed in note 10) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in note 12, the statement of financial position on page 19 and the statement of changes in equity on page 17). The Company has no externally imposed capital requirements.

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 Electricity 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

The following tables set out the remaining contractual maturities of the Company's financial liabilities by type,

2022	Total outflow	3 months - 1	1-5 years	More than 5
Non-derivative liabilities	£ 000	year	£ 000	years
	£ 000	£ 000	£ 000	£ 000
Fixed interest rate liability	266,192	13,449	53,795	198,948

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Financial risk review (continued)

2021	Total outflow	3 months - 1	1-5 years	More than 5
Non-derivative liabilities	£ 000	year	£ 000	years
		£ 000		£ 000
Fixed interest rate liability	279,641	13,449	53,795	212,397

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Financial risk review (continued)

Market risk

The Company's activities do not expose it to significant financial risks of changes in foreign 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.

Yorkshire Power Finance Limited
Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 Related party transactions

Summary of transactions with other related parties

Other subsidiaries of the Northern Powergrid Group. Included within these amounts are:

- Yorkshire Power Group Limited which is the parent company
- Yorkshire Electricity Group plc that operates the group intercompany treasury account.

Loans to related parties

	Parent	Other related parties
	£ 000	£ 000
2022		
At start of period	187,414	23,858
Advanced	-	622
Interest charged	13,921	277
Interest received	(13,921)	(277)
At end of period	<u>187,414</u>	<u>24,480</u>
	Parent	Other related parties
	£ 000	£ 000
2021		
At start of period	187,414	23,458
Advanced	-	400
Interest charged	13,921	12
Interest received	(13,921)	(12)
At end of period	<u>187,414</u>	<u>23,858</u>

20 Parent and ultimate parent undertaking

The Company's immediate parent is Yorkshire Power Group Limited.

The ultimate parent and controlling party is Berkshire Hathaway, Inc. These financial statements are available upon request from 3555 Farnam Street, Omaha, Nebraska 68131.

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Berkshire Hathaway, Inc., incorporated in United States.

The address of Berkshire Hathaway, Inc. is 3555 Farnam Street, Omaha, Nebraska 68131.

The parent of the smallest group in which these financial statements are consolidated is Northern Powergrid Holdings Company, incorporated in United Kingdom.

The address of Northern Powergrid Holdings Company and location where the Northern Powergrid Group financial statements can be obtained is Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF.