

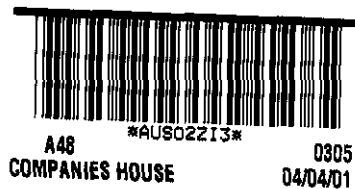
**YORKSHIRE ELECTRICITY GROUP plc**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2000**

Registered in England No 2366995



## **YORKSHIRE ELECTRICITY GROUP plc**

### **DIRECTORS' REPORT**

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 December 2000.

#### **Principal Activities and Business Review**

The principal activities of Yorkshire Electricity Group plc ("the Company") are the distribution of electricity to industrial, commercial, agricultural and domestic customers in the geographical area defined in the Public Electricity Supply Licence ("the Authorised Area"), the supply of electricity and the supply of gas, including the ownership of gas assets ("the supply business").

Information regarding the principal activities of the Company's subsidiary undertakings is set out in Note 9(e) to the Accounts.

#### **Distribution Business**

The Company's distribution business consists principally of the ownership, management and operation of the electricity distribution network within the Company's Authorised Area. The primary activity of the distribution business is the receipt of electricity from the national grid and the distribution of electricity to end users connected to the Company's system. Because the Company's distribution business is substantially a regulated monopoly, virtually all electricity supplied (whether by the Company's supply business or by other suppliers) to consumers in the Authorised Area is transported through its distribution network, thus providing the Company with a stable distribution volume unaffected by customer choice of supplier. As a holder of a Public Electricity Supply ("PES") Licence, the Company is subject to a revenue cap regulatory framework providing economic incentives to operate in a cost effective manner. The Distribution Price Control formula became effective on 1 April 2000. The overall reduction in distribution revenues as a result of the new price control is 23%.

#### **Strategy for the Distribution Business**

The Company's distribution business continued its strategy of maintaining a reliable and safe distribution system which meets customer expectations while maximising its operating efficiency and fulfilling regulatory requirements. The Company maintains a sufficient level of investment in the distribution network to ensure its continued reliability and safety. In the year ended 31 December 2000, the Company invested £148m in the distribution system, of which £103m represented capital improvements, including new substations, cables and overhead lines and £45m represented expenditure of an operational, repair and maintenance nature.

The Company is continuing to maintain and improve its response to system faults. During the year ended 31 December 2000, the Company restored services to 92.62% of all customers affected by faults within three hours and on average a customer was without power for only 57.51 minutes during the year.

#### **Supply Business**

##### **Electricity Supply**

The Company's electricity supply business consists of selling electricity to customers, purchasing such electricity and arranging for its distribution to those customers. Under its PES Licence, the Company had an exclusive right to supply electricity to Franchise Supply Customers between 1990 and 1998. The electricity supply business inside the Company's Authorised Area is now fully open to competition.

## **YORKSHIRE ELECTRICITY GROUP plc**

### Competition in the Electricity Supply Business

On 14 September 1998 phased competition was introduced to the domestic and small business electricity markets in the UK. This process was completed for all PES customers in May 1999. However, transitional price regulation was introduced for residential or commercial customers using less than 12,000 kWh of electricity per year for an initial period of two years from 1 April 1998. These price controls required a change from 1 April 1999, of 3% below the level of inflation and an adjustment to allow for changes to the Fossil Fuel Levy. These requirements resulted in a reduction of 0.06% to prices for residential or commercial customers using less than 12,000 kWh of electricity per year compared to prices in the year ended 31 March 1999.

In December 1999, the Office of Gas and Electricity Markets issued final proposals on the supply price control review. These proposals contained a real price reduction in the Company's standard domestic tariff of 3.6% from the year beginning 1 April 2000. This incorporated a reduction of 7.3% as a consequence of the distribution price control review. The proposal also provided for a nominal price freeze for the year beginning 1 April 2001.

### Gas Supply

The Company markets gas to all sectors of the gas market which has been totally open to competition since May 1998. By the end of 31 December 2000, the Company had entered into contracts and supplied gas to more than 338,000 residential customers.

### Strategy for the Supply Business

The Company's energy supply strategy consists of (i) protecting and sustaining the Company's electricity market position within the Authorised Area, (ii) cross-selling gas to its existing customer base, (iii) securing market share for the supply of gas and electricity outside the Authorised Area to the extent that such contracts are profitable, (iv) seeking marketing and strategic alliances in the supply business and (v) progressively extending the range of home products available to customers.

To implement the first part of its strategy, the Company is taking a number of steps. In particular the Company is endeavouring to retain its existing supply customers in the Authorised Area by purchasing electricity at competitive rates and providing high quality customer service in its Authorised Area. In doing so, in the year ended 31 December 2000, the Company maintained a significant portion of its existing business in its Authorised Area. The Company has also applied this strategy to supply customers outside the Authorised Area.

### Business Streamlining

The Company has substantially completed a programme of streamlining its distribution and supply workforces. Such streamlining is part of the overall programme of reducing controllable costs in response both to the Office of Gas and Electricity Markets' final distribution and electricity supply price control reviews which became effective on 1 April 2000 and to increasing competition in the supply business. During 2000 the Company reduced its workforce by 297 posts. A further reduction of 48 posts is planned for 2001.

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Future Developments**

The Utilities Act, which received Royal Assent on 28 July 2000, provides for the separate licensing of electricity supply and distribution and the introduction of a bar on supply and distribution licenses being held by the same legal person. This effectively means that the electricity supply and distribution businesses of current PESs will be conducted by separate companies once the relevant provision of the Utilities Act becomes effective. It is anticipated that this will require the Company to put in place a new group structure during 2001.

### **Euro**

On 1 January 1999, 11 European Union countries formed an economic and monetary union and introduced a single currency, the Euro. Although the UK did not join at this time, the UK Government has indicated that it may join in the future. Management is currently assessing the effort required to prepare the Group for the potential introduction of the Euro in the UK, the costs of which are not expected to be significant.

### **Other**

The Company does not have any branches (as defined by section 698(2) of the Companies Act 1985) outside the United Kingdom.

### **Results for the Year Ended 31 December 2000 and Dividends**

Profit before taxation for the year ended 31 December 2000 was £141.8m (nine months ended 31 December 1999 £105.9m) and profit after taxation was £135.8m (nine months ended 31 December 1999 £84.9m). Dividends of £64.0m (nine months ended 31 December 1999 £217.0m,) were proposed during the period and £83.4m (nine months ended 31 December 1999 £172.9m) was paid.

### **Directors**

The Directors of the Company during the year and at 31 December 2000 were:

NAME	POSITION	APPOINTED
*Mr W H Brunetti	<i>Chairman</i>	5 April 1997
*Dr E L Draper Jr	<i>Vice Chairman</i>	5 April 1997
Mr A A Pena	<i>Non-Executive Director</i>	5 April 1997
Mr D M Clements Jr	<i>Non-Executive Director</i>	5 April 1997
Mr R C Kelly	<i>Non-Executive Director</i>	5 April 1997
#Mr G J Hall	<i>Chief Executive</i>	8 March 1990
Mr P J Bonavia	<i>Non-Executive Director</i>	7 December 1998

Note: \* The roles of Chairman and Vice Chairman of Yorkshire Electricity Group plc rotate between these Directors on an annual basis.

# Mr G J Hall resigned as Chief Executive from 31 December 2000, but remained a Director.

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Directors' Interests**

The Board of Directors is not aware of any contract of significance (other than service agreements) to which the Company or any of its subsidiaries is party in which any Director has or has had a material interest.

No Director had a beneficial interest in the ordinary shares of the Company or any other group company at 31 December 2000.

### **Policy in Respect of Supplier Payment**

The Company follows the CBI Code of Prompt Payment Practice, which can be obtained from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU. It is the Company's policy to:

- Settle terms of payment when agreeing a transaction
- Ensure that suppliers are made aware of the terms of payment
- Abide by the terms of payment

except in a small number of cases where alternative contractual arrangements have been made with the suppliers. The equivalent of 25 days (31 December 1999 - 29 days) trade creditors were owed at 31 December 2000.

### **Employees**

The Company's employment policies provide equal opportunity, irrespective of sex, religion, colour, race, marital status or ethnic or national origins. Applications by persons with disabilities are given full and fair consideration and, wherever practicable, provision is made for their special needs. The same criteria for training and promotion apply to persons with disabilities as to any other employee. If employees become disabled, every effort is made to ensure their continued training and employment.

### **Employee Consultation**

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings, team briefings and newsletters. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees.

## YORKSHIRE ELECTRICITY GROUP plc

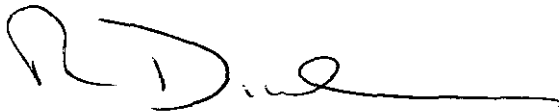
### Research and Development

The Company's research activities have continued to be primarily in co-operation with Electricity Association Technology Limited and are mainly aimed at reducing the Company's operating costs and improving the performance of the Company's assets with a view to managing assets to yield an improved business performance. Most developments have been associated with distribution assets, customer service systems and asset information management technology.

### Auditors

A resolution to re-appoint Deloitte & Touche as the Company's auditors will be proposed at the Annual General Meeting.

By order of the Board



ROGER DICKINSON  
*Company Secretary*

22 March 2001

Yorkshire Electricity Group plc  
Wetherby Road  
Scarcroft  
LEEDS  
LS14 3HS

Registered in England  
No. 2366995

## **YORKSHIRE ELECTRICITY GROUP plc**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The following statement, which should be read in conjunction with the auditors' statement of respective responsibilities of Directors and auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the group for the financial year.

The Directors consider that, in preparing the financial statements on pages 8 to 46 on a going concern basis, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## **YORKSHIRE ELECTRICITY GROUP plc**

### **AUDITORS' REPORT TO THE MEMBERS OF YORKSHIRE ELECTRICITY GROUP plc**

We have audited the financial statements on pages 8 to 46 which have been prepared under the accounting policies set out in pages 12 to 16.

#### **Respective responsibilities of Directors and auditors**

As described on page 6 the Company's Directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants and Registered Auditors  
LEEDS  
LS1 2AJ  
22 March 2001



# YORKSHIRE ELECTRICITY GROUP plc

## Group Profit and Loss Account for the Year ended 31 December 2000

	<u>Note</u>	<u>Year ended</u> <u>31 December</u> <u>2000</u> <u>£m</u>	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> <u>£m</u>
<b>Turnover: continuing operations</b>	2	1,511.6	1,036.9
<b>Cost of sales</b>		1,047.7	717.8
<b>Gross profit</b>		<u>463.9</u>	<u>319.1</u>
Distribution costs		151.7	110.9
Administrative expenses		127.5	75.0
Other operating income	3(b)	(0.7)	-
<b>Group operating profit: continuing operations</b>	2	<u>185.4</u>	<u>133.2</u>
Share of operating profits of joint ventures			
-discontinued operations	9(d)	-	2.5
Income from investments		0.9	0.6
Profit on disposal of investments	9(b)	-	2.9
<b>Profit on ordinary activities before interest</b>		<u>186.3</u>	<u>139.2</u>
Net interest payable	4	(44.5)	(33.3)
<b>Profit on ordinary activities before taxation</b>		<u>141.8</u>	<u>105.9</u>
Taxation	6	6.0	21.0
<b>Profit on ordinary activities after taxation</b>		<u>135.8</u>	<u>84.9</u>
Ordinary dividends on equity shares	7	64.0	217.0
<b>Retained profit/(loss) for the financial period</b>		<u></u>	<u></u>
<b>transferred to reserves</b>	18	<u>71.8</u>	<u>(132.1)</u>

There is no difference between the results presented above and the results on an unmodified historical cost basis, therefore a note of historical profits is not required.

# YORKSHIRE ELECTRICITY GROUP plc

## Group Cash Flow Statement for the year ended 31 December 2000

	<u>Note</u>	<u>Year ended</u> <u>31 December</u> <u>2000</u> <u>£m</u>	<u>Nine Months</u> <u>ended</u> <u>31 December</u> <u>1999</u> <u>£m</u>
Net cash inflow from operating activities	19(a)	259.2	142.4
<b>Returns on investments and servicing of finance</b>			
Interest received		2.0	1.6
Interest paid		(46.8)	(8.1)
Dividends received		0.9	0.6
<b>Net cash outflow from returns on investment and servicing of finance</b>		<u>(43.9)</u>	<u>(5.9)</u>
<b>Tax (paid)/received including ACT</b>		<u>(13.9)</u>	<u>1.7</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(99.6)	(107.5)
Receipts from sale of tangible fixed assets		1.1	0.8
Purchase of other investments		(0.4)	(1.1)
Receipts from sale of investment		-	3.6
<b>Net cash outflow from capital expenditure and financial investment</b>		<u>(98.9)</u>	<u>(104.2)</u>
<b>Acquisitions and disposals</b>			
Receipts from sale of business		0.4	0.8
<b>Net cash inflow from acquisitions and disposals</b>		<u>0.4</u>	<u>0.8</u>
<b>Equity dividends paid</b>		<u>(83.4)</u>	<u>(172.9)</u>
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		<u>19.5</u>	<u>(138.1)</u>
<b>Management of liquid resources</b>			
(Purchase)/sale of liquid resources	19(c)	<u>(1.4)</u>	<u>8.8</u>
<b>Financing</b>			
Repayment of borrowings	19(c)	(79.2)	(20.8)
New borrowings	19(c)	60.2	154.7
<b>Net cash (outflow)/inflow from financing</b>		<u>(19.0)</u>	<u>133.9</u>
<b>(Decrease)/increase in cash in the period</b>	19(b)& 19(c)	<u>(0.9)</u>	<u>4.6</u>

**YORKSHIRE ELECTRICITY GROUP plc**

**Statement of Total Recognised Gains & Losses for the year ended 31 December 2000**

	<u>Year ended</u> <u>31 December</u> <u>2000</u> <u>£m</u>	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> <u>£m</u>
<b>Profit for the financial period</b>	135.8	84.9
Unrealised surplus on revaluation of investment properties	1.6	0.8
<b>Total recognised gains for the period</b>	<u>137.4</u>	<u>85.7</u>

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **1. ACCOUNTING POLICIES**

##### **Basis of preparation**

The accounts have been prepared in accordance with applicable accounting standards, under the historical cost convention (as modified by the revaluation of investment properties). Compliance with Statement of Standard Accounting Practice (SSAP) 19 "Accounting for investment properties" requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in note 1(v).

##### **Basis of consolidation**

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings. Where subsidiary undertakings are disposed of, the results are included up to the date of disposal.

##### **Turnover**

Turnover represents the value of electricity and gas consumption during the year, which includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end, and the value of other goods and services provided, including use of the Company's distribution network, exclusive of value added tax.

##### **Purchase costs**

Purchase of electricity costs include an element of estimation. Prior to opening the domestic market to competition on 14 September 1998 all charges were allocated between suppliers based on actual meter readings. Charges in respect of residential customers, whose meters are not read at half hourly intervals, were allocated to the host PES. Since 14 September 1998, it has been necessary to allocate charges in respect of residential customers between suppliers based on estimates.

##### **Tangible fixed assets and depreciation**

###### **i) Tangible fixed assets**

Tangible fixed assets, other than investment properties, are stated at cost less accumulated depreciation and impairment.

**Balance Sheets as at 31 December 2000**

	<b>Note</b>	<b>Group</b>		<b>Company</b>	
		<b>31 December</b> <b>2000</b> <b>£m</b>	<b>31 December</b> <b>1999</b> <b>£m</b>	<b>31 December</b> <b>2000</b> <b>£m</b>	<b>31 December</b> <b>1999</b> <b>£m</b>
<b>Fixed assets</b>					
Tangible assets	8	941.7	894.7	938.9	892.2
Investments	9(a)	33.9	45.0	117.1	155.2
		<u>975.6</u>	<u>939.7</u>	<u>1,056.0</u>	<u>1,047.4</u>
<b>Current assets</b>					
Stocks	10	4.8	4.3	3.1	3.0
Debtors	11	388.7	267.2	342.0	231.2
Investments	12	22.4	21.0	-	-
Cash at bank and in hand		2.1	4.4	-	3.7
		<u>418.0</u>	<u>296.9</u>	<u>345.1</u>	<u>237.9</u>
<b>Creditors</b> (amounts falling due within one year)	13&14	<u>(438.6)</u>	<u>(331.0)</u>	<u>(419.9)</u>	<u>(425.0)</u>
<b>Net current liabilities</b>		<u>(20.6)</u>	<u>(34.1)</u>	<u>(74.8)</u>	<u>(187.1)</u>
<b>Total assets less current liabilities</b>		955.0	905.6	981.2	860.3
<b>Creditors</b> (amounts falling due after more than one year)	13&14	(483.4)	(509.5)	(462.2)	(509.6)
<b>Provisions for liabilities and charges</b>	15	(49.9)	(47.8)	(29.6)	(36.2)
<b>Net assets</b>		<u>421.7</u>	<u>348.3</u>	<u>489.4</u>	<u>314.5</u>
<b>Capital and reserves</b>					
Called up share capital	17	108.6	108.6	108.6	108.6
Share premium account	18(b)	11.8	12.0	11.8	12.0
Investment property revaluation reserve	18(b)	2.8	1.2	2.8	1.2
Capital redemption reserve	18(b)	0.1	0.1	0.1	0.1
Profit and loss account	18(b)	298.4	226.4	366.1	192.6
<b>Equity shareholders' funds</b>	18(a)	<u>421.7</u>	<u>348.3</u>	<u>489.4</u>	<u>314.5</u>

The financial statements on pages 8 to 46 were approved by the Board of Directors on 22 March 2001 and signed on its behalf by:



Director  
22 March 2001

## YORKSHIRE ELECTRICITY GROUP plc

### Notes to the accounts for the year ended 31 December 2000

#### 1. ACCOUNTING POLICIES (continued)

##### Tangible fixed assets and depreciation (continued)

##### ii) Depreciation

The charge for depreciation is calculated to write off assets over their estimated useful lives, on a straight-line basis, commencing in the year following acquisition or completion. The lives of each major class of depreciable asset are as follows:

	Years
Distribution Network	45 - 80
Meters	10 - 15
Non-operational assets	
Buildings - freehold	Up to 60
- leasehold	Lower of lease period or remaining economic life up to 60 years
Fixtures and equipment	Up to 15
Vehicles and mobile plant	Up to 10

Freehold land is not depreciated.

##### iii) Capital contributions

Capital contributions on distribution assets are credited to the profit and loss account on a straight-line basis over a 60 year period.

##### iv) Distribution assets

In prior periods the distribution assets were depreciated over a useful economic life of 40 years, with depreciation charged at 3% for 20 years followed by 2% for the remaining 20 years. In accordance with Financial Reporting Standard 15 "Tangible Fixed Assets", from 1 January 2000 the major components of the distribution assets have been accounted for separately for depreciation purposes and depreciated over their individual useful economic lives on a straight-line basis. The effect of these changes is disclosed in note 8.

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Tangible fixed assets and depreciation (continued)**

###### **v) Investment properties**

In accordance with SSAP 19 investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve with the exception of any permanent diminution below historic cost which is taken to the profit and loss account. No depreciation is provided in respect of investment properties.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Directors consider that, because these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial period would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

##### **Investments**

Fixed asset investments are stated at cost less depreciation and impairment. Depreciation is charged on wasting assets based upon an estimate of the remaining reserves.

Current asset investments, treated as liquid resources, are stated at the lower of cost and net realisable value. Investment income is included in the accounts of the period for which it is receivable.

##### **Stocks**

Stocks are valued at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of labour plus appropriate overheads and the cost of materials.

##### **Research and development**

Research and general development expenditure is written off in the period in which it is incurred.

##### **Provisions**

Provisions are recognised where there is a present obligation as a result of past events and it is probable that a transfer of economic benefit will be required to settle the obligation.

Where the effect is significant, provisions in respect of material future liabilities are stated at their net present value, arrived at by discounting the anticipated future costs.

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Taxation**

Corporation tax payable is provided on taxable profits at the current rate. It is assumed that full group tax relief is available for which no payment is made.

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation, using the liability method, is made to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

##### **Leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

##### **Pension costs**

The pension costs incurred in respect of the Electricity Supply Pension Scheme are charged to the profit and loss account so as to spread the cost over the employees' estimated remaining working lives with the Group. Contributions to the Yorkshire Electricity Pension Plan, a defined contributions plan, are charged to the profit and loss account as incurred.

##### **Capital instruments**

Capital instruments are initially carried at the amount of the net proceeds. The finance costs and issue expenses are allocated to the profit and loss account over the life of the debt at a constant rate on the carrying amount.

##### **Reporting the substance of transactions**

In accordance with Financial Reporting Standard (FRS) 5, transactions entered into by the Group are recorded in the financial statements taking into account their full commercial substance.

##### **Derivatives**

The Group uses derivative instruments to reduce exposure to foreign exchange risk, interest rate movements and commercial risks associated with its electricity and gas supply business. The Group may also hold or issue derivative financial instruments, in relation to its electricity and gas supply business, for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been recognised in the Group's accounts.



# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 1. ACCOUNTING POLICIES (continued)

#### Derivatives (continued)

For interest rate caps to be treated as a hedge, the instrument must be related to actual or probable floating rate liabilities. Any gain or loss arising is deferred and recognised in the profit and loss account by adjusting net interest payable over the period of the contracts.

For speculative trades, which are only undertaken within agreed risk parameters, and instruments which cease to be accounted for as a hedge, for example, because the underlying hedged position is eliminated, gains or losses are marked to market with any resulting profit or loss recognised at that time.

### 2. GROUP TURNOVER, OPERATING PROFIT AND NET ASSETS

Group turnover for the year ended 31 December 2000 is all in respect of sales to United Kingdom customers. Group turnover, operating profit and net assets are attributable to the following activities:

	<u>Turnover</u>		<u>Operating Profit</u>		<u>Net Assets</u>	
	<u>Year ended</u> <u>31 December</u> <u>2000</u> £m	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £m	<u>Year ended</u> <u>31 December</u> <u>2000</u> £m	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £m	<u>31</u> <u>December</u> <u>2000</u> £m	<u>31</u> <u>December</u> <u>1999</u> £m
Distribution	289.5	234.1	109.7	101.1	863.5	875.4
Electricity Supply	1,138.4	859.7	98.7	38.5	89.4	47.3
Gas Supply	294.0	120.4	(25.2)	(8.1)	(56.0)	(24.5)
Other	34.8	37.2	2.2	1.7	26.9	89.7
Less: Inter-activity sales */ Non-allocated	(245.1)	(214.5)	-	-	(502.1)	(639.6)
	<u>1,511.6</u>	<u>1,036.9</u>	<u>185.4</u>	<u>133.2</u>	<u>421.7</u>	<u>348.3</u>

\* Inter-activity sales relate mainly to sales by the Distribution business for use of system to the Supply business. They also include intercompany transfers and charges between the electricity supply and gas businesses.

**YORKSHIRE ELECTRICITY GROUP plc****Notes to the accounts for the year ended 31 December 2000****3. OPERATING PROFIT**

a) Operating profit is stated after charging / (crediting)

	<u>Year ended</u> <u>31 December</u> <u>2000</u>	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u>
	£m	£m
Employment costs (note 5(a))	70.2	49.2
Depreciation of tangible fixed assets	58.0	37.9
Depreciation of fixed asset investments	11.4	6.5
Profit on sale of tangible assets	(0.4)	(0.7)
Operating lease rentals (note 22)	7.5	5.6
Rationalisation costs	7.8	0.3
Research and development	0.7	0.9
Year 2000 costs	-	2.0
Auditors' remuneration – Group audit fees	0.2	0.2
– Other fees	0.3	0.3

Audit fees for the Company were £0.2m (nine months ended 31 December 1999 £0.2m)

b) Other operating income consists of:

	<u>Year ended</u> <u>31 December</u> <u>2000</u> £m	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £m
Property rental	0.7	-

**YORKSHIRE ELECTRICITY GROUP plc****Notes to the accounts for the year ended 31 December 2000****4. NET INTEREST PAYABLE**

	<u>Year ended</u> <u>31 December</u> <u>2000</u> £m	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £m
Interest payable:		
On loans from parent companies	(4.1)	(1.1)
On bank loans and overdrafts	(9.6)	(7.4)
On other loans	(31.9)	(24.3)
On discounted provisions (note 15)	(2.0)	(1.7)
	<u>(47.6)</u>	<u>(34.5)</u>
Interest receivable	3.1	1.2
	<u>(44.5)</u>	<u>(33.3)</u>

**5. DIRECTORS AND EMPLOYEES****a) Employment costs**

	<u>Year ended</u> <u>31 December</u> <u>2000</u> £m	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £m
The aggregate remuneration of all employees, including the Directors of the Company, comprised:		
Wages and salaries	97.4	71.3
Social security costs	8.3	6.3
Other pension costs	2.7	2.7
	<u>108.4</u>	<u>80.3</u>
Less: charged as capital expenditure	(38.2)	(31.1)
Charged to the profit and loss account	<u>70.2</u>	<u>49.2</u>

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 5. DIRECTORS AND EMPLOYEES (continued)

#### b) Number of employees

The average number of employees (headcount), including Directors, during the period was:

	<u>Group</u>	
	<u>Year ended</u> <u>31 December</u> <u>2000</u> Number	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> Number
Distribution and Supply	4,085	4,247
Other	42	51
	<u>4,127</u>	<u>4,298</u>

Distribution and Supply includes gas and metering.

#### c) Directors

The following table shows the aggregate of Directors' emoluments and other payments.

	<u>Year ended</u> <u>31 December</u> <u>2000</u> £000	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £000
Emoluments	461.3	255.1
Amounts payable under long-term incentive schemes	87.9	14.0
Compensation for loss of office	871.9	-
	<u>1,421.1</u>	<u>269.1</u>

Number of Directors who :

	<u>Year ended</u> <u>31 December</u> <u>2000</u> Number	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> Number
- are members of a defined benefit pension scheme at 31 December	1	1

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 5. DIRECTORS AND EMPLOYEES (continued)

#### c) Directors (continued)

	Year ended 31 December 2000 £000	Nine months ended 31 December 1999 £000
Highest-paid director's remuneration :		
Aggregate of emoluments and awards under long-term incentive schemes (excluding pension contributions)	549.2	269.1

The amount of the accrued pension of the highest paid director at 31 December 2000 was £200,250 (31 December 1999 £149,734).

No Director had a beneficial interest in the ordinary shares of the Company or any other group company at 31 December 2000.

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2000 £m	Nine months ended 31 December 1999 £m
Taxation on profit for the year:		
UK corporation tax at 30% (nine months ended 31 December 1999 30%)	18.3	14.7
Deferred tax	(0.6)	-
	17.7	14.7
Adjustment in respect of earlier periods:		
Parent and subsidiary undertakings	(13.7)	6.3
Deferred tax	2.0	-
	6.0	21.0

The tax charge is reduced by £31.6m (nine months ended 31 December 1999 £16m) as a result of losses surrendered by fellow group companies for which no payment will be made and by £7.5m as a result of capital allowances in excess of depreciation.

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 7. DIVIDENDS

	Year ended 31 December 2000 £m	Nine months ended 31 December 1999 £m
Interim dividend of 40.2p per ordinary share (nine months ended 31 December 1999 120.5p)	64.0	192.0
Proposed final dividend of £nil per ordinary share (nine months ended 31 December 1999 15.7p)	-	25.0
	<u>64.0</u>	<u>217.0</u>

### 8. TANGIBLE FIXED ASSETS

The Group's tangible fixed assets comprise:

	Investment properties £m	Distribution £m	Non op land & buildings £m	Other £m	Deduct: Capital contr'ns £m	Total £m
<u>Cost or valuation</u>						
At 1 January 2000	11.0	1,512.4	43.6	274.7	(343.8)	1,497.9
Additions	-	103.6	1.1	40.0	(40.6)	104.1
Disposals	-	(3.4)	(1.0)	(2.1)	-	(6.5)
Revaluation adjustment	1.6	-	-	-	-	1.6
At 31 December 2000	<u>12.6</u>	<u>1,612.6</u>	<u>43.7</u>	<u>312.6</u>	<u>(384.4)</u>	<u>1,597.1</u>
<u>Depreciation</u>						
At 1 January 2000	-	503.5	20.7	157.7	(78.7)	603.2
Disposals	-	(3.4)	(0.3)	(2.1)	-	(5.8)
Charge for the year	-	38.0	0.8	24.1	(4.9)	58.0
At 31 December 2000	<u>-</u>	<u>538.1</u>	<u>21.2</u>	<u>179.7</u>	<u>(83.6)</u>	<u>655.4</u>
<u>Net book amount</u>						
At 31 December 2000	<u>12.6</u>	<u>1,074.5</u>	<u>22.5</u>	<u>132.9</u>	<u>(300.8)</u>	<u>941.7</u>
At 31 December 1999	<u>11.0</u>	<u>1,008.9</u>	<u>22.9</u>	<u>117.0</u>	<u>(265.1)</u>	<u>894.7</u>

Included in fixed assets at 31 December 2000 are assets in the course of construction amounting to £14.5m (31 December 1999 £30.7m) and land of £6.1m (31 December 1999 £5.1m) which are not depreciated.

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 8. TANGIBLE FIXED ASSETS (continued)

The Company's tangible fixed assets comprise:

	<u>Investment Properties</u> £m	<u>Distribution</u> £m	<u>Non op land &amp; buildings</u> £m	<u>Other</u> £m	<u>Deduct: Capital Contr'ns</u> £m	<u>Total</u> £m
<u>Cost or valuation</u>						
At 1 January 2000	11.0	1,512.4	43.7	270.9	(343.8)	1,494.2
Additions	-	103.6	1.1	39.0	(40.6)	103.1
Disposals	-	(3.4)	(1.0)	(2.1)	-	(6.5)
Revaluation adjustment	1.6	-	-	-	-	1.6
At 31 December 2000	12.6	1,612.6	43.8	307.8	(384.4)	1,592.4
<u>Depreciation</u>						
At 1 January 2000	-	503.5	20.8	156.4	(78.7)	602.0
Disposals	-	(3.4)	(0.3)	(2.1)	-	(5.8)
Charge for the period	-	38.0	0.8	23.4	(4.9)	57.3
At 31 December 2000	-	538.1	21.3	177.7	(83.6)	653.5
<u>Net book amount</u>						
At 31 December 2000	12.6	1,074.5	22.5	130.1	(300.8)	938.9
At 31 December 1999	11.0	1,008.9	22.9	114.5	(265.1)	892.2

Included in fixed assets at 31 December 2000 are assets in the course of construction amounting to £14.5m (31 December 1999 £30.7m) and land of £6.1m (31 December 1999 £5.1m) which are not depreciated.

The adoption of FRS 15 in the year ended 31 December 2000 has resulted in a revision to the useful economic lives of distribution assets. Previously the lives of depreciable distribution assets were 40 years, with depreciation charged at 3% for the first 20 years followed by 2% for the remaining 20 years. Capital contributions in respect of distribution assets were also credited to the profit and loss account on this basis.

The useful economic lives have been revised to 10-15 years for meters and 45-80 years for the distribution network. Depreciation is now charged on a straight-line basis. Capital contributions are credited to the profit and loss account on a straight-line basis over a 60 year period. The financial impact of these changes is a £2.2m increase in depreciation, charged to the profit and loss account in the year ended 31 December 2000.

## YORKSHIRE ELECTRICITY GROUP plc

### Notes to the accounts for the year ended 31 December 2000

#### 8. TANGIBLE FIXED ASSETS (continued)

The net book amount of non-operational land and buildings comprises:

	Group		Company	
	31 December 2000 £m	31 December 1999 £m	31 December 2000 £m	31 December 1999 £m
Freehold	17.3	17.3	17.3	17.3
Long Leasehold	2.3	5.6	2.3	5.6
Short Leasehold	2.9	-	2.9	-
	<u>22.5</u>	<u>22.9</u>	<u>22.5</u>	<u>22.9</u>

Investment Properties are revalued annually by Turner & Partners who are professionally qualified members of the Royal Institution of Chartered Surveyors and the Incorporated Society of Valuers and Auctioneers. The basis of the valuation is a full valuation to their open market value. The aggregate surplus or deficit is transferred to a revaluation reserve with the exception of any permanent diminution below historic cost which is taken to the profit and loss account. In compliance with the requirements of SSAP 19 no depreciation or amortisation is provided in respect of freehold and leasehold investment properties. If the properties included at valuation had been included at historical cost this would have resulted in a decrease in value of £2.8m (31 December 1999 £1.2m).

#### 9. FIXED ASSET INVESTMENTS

##### a) Fixed asset investments

	Group		Company	
	31 December 2000 £m	31 December 1999 £m	31 December 2000 £m	31 December 1999 £m
Subsidiary undertakings (note 9(c))	-	-	116.7	154.8
Other investments (note 9(b))	33.9	45.0	0.4	0.4
	<u>33.9</u>	<u>45.0</u>	<u>117.1</u>	<u>155.2</u>



# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 9. FIXED ASSET INVESTMENTS (continued)

#### b) Other investments

	<u>Group</u>		<u>Company</u>	
	<u>Year ended</u>	<u>Nine months</u>	<u>Year ended</u>	<u>Nine months</u>
	<u>31 December</u>	<u>ended</u>	<u>31 December</u>	<u>ended</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	£m	£m	£m	£m
At 1 January/1 April	45.0	51.1	0.4	0.9
Additions	0.4	1.1	-	-
Depreciation	(11.4)	(6.5)	-	-
Disposal	-	(0.5)	-	(0.5)
Other	(0.1)	(0.2)	-	-
At 31 December	<u>33.9</u>	<u>45.0</u>	<u>0.4</u>	<u>0.4</u>

The cost and cumulative depreciation of other investments in the Group at 31 December 2000 were £62.2m (31 December 1999 £61.9m) and £28.3m (31 December 1999 £16.9m) respectively.

During the nine months ended 31 December 1999 the Group sold its investment in UK Data Collection Services Limited, realising a profit of £2.9m.

#### c) Company -investment in subsidiary undertakings

	<u>31 December</u>	<u>31 December</u>
	<u>2000</u>	<u>1999</u>
	£m	£m
Shares in subsidiary undertakings	18.0	18.0
Loans	98.7	136.8
	<u>116.7</u>	<u>154.8</u>

#### d) Group – Joint Ventures

During the period ended 31 December 1999, £2.5m of provision against a loan due from Homepower Retail Limited was released as it was anticipated that the amount would be recovered. This balance is disclosed in note 11.

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 9. FIXED ASSET INVESTMENTS (continued)

#### e) Principal subsidiary undertakings

The principal subsidiary undertakings incorporated and operating in the United Kingdom (unless otherwise indicated) at 31 December 2000 are shown below.

<u>Principal subsidiary undertaking</u>	<u>Class of Capital</u>	<u>% Equity Held</u>	<u>Principal activities</u>
Scarcroft Insurance Limited (Registered in Guernsey)	Ordinary	100%	Insurance
Yorkshire Energy Limited	Ordinary	100%*	Management of offshore asset and supply of gas
Scarcroft Investments Limited	Ordinary	100%	Holding company
YE Gas Limited	Ordinary	100%	Supply of gas

Shareholding in companies marked \* are held by subsidiaries of Yorkshire Electricity Group plc.

### 10. STOCKS

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Raw materials and consumables	3.8	3.7	2.1	2.4
Work in progress	1.0	0.6	1.0	0.6
	<u>4.8</u>	<u>4.3</u>	<u>3.1</u>	<u>3.0</u>

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 11. DEBTORS

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	226.0	214.2	194.9	187.2
Amounts owed by group undertakings	-	-	72.9	0.6
Loan owed by joint venture (note 9(d))	2.5	2.5	2.5	2.5
Other debtors	13.7	15.1	6.3	11.1
Contracts held for trading	76.7	-	34.7	-
Prepayments and accrued income	38.9	20.3	19.7	14.7
	<u>357.8</u>	<u>252.1</u>	<u>331.0</u>	<u>216.1</u>
Amounts falling due after more than one year:				
Other debtors	9.0	15.1	9.0	15.1
Contracts held for trading	21.9	-	2.0	-
	<u>388.7</u>	<u>267.2</u>	<u>342.0</u>	<u>231.2</u>
Included in trade debtors are the following amounts for unbilled consumption	109.5	100.5	85.3	77.7

Included within prepayments and accrued income is an amount of £3.9m (31 December 1999 £4.6m) relating to prepaid pension contributions to the Electricity Supply Pension Scheme, a defined benefit scheme.

### 12. INVESTMENTS

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	£m	£m	£m	£m
Money market investments	<u>22.4</u>	<u>21.0</u>	<u>-</u>	<u>-</u>

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 13. CREDITORS

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	£m	£m	£m	£m
Creditors (amounts falling due within one year):				
Bank loans and overdrafts	14.0	0.9	13.9	0.9
Unsecured loans	3.9	9.2	3.9	0.3
Payments received in advance	12.6	8.7	12.6	8.7
Other trade creditors	15.8	10.4	13.9	9.0
Bills of exchange	-	19.9	-	19.9
Amounts owed to parent companies	29.6	47.8	26.4	44.6
Amounts owed to fellow subsidiaries	45.7	4.9	45.7	4.9
Amounts owed to group undertakings	-	-	86.1	149.3
Purchase of electricity	62.4	69.0	62.4	69.0
Corporation tax	46.7	57.7	43.0	50.7
Taxation and social security	3.0	4.8	3.0	3.0
Other creditors	28.7	18.6	24.1	17.8
Contracts held for trading	76.8	-	31.8	-
Accruals and deferred income	99.4	79.1	53.1	46.9
	<u>438.6</u>	<u>331.0</u>	<u>419.9</u>	<u>425.0</u>
Creditors (amounts falling due after more than one year):				
Bank Loans	84.7	135.0	84.7	135.0
8 5/8% Eurobond due 2005	149.3	149.2	149.3	149.2
9 1/4% Eurobond due 2020	197.2	197.0	197.2	197.0
Unsecured long term loans	4.2	8.3	-	0.3
Contracts held for trading	23.0	-	1.8	-
Amounts owed to fellow subsidiaries	25.0	20.0	25.0	20.0
Amounts owed to group undertakings	-	-	4.2	8.1
	<u>483.4</u>	<u>509.5</u>	<u>462.2</u>	<u>509.6</u>

An analysis of the maturity of debt is given in Note 14.

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 14. BORROWINGS

Outstanding borrowings are repayable as follows:

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m
Within one year, or on demand	62.4	33.8	62.3	33.8
Between one and two years	4.2	3.9	4.2	3.9
Between two and five years	239.0	139.3	239.0	139.3
Over five years	217.2	366.3	217.2	366.3
	<u>522.8</u>	<u>543.3</u>	<u>522.7</u>	<u>543.3</u>

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m
Bank overdrafts	3.3	0.9	3.2	0.9
Unsecured loans and loan stocks:				
Bills of Exchange	-	19.9	-	19.9
Bank loans	95.4	135.0	95.4	135.0
8 5/8% Eurobond due 2005	149.3	149.2	149.3	149.2
9 1/4% Eurobond due 2020	197.2	197.0	197.2	197.0
7.52% credit facility due 1999-2002	8.0	11.6	-	-
6.55% credit facility due 1997-2000	-	5.3	-	-
0% unsecured loan due 2000-2009	0.1	0.6	0.1	0.6
Amounts owed to fellow subsidiaries	69.5	23.8	69.5	23.8
Amounts owed to group undertakings	-	-	8.0	16.9
	<u>522.8</u>	<u>543.3</u>	<u>522.7</u>	<u>543.3</u>

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 15. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Group</u>					
	<u>Rationalis-</u> <u>-ation</u> £m	<u>Third</u> <u>Party</u> <u>Claims</u> £m	<u>Decommi-</u> <u>ssioning</u> £m	<u>Onerous</u> <u>contracts</u> £m	<u>Other</u> £m	<u>Total</u> £m
At 1 January 2000	0.3	6.8	2.9	28.7	9.1	47.8
Additional provision created	7.8	3.5	0.1	5.7	8.4	25.5
Utilised in the period	(6.7)	(0.3)	-	(3.7)	(4.2)	(14.9)
Effects of changes in discounting	-	-	-	2.0	-	2.0
Released in the period	-	-	-	(8.0)	(2.5)	(10.5)
At 31 December 2000	<u>1.4</u>	<u>10.0</u>	<u>3.0</u>	<u>24.7</u>	<u>10.8</u>	<u>49.9</u>

	<u>Company</u>			
	<u>Rationalisation</u> £m	<u>Onerous</u> <u>contracts</u> £m	<u>Other</u> £m	<u>Total</u> £m
At 1 January 2000	0.3	28.7	7.2	36.2
Additional provision created	7.8	-	5.1	12.9
Utilised in the period	(6.7)	(2.6)	(4.2)	(13.5)
Effects of changes in discounting	-	2.0	-	2.0
Released in the period	-	(8.0)	-	(8.0)
At 31 December 2000	<u>1.4</u>	<u>20.1</u>	<u>8.1</u>	<u>29.6</u>

#### Rationalisation

This provision relates primarily to the cost of future severance payments. These costs are expected to be incurred in the period to 31 December 2001.

#### Third party claims

This provision has been made to cover costs arising from actual claims, which are not insured externally.

#### Decommissioning

Provision has been made for anticipated costs associated with the future decommissioning cost of fixed asset investments.

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 15. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

#### Onerous contracts

This provision relates to a financial instrument which compensates a third party in respect of gas purchases in excess of market price for a period up to 2008. The provision, for the net present value of expected future payments, reflects the Directors' current expectation of market prices of electricity (to which the contract is partially indexed) and future gas prices. The provision at the year end was £20.1m. The year end balance also includes £4.6m relating to a business gas supply sales contract entered into during the year.

#### Other

Other provisions comprise a number of items, none of which are significant individually. The costs provided for are expected to be incurred within the next 5 years.

### 16. DEFERRED TAXATION

Total potential unprovided deferred tax liabilities computed at the current rate of corporation tax of 30% (31 December 1999 30%) are as follows:

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m
Capital allowances in excess of depreciation	143.2	168.4	140.8	157.5
Other timing differences	(12.1)	(8.4)	(4.8)	(4.6)
	<u>131.1</u>	<u>160.0</u>	<u>136.0</u>	<u>152.9</u>

### 17. CALLED UP SHARE CAPITAL

<u>Company and Group</u>	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m
Authorised: 220,000,000 ordinary shares of 68 2/11p each	<u>150.0</u>	<u>150.0</u>
Allotted and fully paid: 159,270,954 ordinary shares of 68 2/11p each	<u>108.6</u>	<u>108.6</u>

**YORKSHIRE ELECTRICITY GROUP plc****Notes to the accounts for the year ended 31 December 2000****18. RESERVES****a) Reconciliation of movement in equity shareholders' funds**

	<u>Year ended</u> <u>31 December</u> <u>2000</u> £m	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £m
Profit for the financial period	135.8	84.9
Dividends	(64.0)	(217.0)
Retained profit/(loss) for the financial period	<u>71.8</u>	<u>(132.1)</u>
Other recognised gains and losses for the period	1.6	0.8
Net increase/(decrease) in shareholders' funds for the period	<u>73.4</u>	<u>(131.3)</u>
Equity shareholders' funds at 1 January/ 1 April	348.3	479.6
Equity shareholders' funds at 31 December	<u><u>421.7</u></u>	<u><u>348.3</u></u>



# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 18. RESERVES (continued)

#### b) Reserves

	<u>Group</u>				
	<u>Share premium account</u>	<u>Investment property revaluation reserve</u>	<u>Capital redemption reserve</u>	<u>Profit and loss account</u>	<u>Total</u>
	£m	£m	£m	£m	£m
At 1 January 2000	12.0	1.2	0.1	226.4	239.7
Retained profit for the year	-	-	-	71.8	71.8
Revaluation of investment property	-	1.6	-	-	1.6
Amortisation of bond finance costs	(0.2)	-	-	0.2	-
At 31 December 2000	<u>11.8</u>	<u>2.8</u>	<u>0.1</u>	<u>298.4</u>	<u>313.1</u>

	<u>Company</u>				
	<u>Share premium account</u>	<u>Investment property revaluation reserve</u>	<u>Capital Redemption Reserve</u>	<u>Profit and loss account</u>	<u>Total</u>
	£m	£m	£m	£m	£m
At 1 January 2000	12.0	1.2	0.1	192.6	205.9
Retained profit for the year	-	-	-	173.3	173.3
Revaluation of investment property	-	1.6	-	-	1.6
Amortisation of bond finance costs	(0.2)	-	-	0.2	-
At 31 December 2000	<u>11.8</u>	<u>2.8</u>	<u>0.1</u>	<u>366.1</u>	<u>380.8</u>

The profit for the financial period dealt with in the accounts of the Company was £237.3m (nine months ended 31 December 1999 £98.6m). As allowed by section 230 (1) of the Companies Act 1985, the Company has not presented its own profit and loss account. The Company's profit and loss account was approved by the Board on 22 March 2001.

**YORKSHIRE ELECTRICITY GROUP plc**

**Notes to the accounts for the year ended 31 December 2000**

**19. CASH FLOW STATEMENT**

**a) Reconciliation of operating profit to net cash inflow from operating activities**

	Year ended 31 December 2000 £m	Nine months ended 31 December 1999 £m
Operating profit	185.4	133.2
Depreciation of fixed assets	58.0	37.9
Depreciation of fixed asset investments	11.4	6.5
Profit on sale of tangible assets	(0.4)	(0.7)
Decrease in provisions	(1.5)	(9.0)
Increase in debtors	(121.8)	(17.8)
Increase/(decrease) in creditors	128.6	(6.6)
Increase in stocks	(0.5)	(1.1)
Net cash inflow from operating activities	<u>259.2</u>	<u>142.4</u>

**b) Analysis of changes in net debt**

	31 December 1999 £m	Cash flows £m	Other Changes £m	31 December 2000 £m
Cash at bank and in hand	4.4	(2.3)	-	2.1
Overdrafts (including an amount owed to a fellow subsidiary due on 1 January 2000)	(4.7)	1.4	-	(3.3)
	<u>(0.3)</u>	<u>(0.9)</u>	<u>-</u>	<u>(1.2)</u>
Debt due within 1 year	(29.1)	(26.1)	(3.9)	(59.1)
Debt due after 1 year	(509.5)	45.1	4.0	(460.4)
Money market investments	21.0	1.4	-	22.4
	<u>(517.9)</u>	<u>19.5</u>	<u>0.1</u>	<u>(498.3)</u>

**YORKSHIRE ELECTRICITY GROUP plc**

**Notes to the accounts for the year ended 31 December 2000**

**19. CASH FLOW STATEMENT (continued)**

**c) Reconciliation of net cash flow to movement in net debt**

	Year ended 31 December 2000 £m	Nine months ended 31 December 1999 £m
<b>(Decrease)/increase in cash in period</b>	(0.9)	4.6
Repayment of borrowings	79.2	20.8
New borrowings	(60.2)	(154.7)
Purchase/(sale) of liquid resources	1.4	(8.8)
<b>Change in net debt</b>	19.5	(138.1)
Amortisation of bond finance costs	(0.3)	(0.3)
Other	0.4	-
<b>Net Debt 1 January/1 April</b>	(517.9)	(379.5)
<b>Net Debt 31 December</b>	(498.3)	(517.9)

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **20. PENSION COMMITMENTS**

A significant proportion of the Group's employees are members of the Electricity Supply Pension Scheme, which provides pension and other related benefits based on final pensionable pay to employees throughout the Electricity Supply Industry. The assets of the Scheme are held in a separate trustee administered fund. The pension cost to the Group for the period was £2.3m (nine months ended 31 December 1999 £2.5m).

The latest actuarial valuation of the Group's section of the scheme was carried out as at 31 March 1998. The projected unit method was used for the valuation, the principal actuarial assumptions adopted being an investment return of 8.75% per annum, salary increases (exclusive of merit awards) of 6% per annum, price inflation of 4.5% per annum and equity dividend growth of 4.75% per annum.

At the date of the latest actuarial valuation the market value of the Group's section of the scheme was £855.8m and the actuarial value of the assets was sufficient to cover 113.6% of the benefits that had accrued to members. The resultant past service surplus of £76.9m is being utilised partly to pay benefits to members, with the remaining balance (net of the capital cost of ex gratia and supplementary pensions) being released to the profit and loss account over the expected remaining working lives of members. Contributions payable by the Group to the Scheme during the period were £nil (nine months ended 31 December 1999 £nil) as the Group is utilising part of the surplus by taking a contribution holiday with effect from April 1999. Therefore the balance outstanding to the Scheme at 31 December 2000 was £nil (31 December 1999 £nil).

The next actuarial valuation is due as at 31 March 2001.

From 1 April 1995 new employees have only been eligible to join the Yorkshire Electricity Pension Plan, which is a defined contribution scheme. The contributions payable by the Group to the Scheme during the period were £0.4m (nine months ended 31 December 1999 £0.2m).

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **21. DERIVATIVES**

The Group finances its operations by a mix of retained profits, long-term debt securities, long-term and short-term bank borrowings, commercial paper and bills of exchange.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items that arise directly from its operations, for example trade debtors and trade creditors.

The Group also enters into derivatives transactions to manage the interest rate risks arising from the Group's sources of finance and commercial risks arising in the Supply business.

The commercial risks associated with the Supply business and the risks associated with financial assets held in a wholly owned captive insurance company are managed separately from other risks managed by the Group's treasury function, and are considered separately below.

##### *Treasury activities*

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board has agreed policies for managing each of these risks and they are summarised below.

##### *Interest rate risk*

The Group's primary objective in respect of borrowings is to provide a stable, low cost of financing over time whilst observing approved risk parameters.

The Group is partly financed by borrowings at both fixed and floating rates of interest.

The Group's policy is to maintain a minimum of 65% of borrowings on a fixed rate basis with an average maturity for the borrowings of at least 7 years. This is typically bank debt which in general has a shorter maturity than other forms of finance. At the year end 72% (31 December 1999 71%) of the Group's borrowings were at fixed rates and the average maturity for the borrowings was 9 years (31 December 1999 10 years).

The only derivative instrument at 31 December 2000 and 1999 was £40m of interest rate caps (7.5% to July 2001), in place to hedge anticipated floating rate borrowings. Any gain or loss arising on these interest rate caps, which relates to actual or probable floating rate liabilities is deferred and recognised as interest payments are made. The excess of the amount of the interest rate caps over actual or probable liabilities is marked to market with any resulting profit or loss being recognised at that time.

##### *Liquidity risk*

The Group's primary objective is to ensure that the Group has access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies.

The Group's policy is to maintain committed bank facilities of at least £75m in excess of the borrowing requirement forecast for the next five years. This cover level was complied with at the period end, with further headroom.

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **21. DERIVATIVES (continued)**

Flexibility in the management of short-term liquidity is increased by the use of uncommitted facilities.

##### *Currency risk*

The Group's primary objective is to manage currency risk in a risk averse and cost effective manner. The Group's policies require it to be protected against adverse outcomes. As at 31 December 2000, the Group has no material currency risks.

##### *Trading*

It is, and has been throughout the period of review, the Group's policy that no trading in financial instruments shall be undertaken in relation to treasury activities.

##### *The Supply Business*

##### *Hedging*

The Group holds financial instruments to hedge the risks associated with the purchase and sale of electricity resulting from Pool price volatility.

Virtually all electricity generated in England and Wales is sold by generators and bought by suppliers through the Pool. The majority of the Group's customers are on fixed rate contracts or tariffs. In addition, with effect from 1 April 1998, the Group's Public Electricity Supplier's licence has placed a price cap on customers using less than 12,000 kWh per year within the area defined in that licence. Therefore the Group is exposed to the risk associated with fluctuations in the cost of purchased electricity relative to the price received from the customer, to the extent that it has not hedged this risk. The Group substantially hedges this risk by employing a variety of risk management tools including management of its supply sales contract portfolio and hedging contracts.

The most common contracts entered into to hedge the risk of Pool price volatility are contracts for differences ('CFDs') and electricity forward agreements ('EFAs'). Both CFDs and EFAs are contracts predominantly between generators and suppliers, which fix the major elements of the price of electricity for a contracted quantity over a specific time period. Differences between the actual price set by the Pool and the agreed prices give rise to difference payments between the parties to the particular contract.

Therefore these contracts allow the Company to effectively convert the majority of anticipated Pool purchases from variable market prices to fixed prices. Accordingly the gains and losses on such contracts are deferred and recognised as electricity is purchased.

The Group has also entered into financial instruments to hedge against fluctuations in the purchase price of gas. There were no such financial instruments outstanding at the period end that were material.

CFDs, EFAs and similar contracts in place at 31 December 2000 will hedge a portion of electricity purchases through to the year 2003 (31 December 1999 2003). As set out below, management's estimate of the fair value of the contracts outstanding at 31 December 2000 is a net liability of £43.8m (31 December 1999 £46.4 m).

##### *Trading*

Trading in CFDs, EFAs and similar contracts may be undertaken within agreed risk parameters. During the year such trading took place. Management's estimate of the fair value of the trading contracts outstanding at 31 December 2000 is a net asset of £3.0m (31 December 1999 £nil)

## YORKSHIRE ELECTRICITY GROUP plc

### Notes to the accounts for the year ended 31 December 2000

#### 21. DERIVATIVES (continued)

##### *Other financial instruments*

As explained in note 15 the Group has entered into a financial instrument which compensates a third party in respect of costs of gas purchased and which is considered onerous.

##### Captive Insurance Company

Scarcroft Insurance Limited, a wholly owned subsidiary company, holds financial assets to fund claims arising from its insurance activities. The Group's objective in respect of these assets is to achieve as high a return as is consistent with maintaining the portfolio's security and liquidity. Asset management companies, who operate under strict guidelines, including restrictions on which assets they may invest in and the minimum credit ratings required of counter-parties, manage these investments. Throughout the year under review these guidelines were complied with.

#### Numerical Disclosures

The numerical disclosures below deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "*Derivatives and Other Financial Instruments: Disclosures*" (FRS13). Certain financial assets and liabilities, such as investments in subsidiary companies, are excluded from the scope of these disclosures. As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosures.

#### Interest rate risk profile of financial assets and financial liabilities

##### *Financial assets*

The interest rate profile of the Group's financial assets was:

Currency	Total		Floating rate financial assets		Fixed rate financial assets		Financial assets on which no interest is received	
	31 December 2000 £m	31 December 1999 £m	31 December 2000 £m	31 December 1999 £m	31 December 2000 £m	31 December 1999 £m	31 December 2000 £m	31 December 1999 £m
Sterling	24.9	25.8	6.2	8.1	18.3	17.3	0.4	0.4

The floating rate financial assets comprise £nil of deposits (31 December 1999 £3.1m) placed on money markets at overnight and seven-day rates; £3.9m of debt securities (31 December 1999 £3.3m) bearing interest at rates fixed in advance for three months by reference to the three-month LIBOR rate and £2.3m of bank and other deposits at a margin below bank base rates (31 December 1999 £1.7m).

The fixed rate financial assets comprise certificates of deposit and debt securities. The weighted average interest rate on these assets is 6.2% (31 December 1999 6.2%) and the weighted average period for which the interest rate remains fixed is 1.1 years (31 December 1999 1.5 years).

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 21. DERIVATIVES (continued)

#### Financial liabilities

The interest rate profile of the Group's financial liabilities was:

Currency	Total		Floating rate financial liabilities		Fixed rate financial liabilities		Financial liabilities on which no interest is paid	
	31	31	31	31	31	31	31	31
	December 2000	December 1999	December 2000	December 1999	December 2000	December 1999	December 2000	December 1999
	£m	£m	£m	£m	£m	£m	£m	£m
Sterling	542.9	572.0	148.2	159.6	374.5	383.1	20.2	29.3

Currency	Fixed rate financial liabilities				Financial liabilities on which no interest is paid	
	Weighted average interest rate		Weighted average period for which rate is fixed		Weighted average period until maturity	
	31 December 2000	31 December 1999	31 December 2000	31 December 1999	31 December 2000	31 December 1999
	%	%	Years	Years	Years	Years
Sterling	8.9	8.8	12.2	12.9	5.0	5.7

The floating rate liabilities comprise bank loans of £95.4m that bear interest at rates based on inter-bank money market rates (31 December 1999 £154.9m), bank overdrafts of £3.3m that bear interest at a margin over the bank's base rate (31 December 1999 £0.9m) and loans of £49.5m from fellow subsidiary companies at a rate based on inter-bank money market rates (31 December 1999 £3.8m).



# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 21. DERIVATIVES (continued)

#### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities was as follows:

	Total		Borrowings		Derivative financial instruments	
	31 December 2000 £m	31 December 1999 £m	31 December 2000 £m	31 December 1999 £m	31 December 2000 £m	31 December 1999 £m
In one year or less, or on demand	62.6	35.4	62.4	33.8	0.2	1.6
In more than one year but not more than two years	6.2	6.1	4.2	3.9	2.0	2.2
In more than two years but not more than five years	248.5	147.8	239.0	139.3	9.5	8.5
In more than five years	225.6	382.7	217.2	366.3	8.4	16.4
	<u>542.9</u>	<u>572.0</u>	<u>522.8</u>	<u>543.3</u>	<u>20.1</u>	<u>28.7</u>

#### Borrowing facilities

The Group has various undrawn committed borrowing facilities. The undrawn facilities, excluding overdrafts, available in respect of which all conditions precedent had been met were as follows:

	31 December 2000 £m	31 December 1999 £m
Expiring in more than two years	<u>185.0</u>	<u>135.0</u>

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 21. DERIVATIVES (continued)

#### Fair value disclosures

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities:

	31 December 2000		31 December 1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Financial assets</b>				
Money market investments, certificates of deposit, debt securities, bank deposits and equity investments	24.9	24.9	25.8	25.8
<b>Primary financial instruments issued to finance the Group's operations</b>				
Short-term financial liabilities and current portion of long-term borrowings	(62.4)	(62.9)	(33.8)	(34.4)
Long-term borrowings	(460.4)	(541.7)	(509.5)	(587.6)
<b>Derivative financial instruments held to manage the interest rate profile</b>				
Interest rate caps	-	-	-	0.1
<b>Derivative financial instruments held to manage commercial risks in the Supply business</b>				
CFDs, EFAs and similar contracts	-	(43.8)	-	(46.4)
<b>Financial instruments held or issued for trading</b>				
CFDs, EFAs and similar contracts	-	3.0	-	-
<b>Other derivative financial instruments</b>				
Instrument that compensates a third party in respect of costs of gas purchased	(20.1)	(20.1)	(28.7)	(28.7)

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **21. DERIVATIVES (continued)**

The fair values of financial assets have been determined by reference to quoted market prices where available. The estimated difference between the book and fair value of assets for which market prices are not quoted is not material.

The fair values of the interest rate caps and sterling long-term fixed rate debt with a carrying amount of £346.5m (31 December 1999 £346.2m) have been determined by reference to prices available from the markets on which these instruments or similar instruments are traded.

The fair value of CFDs, EFAs and the financial instrument that compensates a third party in respect of costs of gas purchased have been calculated by reference to management's estimate of future electricity pool prices and gas purchase costs.

The fair values of other financial liabilities shown above have been calculated by discounting cash flows at prevailing interest rates.

#### **Gains and losses on financial assets and financial liabilities held or issued for trading**

The gain included in the profit and loss account for the year from trading in CFDs and EFAs is £5.7m (31 December 1999 £nil)

**YORKSHIRE ELECTRICITY GROUP plc****Notes to the accounts for the year ended 31 December 2000****21. DERIVATIVES (continued)****Gains and losses on hedges**

As explained above the Group enters into CFDs, EFAs and similar contracts to hedge against fluctuations in the purchase price of electricity. It also uses interest rate caps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of unrecognised gains and losses is as follows:

	<u>Gains</u> £m	<u>Losses</u> £m	<u>Total net losses</u> £m
Unrecognised gains and losses on hedges at 1 January 2000	15.7	(62.0)	(46.3)
Gains and losses arising in previous periods that were recognised in the year ended 31 December 2000	15.4	(47.9)	(32.5)
Gains and losses arising before 1 January 2000 that were not recognised in the year ended 31 December 2000	0.3	(14.1)	(13.8)
Gains and losses arising in the year ended 31 December 2000 that were not recognised in the year	16.7	(46.7)	(30.0)
Unrecognised gains and losses on hedges at 31 December 2000	17.0	(60.8)	(43.8)
Of which:			
Gains and losses expected to be recognised in the year ended 31 December 2001	11.3	(33.8)*	(22.5)
Gains and losses expected to be recognised in 2002 or later	5.7	(27.0)	(21.3)

\* The losses expected to be recognised in the year ended 31 December 2001 represent a normal operational cost to the Company.

# YORKSHIRE ELECTRICITY GROUP plc

## Notes to the accounts for the year ended 31 December 2000

### 22. LEASE OBLIGATIONS

The Group has the following annual commitments under operating leases which expire:

	<u>Group &amp; Company</u> <u>Land &amp; Buildings</u>		<u>Group &amp; Company</u> <u>Other</u>	
	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m
Within one year	-	-	0.5	1.0
In the second to fifth year inclusive	0.2	0.1	2.1	1.6
Over five years	0.4	0.5	-	-
	<u>0.6</u>	<u>0.6</u>	<u>2.6</u>	<u>2.6</u>

Operating lease rentals charged to the profit and loss account were:

	<u>Year ended</u> <u>31 December</u> <u>2000</u> £m	<u>Nine months</u> <u>ended</u> <u>31 December</u> <u>1999</u> £m
Land and buildings	0.6	0.5
Plant and machinery	6.9	5.1
	<u>7.5</u>	<u>5.6</u>

### 23. CAPITAL COMMITMENTS

	<u>Group</u>		<u>Company</u>	
	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m	<u>31 December</u> <u>2000</u> £m	<u>31 December</u> <u>1999</u> £m
Contracted	<u>3.7</u>	<u>3.3</u>	<u>3.7</u>	<u>3.3</u>

### 24. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions in Financial Reporting Standard No. 8 "Related Party Disclosures" for wholly owned subsidiaries not to disclose transactions which are with entities that are part of Yorkshire Power Group Limited.

## **YORKSHIRE ELECTRICITY GROUP plc**

### **Notes to the accounts for the year ended 31 December 2000**

#### **25. ULTIMATE PARENT COMPANY**

The parent company for whom group accounts are prepared is Yorkshire Power Group Limited, a company registered in England and Wales. Copies of the group financial statements are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

#### **26. CONTINGENT LIABILITIES**

##### **Legal Proceedings**

Litigation is ongoing with respect to National Grid Company plc's ("NGC's") and National Power plc's ("National Power's") use of actuarial surpluses declared in the Electricity Supply Pension Scheme ("ESPS"). The Pension Ombudsman issued a "final determination" in favour of complaints made by members of the ESPS relating to NGC's use of the ESPS surplus to offset its additional costs of early payment of pensions as a result of reorganization or redundancy, together with additional contributions required after a valuation. Under that determination, the Pension Ombudsman directed NGC to pay into ESPS the amount of that use of the surplus plus interest. The Pension Ombudsman's "final determination" was challenged in the courts by NGC and National Power, who were also subject to a similar complaint. The High Court subsequently ruled that such use of surplus was permissible.

On 10 February, 1999, the Court of Appeal ruled that the particular arrangements made by NGC and National Power to dispose of the surplus, partly by cancelling liabilities relating to pension costs resulting from early retirement, were invalid as they did not comply fully with the Scheme Rules and procedures for dealing with surplus at that time. However, the Court of Appeal did uphold the High Court's ruling that NGC and National Power could benefit from pension scheme surplus provided that the scheme rules allow and that the interests of the members are taken into account.

Following a further hearing on 25 May and 26 May, 1999 the Court of Appeal ordered NGC and National Power to pay all sums properly payable by them to their Group Trustees. However, enforcement of the order was stayed pending the outcome of any appeals to the House of Lords, leave for which was granted.

NGC and National Power initiated appeals in the House of Lords. NGC and National Power also executed amendments which purport to cancel their accrued contribution obligations arising from the Court of Appeal's judgement. The Company made similar use of actuarial surplus and, if it is decided by the House of Lords that the sums concerned are all due to the ESPS, the maximum amount receivable by the ESPS in respect of the use of surplus by the Company is estimated to be approximately £38 million plus interest of £15 million.

An agreement has been reached between Yorkshire and its pension trustees to the effect that no legal action for the recovery of "outstanding" contributions will be initiated by the trustees against the Company prior to the House of Lords judgement on the NGC and National Power appeals. In consideration of this, the Company will waive any defense in this matter based on the six year statutory limitation period, this waiver commencing from 24 June 1999, the date when the agreement was first mooted and agreed in principle.

The Company, with EPSL (the ESPS's central co-ordinating and policy body) and other member companies, has now considered with its legal advisors, the option of executing similar retrospective deeds of amendment to those executed by the two litigants: NGC and National Power. Accordingly, a retrospective deed of amendment was executed on 22 January 2001. The Company's pension trustees have been kept fully informed of the Company's intentions and actions.

**YORKSHIRE ELECTRICITY GROUP plc**

**Notes to the accounts for the year ended 31 December 2000**

**26. CONTINGENT LIABILITIES (continued)**

**Legal Proceedings (continued)**

The appeals initiated by NGC and National Power in the House of Lords were heard in February 2001. The outcome is anticipated in the near future.

**27. POST BALANCE SHEET EVENT**

On 26 February 2001 a conditional agreement was signed to sell 94.75% of the issued share capital of Yorkshire Power Group Limited to Innogy Holdings plc. The sale to Innogy Holdings plc is conditional upon the approval of Innogy's shareholders. Assuming such approval is received, the sale is expected to take place in early April 2001.