

**REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

**FOR
YORKSHIRE POWER FINANCE LIMITED**

REGISTERED NUMBER: CR 75763

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

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FOR THE YEAR ENDED 31 DECEMBER 2013**

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YORKSHIRE POWER FINANCE LIMITED

**COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2013**

DIRECTORS:

G E Abel
P Ainsley
T E Fielden
P J Goodman
P A Jones

COMPANY SECRETARY:

M&C Corporate Services Limited

REGISTERED OFFICE:

PO Box 309
Ugland House
South Church Street
George Town
Grand Cayman

REGISTERED NUMBER:

CR 75763 (Cayman Islands)

AUDITOR:

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

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors present the non-statutory annual report and accounts of Yorkshire Power Finance Limited (the "Company") for the year ended 31 December 2013, which includes the Report of the Directors and the audited, non-statutory financial statements for that year. Pages 2 to 6 inclusive of this annual report comprise a Report of the Directors that has been drawn up and presented in line with the relevant provisions of the United Kingdom Companies Act 2006 ("the Act").

The Company is registered in the Cayman Islands and is a subsidiary of Northern Powergrid Holdings Company, which is incorporated in the United Kingdom. The directors have prepared these non-statutory financial statements to enable the Company to comply with its obligations under an agreement known as the "Trust Deed" pertaining to the issue, management and amortisation of the bond issue of £200 million 7.25% notes due in 2028 and for no other purpose. The directors have elected to prepare these non-statutory financial statements for the Company in accordance with International Financial Reporting Standards ("IFRS") and the provisions of the Act, being the national law of the Member State of the European Union in which Northern Powergrid Holdings Company is incorporated and which would have been applied if the financial statements were United Kingdom statutory financial statements.

Cautionary statement regarding forward-looking statements

This annual report has been prepared for the members of the Company only. The Company, its directors, employees or agents do not accept or assume responsibility to any other person in connection with this document and any such responsibility or liability is expressly disclaimed. This annual report contains certain forward-looking statements, which can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, business prospects, the availability of financing to the Company and anticipated cost savings are forward-looking statements.

By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances, which may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this annual report and will not be updated during the year. Nothing in this annual report should be construed as a profit forecast.

REVIEW OF THE YEAR

The Company acts as the issuer of long-term debt securities in order to raise finance for Yorkshire Power Group Limited, its immediate parent company, and other companies in the Northern Powergrid Holdings Company group (the "Northern Powergrid Group"), including Northern Powergrid (Yorkshire) plc. The Company's financial instruments include borrowings and loans. In that respect, the Company met its obligation to make the annual interest payment on its debt securities on 5 August 2013.

Given that the sole purpose of the Company is to raise finance on behalf of companies in the Northern Powergrid Group, the business of the Company is not sufficiently large or complex for analysis of key performance indicators to be appropriate as part of gaining an understanding of the operation of the Company. Details of key performance indicators used in the Northern Powergrid Group can be found in the Strategic Report in the Northern Powergrid Holdings Company reports and financial statements.

Details of the key risks faced by the Company in respect of its borrowings can be found on page 3 of this Report of the Directors and in Note 10 to the accounts.

Financial review

Results and dividends

The Company made a profit after tax for the year of £387,000 (2012: £412,000). No dividend was paid during the year (2012: £Nil) and the directors recommend that no final dividend be paid in respect of the year.

Share capital

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

Dividend policy

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

Financial review - continued

Taxation

Details of the Company's taxation charge are provided in Note 5 to the accounts.

Statement of profit or loss commentary

The profit before tax at £505,000 (2012: £544,000) was £39,000 lower than the prior year as a result of increased net finance costs.

Cash flow

The net cash inflow from operating activities at £487,000 was £45,000 lower than 2012, mainly reflecting lower interest receipts and higher tax payments in the year.

RESEARCH AND DEVELOPMENT

Given that the sole purpose of the Company is to raise finance on behalf of companies in the Northern Powergrid Group, the Company does not undertake research and development.

FUTURE DEVELOPMENTS

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

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2013 to the date of this report.

G E Abel	Chairman
T E Fielden	Finance Director, Northern Powergrid
P J Goodman	Executive Vice President & Chief Financial Officer, MidAmerican Energy Holdings Company
P A Jones	President & Chief Executive Officer, Northern Powergrid

P Ainsley resigned as a director on 31 March 2014 and S J Lockwood (Group Financial Controller, Northern Powergrid) was appointed as a director with effect from 1 April 2014.

POLITICAL DONATIONS

During the year, no contributions were made to political organisations (2012: £nil).

PRINCIPAL RISKS AND UNCERTAINTIES

Liquidity risk

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

Interest rate risk

The Company is financed by long-term borrowings at fixed rates and has access to short-term borrowing facilities at floating rates of interest. As at 31 December 2013, 100% of the Company's borrowings were at fixed rates and the average maturity for these borrowings was 15 years.

Trading risk

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

Financial derivatives

As at 31 December 2013 and during the year it was the Company's policy not to hold any derivative financial instruments.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

CORPORATE GOVERNANCE STATEMENT

Main features of the internal control and risk management systems

The Governance and Risk Management Group ("GRMG") is the principal management forum in the Northern Powergrid Group with regard to corporate governance. Its purpose is to ensure that companies in the Northern Powergrid Group apply and maintain appropriate arrangements to deliver sound corporate governance and comply with the overall strategy, framework and supporting policies. The GRMG monitors and reviews the strategic risk environment, ensuring the continued suitability, adequacy and effectiveness of risk management arrangements and reports to the Northern Powergrid Group's Audit Committee.

The GRMG monitored the risk management framework regularly and met on four occasions during the year to ensure that all strategic risks, including those relating to environmental and social issues, were being addressed. Risk management policies and procedures were reviewed and updated to ensure a robust and clear approach was maintained. Mr R Dixon, an independent non-executive director of Northern Powergrid Holdings Company, attends meetings of the GRMG to provide an independent view in respect of the matters discussed.

The Northern Powergrid Group operates a structured and disciplined approach to the management of risk, as part of the overall risk management policy. Risks are assessed with due regard to probability and impact and the risk environment is reviewed continually in order that new or emerging potential risks are identified. Those risks assessed to be significantly high are logged within a risk register that the GRMG reviews regularly and key indicators are used to track and monitor those risks considered to be significant.

A rigorous internal control environment exists within the Northern Powergrid Group based on regular reporting, a series of operational and financial policy statements, investigations undertaken by internal audit and a stringent process for ensuring the implementation of any recommendations. MidAmerican Energy Holdings Company, the Company's parent company, requires a quarterly control risk self-assessment to be undertaken by all senior managers as part of its programme for compliance with the requirements of the United States Sarbanes-Oxley Act and, while no significant areas of weakness have been identified, any recommended improvements are implemented.

In addition, the Northern Powergrid Group employs comprehensive business planning and financial reporting procedures, regularly reviews key performance indicators to assess progress towards its goals, has centralised treasury operations and has a strong internal audit function to provide independent scrutiny of its internal control systems.

Details of the financial risks faced by the Company can be found on page 3 of the Report of the Directors.

Other key features of the Northern Powergrid Group's internal control system are:

- Comprehensive business planning and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- A range of policies, codes of practice and more detailed instructions that define the processes to be followed;
- Centralised treasury operations that operate within defined limits and are subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

CORPORATE GOVERNANCE STATEMENT – continued

The Northern Powergrid Group is committed to preventing corruption in all its forms and continues to have a zero-tolerance approach to corruption in its business or by those with whom it does business. The board of Northern Powergrid Holdings Company has addressed the risks introduced by the Bribery Act 2010 through a compliance policy, changes to contractual terms, training and other staff awareness measures. The introduction of annual risk assessments and enhanced due diligence in respect of new business transactions has further assisted in ensuring compliance. The Northern Powergrid Group requires staff, suppliers of services and business partners to comply with the Bribery Act. Its policies encourage an employee who has any suspicion of bribery or other form of corruption within or related to the Northern Powergrid Group to report the suspicion to a manager or via an international, anonymous help line, which is provided for the use of employees of the Northern Powergrid Group.

Northern Powergrid Holdings Company has established an audit committee for the Northern Powergrid Group under delegated terms of reference, which include monitoring of the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, the statutory audit of the accounts and the independence of and the provision of additional services by the statutory auditor. Given that Mr Dixon is an independent non-executive director of Northern Powergrid Holdings Company, the Audit Committee has at least one independent member and a member with competence in accounting and/or auditing and comprises:

R Dixon	Non-Executive Director
T E Fielden	Finance Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in 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 IFRSs.

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

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

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

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2013**

GOING CONCERN

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

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

- a) The Company is profitable with net current assets and access to cash as detailed in note 7 to the accounts; and
- b) Northern Powergrid (Yorkshire) plc has considerable financial resources, in the form of short-term borrowings made available by Yorkshire Electricity Group plc, a fellow company in the Northern Powergrid Group, and committed revolving credit facilities from Lloyds Bank plc, Royal Bank of Scotland plc and Abbey National Treasury Services plc.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the directors, who is a director of the Company as at the date of this report, confirms that:

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

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

AUDITOR

Deloitte LLP has indicated its willingness to continue in office.

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

ON BEHALF OF THE BOARD:



P A Jones
Director

16 April 2014

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

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

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

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

This responsibility statement was approved by the Board of Directors on 16 April 2014 and signed on its behalf by:



P A Jones
Director and President and Chief Executive Officer

16 April 2014

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

We have audited the non-statutory financial statements of Yorkshire Power Finance Limited ("the Company") for the year ended 31 December 2013 which comprise the Statement of Profit or Loss, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and the provisions of the Companies Act 2006 that would have applied were these statutory financial statements.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006, which the Directors have elected to use and would have applied if the financial statements were statutory financial statements.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Deloitte LLP

Deloitte LLP
Newcastle upon Tyne

Date: 23 April 2014

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £'000	2012 £'000
CONTINUING OPERATIONS			
Administrative expenses		<u>(5)</u>	<u>(5)</u>
OPERATING LOSS			
		(5)	(5)
Finance costs	4	(13,566)	(13,566)
Finance income	4	<u>14,076</u>	<u>14,115</u>
PROFIT BEFORE INCOME TAX			
		505	544
Income tax	5	<u>(118)</u>	<u>(132)</u>
PROFIT FOR THE YEAR			
		<u><u>387</u></u>	<u><u>412</u></u>

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

	2013 £'000	2012 £'000
PROFIT FOR THE YEAR	387	412
OTHER COMPREHENSIVE INCOME	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>387</u>	<u>412</u>

The notes on pages 14 to 19 form part of these financial statements

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2013**

	Notes	2013 £'000	2012 £'000
ASSETS			
NON-CURRENT ASSETS			
Trade and other receivables	6	<u>181,730</u>	<u>181,730</u>
CURRENT ASSETS			
Trade and other receivables	6	5,684	5,684
Cash and cash equivalents	7	<u>31,846</u>	<u>31,359</u>
		<u>37,530</u>	<u>37,043</u>
TOTAL ASSETS		<u><u>219,260</u></u>	<u><u>218,773</u></u>
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	8	1	1
Share premium	9	19,999	19,999
Retained earnings	9	<u>9,937</u>	<u>9,550</u>
TOTAL EQUITY		<u>29,937</u>	<u>29,550</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	10	<u>183,791</u>	<u>183,674</u>
CURRENT LIABILITIES			
Borrowings	10	5,492	5,493
Tax payable		<u>40</u>	<u>56</u>
		<u>5,532</u>	<u>5,549</u>
TOTAL LIABILITIES		<u>189,323</u>	<u>189,223</u>
TOTAL EQUITY AND LIABILITIES		<u><u>219,260</u></u>	<u><u>218,773</u></u>

The financial statements were approved by the Board of Directors on 16 April 2014 and were signed on its behalf by:



P A Jones
Director

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Total equity £'000
Balance at 1 January 2012	1	9,138	19,999	29,138
Changes in equity				
Total comprehensive income	<u>-</u>	<u>412</u>	<u>-</u>	<u>412</u>
Balance at 31 December 2012	<u>1</u>	<u>9,550</u>	<u>19,999</u>	<u>29,550</u>
Changes in equity				
Total comprehensive income	<u>-</u>	<u>387</u>	<u>-</u>	<u>387</u>
Balance at 31 December 2013	<u>1</u>	<u>9,937</u>	<u>19,999</u>	<u>29,937</u>

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £'000	2012 £'000
Cash flows from operating activities			
Cash used in operations	12	(5)	(5)
Interest paid		(13,449)	(13,448)
Interest received		14,075	14,115
Group relief paid		<u>(134)</u>	<u>(130)</u>
Net cash from operating activities		<u>487</u>	<u>532</u>
Increase in cash and cash equivalents		487	532
Cash and cash equivalents at beginning of year		<u>31,359</u>	<u>30,827</u>
Cash and cash equivalents at end of year		<u>31,846</u>	<u>31,359</u>

The notes on pages 14 to 19 form part of these financial statements

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

1. GENERAL INFORMATION

Yorkshire Power Finance Limited is a company incorporated in the Cayman Islands. The address of the registered office is PO Box 309, Uglund House, South Church Street, George Town, Grand Cayman.

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

2. ACCOUNTING POLICIES

Accounting convention and basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the provisions of the United Kingdom Companies Act 2006 ("the Act"), 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 statutory financial statements. The financial statements have also been prepared in accordance with IFRSs as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulations.

The accounts have been prepared under the historical cost convention.

Going concern

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

Critical accounting policies

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

Adoption of new or revised standards

New or revised Standards and Interpretations effective in the year do not have a material impact on these financial statements.

The directors are not aware of any newly issued or modified Standards and Interpretations that are not yet effective which would have a material impact on these financial statements.

Revenue

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

Financial instruments

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

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

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013**

2. ACCOUNTING POLICIES - continued

Fair value measurements

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value 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.

Financial liabilities and equity

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

Cash 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.

Taxation

Income tax expense represents the sum of the tax currently payable.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the statement of financial position date.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Borrowings

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

3. EMPLOYEES AND DIRECTORS

No directors' or key personnel remuneration was charged for the current or the prior year. There are no directors' emoluments that are required to be disclosed under the Act and there were no employees of the Company during the current or the prior year.

Fees paid to the Company's Auditor for the audit of the Company's annual accounts of £5,000 were charged to the Company for the year (2012: £5,000).

There were no fees payable in relation to non-audit services in the current or the prior year.

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013**

4. NET FINANCE INCOME

	2013 £'000	2012 £'000
Finance income:		
Interest receivable on amounts owed by Group undertakings	<u>14,076</u>	<u>14,115</u>
Finance costs:		
Interest payable	<u>13,566</u>	<u>13,566</u>
Net finance income	<u>510</u>	<u>549</u>

5. INCOME TAX

Analysis of tax expense

	2013 £'000	2012 £'000
Current tax:		
Tax	<u>118</u>	<u>132</u>
Total tax expense in statement of profit or loss	<u>118</u>	<u>132</u>

Factors affecting the tax expense

The tax assessed for the year is higher (2012 - lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	2013 £'000	2012 £'000
Profit on ordinary activities before income tax	<u>505</u>	<u>544</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%)	117	133
Effects of:		
Adjustment to prior years	<u>1</u>	<u>(1)</u>
Tax expense	<u>118</u>	<u>132</u>
Tax expense comprises:	2013 £'000	2012 £'000
Payment for use of group losses	<u>118</u>	<u>132</u>

There are no unrecognised deferred tax assets for deductible temporary differences, unused tax losses or unused tax credits.

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013**

6. TRADE AND OTHER RECEIVABLES

	Book Value		Fair Value	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Non-current: Amounts owed by Group undertakings	<u>181,730</u>	<u>181,730</u>	<u>230,432</u>	<u>258,844</u>
Current: Amounts owed by Group undertakings	<u>5,684</u>	<u>5,684</u>	<u>5,684</u>	<u>5,684</u>

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

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

7. CASH AND CASH EQUIVALENTS

Cash equivalents represent surplus cash remitted to Yorkshire Electricity Group plc ("YEG"), a fellow company in the Northern Powergrid Group, and invested, generating a market rate of return for the Company. This is repayable within three months and YEG has access to the facilities described in the going concern note in the Report of the Directors.

The cash equivalents are subject to an insignificant risk of changes in value. The fair value of cash equivalents is equal to their book value. The maximum risk of exposure is the book value.

8. CALLED UP SHARE CAPITAL

	2013 £'000	2012 £'000
Ordinary shares of \$1 each Authorised (50,000)	35	35
Allotted, called up and fully paid (2,000)	<u>1</u>	<u>1</u>

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

YORKSHIRE POWER FINANCE LIMITED (REGISTERED NUMBER: CR 75763)

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2013**

9. RESERVES

	Retained earnings £'000	Share premium £'000	Totals £'000
At 1 January 2013	9,550	19,999	29,549
Profit for the year	<u>387</u>	<u>-</u>	<u>387</u>
At 31 December 2013	<u>9,937</u>	<u>19,999</u>	<u>29,936</u>
	Retained earnings £'000	Share premium £'000	Totals £'000
At 1 January 2012	9,138	19,999	29,137
Profit for the year	<u>412</u>	<u>-</u>	<u>412</u>
At 31 December 2012	<u>9,550</u>	<u>19,999</u>	<u>29,549</u>

10. FINANCIAL LIABILITIES - BORROWINGS

	Book Value		Fair Value	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Loans	<u>189,283</u>	<u>189,167</u>	<u>232,942</u>	<u>255,290</u>
The borrowings are repayable as follows:				
On demand or within one year	5,492	5,493	5,492	5,493
After five years	<u>183,791</u>	<u>183,674</u>	<u>227,450</u>	<u>249,797</u>
	<u>189,283</u>	<u>189,167</u>	<u>232,942</u>	<u>255,290</u>
Analysis of borrowings:				
Sterling denominated Eurobond due 2028 @ 7.25%	<u>189,283</u>	<u>189,167</u>	<u>232,942</u>	<u>255,290</u>

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

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

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

The loans are non-secured.

The Company has no undrawn committed borrowing facilities.

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**NOTES TO THE FINANCIAL STATEMENTS - continued
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10. FINANCIAL LIABILITIES -- BORROWINGS continued

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

	Less than 3 Months £'000	3 Months to 1 Year £'000	1 Year to 5 Years £'000	5 Years plus £'000	Total £'000
2013					
Fixed interest rate liability	<u>-</u>	<u>13,448</u>	<u>53,795</u>	<u>319,988</u>	<u>387,231</u>
2012					
Fixed interest rate liability	<u>-</u>	<u>13,448</u>	<u>53,795</u>	<u>333,436</u>	<u>400,679</u>

11. RELATED PARTY DISCLOSURES

The Company has advanced loans to other companies in the Northern Powergrid Group. The total interest included in investment income in the statement of profit or loss for the year ended 31 December 2013 was £14,076,000 (2012: £14,115,000). Included within trade and other receivables is £187,414,000 as at 31 December 2013 (2012: £187,414,000) and included within cash equivalents is £31,846,000 as at 31 December 2013 (2012: £31,359,000) in respect of these loans.

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

	2013 £'000	2012 £'000
Profit before income tax	505	544
Finance costs	13,566	13,566
Finance income	<u>(14,076)</u>	<u>(14,115)</u>
Cash used in operations	<u>(5)</u>	<u>(5)</u>

13. ULTIMATE CONTROLLING PARTY

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

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