

Registered number: 03227432 (England and Wales)

Yorkshire Power Group Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

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Yorkshire Power Group Limited

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Yorkshire Power Group Limited Company Information

Directors T H France
P A Jones

Company Secretary J C Riley

Registered office Lloyds Court
78 Grey Street
Newcastle upon Tyne
Tyne and Wear
NE1 6AF

Registered number 03227432 (England and Wales)

Auditor Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
United Kingdom

Yorkshire Power Group Limited

Strategic Report for the Year Ended 31 December 2020

The directors present their strategic report for the year ended 31 December 2020 of Yorkshire Power Group Limited (the "Company"), which have been drawn up and presented in accordance with the Companies Act 2006.

BUSINESS REVIEW

The Company is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group") and acts as an investment company, maintaining its investments in Yorkshire Power Finance Limited ("YPF") and Yorkshire Electricity Group plc ("YEG").

The profit after tax for the financial year ended 31 December 2020 was £21.5 million (2019: £19.3 million). The favourable variance was mainly due to higher dividend income from YEG in the current year of £33.6 million (2019: £32.5 million) and reduced finance costs.

Net assets as at 31 December 2020 of £458.3 million (31 December 2019: £470.4 million) moved adversely by £12.1 million mainly due to increased loans and borrowings, through payment of annual interest to YPF via the intercompany account, as well as a reduction in the income tax asset.

KEY PERFORMANCE INDICATORS

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

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties 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 Powergrid Holdings Company. Details of financial risks can be found in Note 14 of these financial statements.

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.
- (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 that 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 Northern Powergrid UK Holdings (94.75%) and Northern Powergrid Holdings Company (5.25%), companies owned by the Northern Powergrid Group.

Approved by the Board on 28 April 2021 and signed on its behalf by:



T H France
Director

Yorkshire Power Group Limited

Directors' Report for the Year Ended 31 December 2020

The directors present their annual report and the audited financial statements for the year ended 31 December 2020.

Dividends

During the year, an interim dividend of £33.6 million was paid (2019: £32.5 million). The directors recommend that no final dividend be paid in respect of the year (2019: £nil).

Directors of the Company

The directors who held office during the year from 1 January 2019 and up to the date of signing were:

T H France

P A Jones

T E Fielden (resigned 15 February 2021)

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

There have been no significant events since the year end. The Company will continue to act as an investment company. There are no plans to change the existing business model.

Research and development

The Company does not undertake research and development.

Brexit

Brexit is not considered a principal risk to the Company.

Pandemic

During the year, the coronavirus pandemic has had a limited impact on the Company given it is a non-operational wholly owned subsidiary whose primary function is that of an investment company. The Northern Powergrid Group's response to the coronavirus pandemic is available in the annual report and financial statements of Northern Powergrid Holdings Company.

Political donations

During the year, no contributions were made to political organisations (2019: £nil).

Yorkshire Power Group Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Engagement with employees

The Company does not have employees. However, Northern Powergrid (Yorkshire) plc ("NPg Yorkshire"), a subsidiary company employed 1,148 employees as at 31 December 2020 (2019: 1,125).

A constitutional framework agreed with trade union representatives exists in respect of employee consultation. The board and senior management team keep employees and trade union representatives informed of and involved as appropriate in developments that may impact them now or in the future. This approach has been chosen as the most effective way of interacting with employees due to the combination of collectively bargained and personal contract holders and is managed by the Director of People and Customer Service.

Employee engagement continues to show improvement with local action plans augmented by routine communication channels including regular staff briefings, meetings with staff and their representatives, and utilising the Northern Powergrid Group's intranet.

During the year, the President and Chief Executive Officer and members of the senior management team of the Northern Powergrid Group continued to provide colleagues with updates on the Northern Powergrid Group's response to the coronavirus pandemic and financial, organisational, safety and customer service performance through weekly recorded electronic briefings. In addition, group wide text messages were used to quickly disseminate key information concerning the coronavirus pandemic or the invoking of major incident responses. Where appropriate, the executive directors and senior leaders engaged with employees during operational and office-based site visits ensuring safety measures were maintained throughout.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements also comply with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- 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 Group Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Going Concern

A review of the Northern Powergrid Group's business activities during the year, together with details regarding its future development, performance and position, its objectives, policies and processes for managing its capital, its financial risk management objectives and details of its exposures to trading risk, credit risk and liquidity risk are set out in the Strategic Report, the Directors' Report and the appropriate notes to the financial statements of 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, Northern Powergrid (Northeast) plc ("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 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.
- 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 17 years and has access to short-term committed borrowing facilities of £192 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;
- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Northern Powergrid Group and by other issuers suggest that the Northern Powergrid Group's bonds remain attractive to investors;
- 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. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, including detailed considerations of the impact of the coronavirus pandemic, 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. In addition, a letter of support was received from Northern Powergrid Holdings Company, a company in the Northern Powergrid Group. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Yorkshire Power Group Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Statement as to disclosure of information to the 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.

Approved by the Board on 28 April 2021 and signed on its behalf by:



T H France
Director

Yorkshire Power Group Limited

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 Companies Act 2006.

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 16.

The financial reporting framework that has been applied in their preparation is applicable law, and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

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, 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.

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.

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.

Yorkshire Power Group Limited

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

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.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- 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. These included Electricity Act 1989, GDPR, industry regulations monitored by Ofgem.

We discussed among the audit engagement team including relevant internal specialists such as tax, financial services, IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Yorkshire Power Group Limited

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

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the 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 our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception


Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.



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

28 April 2021

Yorkshire Power Group Limited
Income Statement for the Year Ended 31 December 2020

| | | 2020 £ 000 | 2019 £ 000 |
|-------------------------|---|----------------------|----------------------|
| Administrative expenses | | <u>(18)</u> | <u>(6)</u> |
| Operating loss | | (18) | (6) |
| Finance costs | 3 | (14,964) | (16,253) |
| Finance income | 3 | <u>33,600</u> | <u>32,500</u> |
| Profit before tax | | 18,618 | 16,241 |
| Income tax credit | 6 | <u>2,846</u> | <u>3,089</u> |
| Profit for the year | | <u><u>21,464</u></u> | <u><u>19,330</u></u> |

There has been no other comprehensive income during the year (2019: £nil).

Yorkshire Power Group Limited
(Registration number: 03227432)
Statement of Financial Position as at 31 December 2020

| | Note | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|------------------------------------------------------------|------|------------------------------|------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Investments in subsidiaries, joint ventures and associates | 7 | 890,101 | 890,101 |
| Current assets | | | |
| Income tax asset | | 2 | 1,534 |
| Total assets | | <u>890,103</u> | <u>891,635</u> |
| Equity and liabilities | | | |
| Equity | | | |
| Share capital | 8 | (440,000) | (440,000) |
| Retained earnings | | (18,279) | (30,415) |
| Total equity | | <u>(458,279)</u> | <u>(470,415)</u> |
| Non-current liabilities | | | |
| Loans and borrowings | 10 | (181,730) | (181,730) |
| Current liabilities | | | |
| Loans and borrowings | 10 | (250,094) | (239,490) |
| Total liabilities | | <u>(431,824)</u> | <u>(421,220)</u> |
| Total equity and liabilities | | <u>(890,103)</u> | <u>(891,635)</u> |

Approved by the Board of Directors on 28 April 2021 and signed on its behalf by:



T H France
Director

Yorkshire Power Group Limited
Statement of Changes in Equity for the Year Ended 31 December 2020

| | Note | Share capital £ 000 | Retained earnings £ 000 | Total £ 000 |
|----------------------------------------------------|-------------|--------------------------------|----------------------------------------|------------------------|
| At 1 January 2020 | | 440,000 | 30,415 | 470,415 |
| Profit for the year and other comprehensive income | | - | 21,464 | 21,464 |
| Dividends | 11 | - | (33,600) | (33,600) |
| At 31 December 2020 | | <u>440,000</u> | <u>18,279</u> | <u>458,279</u> |

| | | Share capital £ 000 | Retained earnings £ 000 | Total £ 000 |
|----------------------------------------------------|----|--------------------------------|----------------------------------------|------------------------|
| At 1 January 2019 | | 440,000 | 43,585 | 483,585 |
| Profit for the year and other comprehensive income | | - | 19,330 | 19,330 |
| Dividends | 11 | - | (32,500) | (32,500) |
| At 31 December 2019 | | <u>440,000</u> | <u>30,415</u> | <u>470,415</u> |

Yorkshire Power Group Limited
Statement of Cash Flows for the Year Ended 31 December 2020

| | Note | 2020 £ 000 | 2019 £ 000 |
|---------------------------------------------------|------|---------------|---------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 21,464 | 19,330 |
| Adjustments to cash flows from non-cash items | | | |
| Finance income | 3 | (33,600) | (32,500) |
| Finance costs | 3 | 14,964 | 16,253 |
| Income tax credit | 6 | (2,846) | (3,089) |
| Cash used in operations | | (18) | (6) |
| Income taxes received | 6 | 4,378 | 3,064 |
| Net cash flow generated from operating activities | | 4,360 | 3,058 |
| Cash flows from investing activities | | | |
| Dividend income | 3 | 33,600 | 32,500 |
| Cash flow generated from investing activities | | 33,600 | 32,500 |
| Cash flows used in financing activities | | | |
| Movement in intercompany loans | 15 | 10,604 | 13,195 |
| Interest paid | 3 | (14,964) | (16,253) |
| Dividends paid | 11 | (33,600) | (32,500) |
| Net cash flow used in financing activities | | (37,960) | (35,558) |
| Net movement in cash and cash equivalents | | - | - |
| Cash and cash equivalents at 1 January | | - | - |
| Cash and cash equivalents at 31 December | | - | - |

The notes on pages 14 to 32 form an integral part of these financial statements.

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

1 General information

The Company is a private company limited by share capital, incorporated and registered in England and Wales and is part of the Northern Powergrid Holdings Company group of companies (the "Northern Powergrid Group").

The address of its registered office is Lloyds Court, 78 Grey Street, Newcastle upon Tyne, Tyne and Wear, NE1 6AF.

The Company acts as an investment company within the Northern Powergrid Group. Further details are found within the Business Review section of the Strategic Report.

2 Accounting policies

Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations adopted by the IASB ("adopted 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 IFRS 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.

The Company is exempt from preparing group financial statements as it is a wholly owned subsidiary of a parent undertaking preparing group financial statements. Further details of the registered address and parent company are available in Note 16. Further details on the Company's accounting policies in relation to investments are available on page 20.

The nature of the Company's business model, strategic objectives, operations and activities are set out in the Strategic Report.

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Going Concern

A review of the Northern Powergrid Group's business activities during the year, together with details regarding its future development, performance and position, its objectives, policies and processes for managing its capital, its financial risk management objectives and details of its exposures to trading risk, credit risk and liquidity risk are set out in the Strategic Report, the Directors' Report and the appropriate notes to the financial statements of 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 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.

- 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 17 years and has access to short-term committed borrowing facilities of £192 million provided by Lloyds Bank plc, National Westminster Bank plc and Santander UK plc;

- The Northern Powergrid Group plans to issue long-term borrowings within the next 12 months and benefits from strong investment-grade credit ratings which allow access to a range of financing options. Recent successful bond issues by the Northern Powergrid Group and by other issuers suggest that the Northern Powergrid Group's bonds remain attractive to investors;

- 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. The board determined any material variations to the assumptions used when providing those certificates were unlikely within the eight-year period or beyond.

Consequently, after making enquiries, including detailed considerations of the impact of the coronavirus pandemic, 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. In addition, a letter of support was received from Northern Powergrid Holdings Company, a company in the Northern Powergrid Group. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Critical accounting judgements and key sources of estimation uncertainty

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, the valuation of financial instruments as explained in more detail below:

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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 expected credit loss.

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.

Revenue recognition

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Finance income and costs policy

Finance income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

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

Tax

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

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

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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.

Amounts owed to YEG which provides the intercompany treasury account are classified as short term borrowings and attract interest under an agreed formula. Should the Company have a positive intercompany treasury account balance it receives interest on the balance which is then reported under cash and cash equivalents.

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.

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.

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.

Yorkshire Power Group Limited
Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Classification and measurement

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

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at 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:

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 FVTPL:

- 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 Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (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.

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.

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

Financial liabilities

If the terms of financial liabilities are modified, the Company evaluates whether the cash flows of the modified liabilities 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.

Investments

Investments in securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less provision for any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Changes in accounting policy

New standards, interpretations and amendments effective

Effective for periods beginning on or after 1 January 2020

- Amendments to IFRS 3 - definition of a business;
- Amendments to IAS 1 (presentation of financial statements) and IAS 8 (accounting policies, changes in accounting estimates and errors) - Definition of material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform.

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

Effective for periods beginning on or after 1 January 2021

- Amendment to IFRS 16 - COVID-19 related rent concessions.

This amendment is not expected to have a material impact on the financial statements.

Yorkshire Power Group Limited**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****3 Finance income and costs**

| | 2020 £ 000 | 2019 £ 000 |
|-------------------------------------|-----------------------------|-----------------------------|
| Finance income | | |
| Dividend income | 33,600 | 32,500 |
| Finance costs | | |
| Interest paid to group undertakings | <u>(14,964)</u> | <u>(16,253)</u> |
| Net finance income | <u>18,636</u> | <u>16,247</u> |

4 Employees and directors

No directors' or key personnel remuneration was charged for the year (2019: £nil). There were no employees during the year (2019: none).

At 31 December 2020 no directors accrued benefits under a defined benefit scheme (2019: none).

5 Auditor's remuneration

| | 2020 £ 000 | 2019 £ 000 |
|-----------------------------------|-----------------------------|-----------------------------|
| Audit of the financial statements | <u>18</u> | <u>6</u> |

Yorkshire Power Group Limited**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****6 Income tax**

Tax credited in the income statement

| | 2020 £ 000 | 2019 £ 000 |
|-------------------------|----------------|----------------|
| Current taxation | | |
| UK corporation tax | <u>(2,846)</u> | <u>(3,089)</u> |

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2019 - lower than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

| | 2020 £ 000 | 2019 £ 000 |
|-----------------------------------------------------------|----------------|----------------|
| Profit before tax | <u>18,618</u> | <u>16,241</u> |
| Corporation tax at standard rate | 3,537 | 3,086 |
| Increase in current tax from adjustment for prior periods | 1 | - |
| Reduction owing to dividends from UK companies | <u>(6,384)</u> | <u>(6,175)</u> |
| Total tax credit | <u>(2,846)</u> | <u>(3,089)</u> |

Finance Bill 2020 was enacted in July 2020 and as a result, the rate of corporation tax has been held at 19% as the Finance Bill 2020 effectively removed the proposed reduction to 17% which was included within Finance Bill 2016.

In addition, the March 2021 Budget announced that the Corporation Tax Rate will increase from 19% to 25% from 1 April 2023.

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

Deferred Taxation

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

Yorkshire Power Group Limited
Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

7 Investments

| Subsidiaries | £ 000 |
|--------------------------|----------------|
| Cost or valuation | |
| At 1 January 2019 | <u>890,101</u> |
| At 31 December 2019 | <u>890,101</u> |
| At 1 January 2020 | <u>890,101</u> |
| At 31 December 2020 | <u>890,101</u> |
| Carrying amount | |
| At 31 December 2020 | <u>890,101</u> |
| At 1 January 2019 | <u>890,101</u> |

Yorkshire Power Group Limited**Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)****7 Investments (continued)**

Details of the subsidiaries as at 31 December 2020 are as follows:

| Name of subsidiary | Principal activity | Registered office and country of incorporation | Proportion of ownership interest and voting rights held | |
|---------------------------------|--------------------|--------------------------------------------------------------------------------------------|---------------------------------------------------------|------|
| | | | 2020 | 2019 |
| Yorkshire Electricity Group plc | Holding Company | Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF England and Wales | 100% | 100% |
| Yorkshire Power Finance Limited | Finance Company | PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman Cayman Islands | 99% | 99% |

Held by Yorkshire Electricity Group plc

| | | | | |
|------------------------------------|-----------------------------|---------------------------------------------------------------------------------|------|------|
| Northern Powergrid (Yorkshire) plc | Distribution of electricity | Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF England and Wales | 100% | 100% |
|------------------------------------|-----------------------------|---------------------------------------------------------------------------------|------|------|

The Company's financial statements are separate financial statements in that it has elected not to prepare consolidated financial statements, as entitled under IAS 27 and Section 400 of the Companies Act 2006 as it is included in the consolidated accounts for a larger group with accounts drawn up to the same date. Northern Powergrid Holdings Company, a company incorporated in England and Wales and whose address is Lloyds Court, 78 Grey Street, Newcastle upon Tyne, NE1 6AF, is the entity where the consolidated accounts including those of the Company are available for public view.

The Company's investments listed above are accounted for at cost less provision for any impairment in value.

Investments are held in the form of ordinary shares.

There have been no movements in investments during the year.

Yorkshire Power Group Limited
Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Share capital

Allotted, authorised, called up and fully paid shares

| | 31 December 2020 | | 31 December 2019 | |
|-----------------------------------|-----------------------------|--------------------|-----------------------------|--------------------|
| | No. | £ | No. | £ |
| Ordinary Share Capital of £1 each | <u>440,000,002</u> | <u>440,000,002</u> | <u>440,000,002</u> | <u>440,000,002</u> |

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

9 Reserves

| | Retained earnings £ 000 |
|----------------------------------------------------|----------------------------------------|
| At 1 January 2020 | 30,415 |
| Profit for the year and other comprehensive income | 21,464 |
| Dividends | <u>(33,600)</u> |
| At 31 December 2020 | <u>18,279</u> |
| | Retained earnings £ 000 |
| At 1 January 2019 | 43,585 |
| Profit for the year and other comprehensive income | 19,330 |
| Dividends | <u>(32,500)</u> |
| At 31 December 2019 | <u>30,415</u> |

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

10 Loans and borrowings

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|------------------------------------|---------------------------------------|---------------------------------------|
| Non-current borrowings | | |
| Loan principal | 181,730 | 181,730 |
| Current borrowings | | |
| Accrued interest on loan | 5,684 | 5,684 |
| Amounts owed to group undertakings | 244,410 | 233,806 |
| | <u>250,094</u> | <u>239,490</u> |
| | <u>431,824</u> | <u>421,220</u> |

| | Book value | | Fair value | |
|----------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 31 December 2020 £ 000 | 31 December 2019 £ 000 | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
| Intercompany short-term loan | 244,410 | 233,806 | 244,410 | 233,806 |
| 2028 - 7.66% Yorkshire Power Finance Limited | <u>187,414</u> | <u>187,414</u> | <u>271,497</u> | <u>270,876</u> |
| | <u>431,824</u> | <u>421,220</u> | <u>515,907</u> | <u>504,682</u> |

The directors' estimates of the fair value of internal non-current borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions or dealer quotes for similar instruments. The fair value of short-term borrowings is equal to their book value. All loans are non-secured and are denominated in sterling. The fair valuation of long-term liabilities 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 an external bond with the same maturity and risk profile was used for discounting future cash flows.

Amounts owed to group undertakings reflects amounts owed to Yorkshire Electricity Group plc regarding the intercompany treasury account. These short-term borrowings are at a floating rate of interest of the LIBOR one month rate plus the margin on the Company's revolving credit facility, and are repayable on demand.

At December 2020, the Company had no undrawn committed borrowing facilities.

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

The liquidity risk, credit risk, and market risk associated with these borrowings, and the management thereof, is covered within Financial Risk Review in Note 14 of these financial statements.

Yorkshire Power Group Limited
Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

11 Dividends

| | 31 December 2020 £ 000 | 31 December 2019 £ 000 |
|-----------------------------------------------------------|---------------------------------------|---------------------------------------|
| Interim dividend of 7.6p (2019 - 7.4p) per ordinary share | <u>33,600</u> | <u>32,500</u> |

12 Net debt reconciliation

| | At 1 January 2020 £ 000 | Cash flows £ 000 | At 31 December 2020 £ 000 |
|------------------------|----------------------------------------|-----------------------------|----------------------------------------------|
| Long- term borrowings | 181,730 | - | 181,730 |
| Short- term borrowings | <u>239,490</u> | <u>10,604</u> | <u>250,094</u> |
| | <u>421,220</u> | <u>10,604</u> | <u>431,824</u> |

| | At 1 January 2019 £ 000 | Cash flows £ 000 | At 31 December 2019 £ 000 |
|------------------------|----------------------------------------|-----------------------------|----------------------------------------------|
| Long- term borrowings | 181,730 | - | 181,730 |
| Short- term borrowings | <u>226,295</u> | <u>13,195</u> | <u>239,490</u> |
| | <u>408,025</u> | <u>13,195</u> | <u>421,220</u> |

There has been no change in the opening and closing values of long and short term borrowings regarding the £181.7 million loan from YPF and accrued interest thereon at 31 December of the respective years. The movements on financing cash flows reflect the transactions on the intercompany treasury account.

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 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 2020 was as follows:

| | Financial assets at amortised cost £ 000 | Financial liabilities at amortised cost £ 000 | Non-financial assets & liabilities £ 000 |
|------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|---------------------------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Investments in subsidiaries, joint ventures and associates | 890,101 | - | - |
| Current assets | | | |
| Income tax asset | - | - | 2 |
| Total assets | <u>890,101</u> | <u>-</u> | <u>2</u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Loans and borrowings | - | (181,730) | - |
| Current liabilities | | | |
| Loans and borrowings | - | (250,094) | - |
| Total liabilities | <u>-</u> | <u>(431,824)</u> | <u>-</u> |

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

13 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 2019 was as follows:

| | Financial assets at amortised cost £ 000 | Financial liabilities at amortised cost £ 000 | Non-financial assets & liabilities £ 000 |
|------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|---------------------------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Investments in subsidiaries, joint ventures and associates | 890,101 | - | - |
| Current assets | | | |
| Income tax asset | - | - | 1,534 |
| Total assets | <u>890,101</u> | <u>-</u> | <u>1,534</u> |
| Liabilities | | | |
| Non-current liabilities | | | |
| Loans and borrowings | - | (181,730) | - |
| Current liabilities | | | |
| Loans and borrowings | - | (239,490) | - |
| Total liabilities | <u>-</u> | <u>(421,220)</u> | <u>-</u> |

14 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 2019.

The capital structure of the Company consists of net debt (borrowings as detailed in Note 10 offset by equity of the Company (comprising issued capital and retained earnings as detailed in Notes 8 and 9 and in the statement of financial position on page 11). The Company has no externally imposed capital requirements.

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Financial risk review (continued)

Credit risk

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

There is no expected credit loss as the Company has no receivables. In addition, the majority of the Company's investments are in Yorkshire Electricity Group plc which owns NPg Yorkshire, 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 assets and financial liabilities by type.

| 2020 | Total outflow £ 000 | 1-3 months £ 000 | 3 months - 1 year £ 000 | 1-5 years £ 000 | More than 5 years £ 000 |
|-----------------------------------|---------------------------|---------------------|-------------------------------|--------------------|-------------------------------|
| Non-derivative liabilities | | | | | |
| Fixed interest rate liability | 293,093 | - | 13,921 | 55,682 | 223,490 |
| Variable interest rate liability | 244,404 | 244,404 | - | - | - |
| | <u>537,497</u> | <u>244,404</u> | <u>13,921</u> | <u>55,682</u> | <u>223,490</u> |

| 2019 | Total outflow £ 000 | 1-3 months £ 000 | 3 months - 1 year £ 000 | 1-5 years £ 000 | More than 5 years £ 000 |
|-----------------------------------|---------------------------|---------------------|-------------------------------|--------------------|-------------------------------|
| Non-derivative liabilities | | | | | |
| Fixed interest rate liability | 307,014 | - | 13,921 | 55,682 | 237,411 |
| Variable interest rate liability | 233,806 | 233,806 | - | - | - |
| | <u>540,820</u> | <u>233,806</u> | <u>13,921</u> | <u>55,682</u> | <u>237,411</u> |

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 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 other loans are at fixed interest rates and expose the Company to fair value interest rate risk.

15 Related party transactions

Summary of transactions with other related parties

Yorkshire Electricity Group plc provides the intercompany treasury account to the Northern Powergrid Group.

Loans from related parties

| | Other related parties £ 000 |
|--------------------|--------------------------------|
| 2020 | |
| At start of period | 421,220 |
| Advanced | 10,604 |
| Interest charged | 14,964 |
| Interest paid | (14,964) |
| At end of period | 431,824 |
| 2019 | |
| At start of period | 408,025 |
| Advanced | 13,195 |
| Interest charged | 16,253 |
| Interest paid | (16,253) |
| At end of period | 421,220 |

Details of loans from related parties

Loans from related parties are detailed in the loans and borrowings Note 10 on page 26.

Yorkshire Power Group Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

16 Parent and ultimate parent undertaking

The Company's immediate parent is Northern Powergrid UK Holdings.

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 registered 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 registered 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.