

YORKSHIRE ELECTRICITY GROUP PLC

ANNUAL REPORT AND ACCOUNTS FOR THE
YEAR ENDED 31 MARCH 1997

Registered in England No. 2366995



DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 1997.

Recommended cash offer by Yorkshire Holdings plc for Yorkshire Electricity Group plc

On 24 February 1997 the boards of American Electric Power ("AEP") and Public Service Company of Colorado ("PS Colorado") announced the terms of a cash offer for Yorkshire Electricity Group plc to be made by Merrill Lynch on behalf of Yorkshire Holdings plc, a company owned equally by AEP and PS Colorado. The Offer, which was recommended for acceptance by the Yorkshire Electricity Group plc Board, valued each Yorkshire Electricity Share at 927p in cash and valued Yorkshire Electricity at approximately £1.5 billion.

The offer was declared wholly unconditional on 1 April 1997 and the Non-Executive Directors, including the Chairman, resigned their office with effect from 5 April 1997, at which time the new Directors were appointed. On 16 April 1997 notices were issued by Yorkshire Holdings plc in accordance with section 429 of the Companies Act 1985 to acquire all those Yorkshire Electricity Shares still outstanding at the end of the requisite notice period.

Principal activities and business review

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

Information regarding the principal activities of the Company's subsidiary undertakings is set out in Note 11 to the Accounts on page 30.

Customer Services

During the year, Yorkshire Electricity Group plc has undertaken a number of initiatives to improve customer service. The Customer Services Division was created from the former Energy Management Division, which previously dealt with meter reading and meter operations issues, and the Customer Services Branch within the Supply Division.

Increased flexibility of payment arrangements and improved access to payment facilities for customers of Yorkshire Electricity Group plc has resulted in there being, for the first time, no disconnections of domestic customers for non-payment of their bills. This represents a significant achievement when compared to the 2,751 domestic disconnections during the year ended March 1991. Disconnections of business customers have also reduced as a result of building stronger communications to support and improve relations with business customers.

Distribution Businesses

Over the past year Yorkshire Electricity Group plc has been working hard to enhance the reliability of the supply and to improve the speed with which power is restored on the few occasions it does go off. The Quality of Supply Report indicates that, as a measure of 'minutes lost per connected customer per annum', Yorkshire Electricity Group plc has consistently been one of the top two Regional Electricity Companies over the past five years. The Company has improved its own performance to achieve an average of only 59.7 minutes lost per connected customer in 1996/97.

The Company's Distribution Asset Management System ("DAMS") is progressing and the first stage of the project was implemented on 28 June 1996. The Distribution System Division is now using DAMS for Customer Contact Handling, Project Management, Address and Management Information.

Energy Businesses

The Board of Yorkshire Electricity Group plc welcomed the decision by the Director General of Electricity Supply, Professor Stephen Littlechild, to phase in the introduction of competition to the domestic electricity markets. The Board is committed to the effective and timely introduction of competition and preparations are progressing well. However the costs of developing systems to enable the Company to operate in the competitive electricity market are significant. The Directors have taken the view that, at this stage in the development of the future commercial and regulatory environment, it would not be prudent to capitalise all these costs, some of which have, therefore, been charged to the profit and loss account as an exceptional item.

Tariffs were reduced by a further 6.8%, with effect from 1 August 1996, for the two million domestic and small business customers of Yorkshire Electricity Group plc. This was due in part to the reduction in the Fossil Fuel Levy following the flotation of British Energy.

The October 1996 electricity supply business contracting round was very competitive but Yorkshire Electricity Group plc was successful in securing new business from several companies including: The Port of Felixstowe; The Benefits Agency; W.H Smith; Hydro Aluminium; Smith Stone and Knight and the Department of Trade and Industry.

In the retail gas market, sales conditions remained difficult although most suppliers had become less aggressive. Provisions have been made for contracts in respect of gas and electricity purchases, reflecting the Directors' current view of the impact of the opening up of the competitive markets on future prices. Our investment in the development of the Armada gas field remains favourable against original budget estimates and the project remains on schedule for the first gas date of October 1997.

Generation Business

The Generation business had a successful year led by the exceptional performances of Brigg Power Station and smaller generation installations. Completion of four additional peaking plants during the year has brought the Company's generation capacity to 330MW.

Other

In line with Yorkshire Electricity's stated intention to concentrate on its core business, during the year the Company completed the planned sale of its interest in Torch Communications Limited. Kingston Communications acquired Yorkshire Electricity's 50 per cent share for £26 million.

The Company also completed the sale of most of its investment properties, in particular five properties were sold to Bankuwait Nominees Limited, the consideration for the sale of the properties was a total aggregate amount of £27.7 million.

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 and dividends

Profit before taxation for 1996/97 was £31.2m (1995/96 £219.3m).

The Company paid an interim dividend of 15.80p (net) per ordinary share of 68 2/11p on 25 March 1997 (1995/96 11.88p (net) per 68 2/11p Ordinary share). The Directors are not proposing a final dividend.

Share Capital

Details of the share capital of the Company are set out in Note 19 to the Accounts on page 35.

Directors

The Directors of the Company at 31 March 1997 were:

| NAME | POSITION | APPOINTED | RESIGNED |
|------------------------|---------------------------------|-----------------|------------------|
| Mr C Hampson CBE | <i>Chairman</i> | 30 June 1994 | 5 April 1997 |
| Lady Eccles of Moulton | <i>Non-Executive Director</i> | 8 March 1990 | 5 April 1997 |
| Mr J N Hardman | <i>Non-Executive Director</i> | 8 March 1990 | 5 April 1997 |
| Sir Philip Beck | <i>Non-Executive Director</i> | 25 May 1995 | 5 April 1997 |
| Mr J V H Robins | <i>Non-Executive Director</i> | 25 January 1996 | 5 April 1997 |
| Mr J M Chatwin | <i>Chief Executive</i> | 8 March 1990 | Still in office |
| Mr A W J Coleman | <i>Group Finance Director</i> | 8 March 1990 | Still in office |
| Mr G J Hall | <i>Group Executive Director</i> | 8 March 1990 | Still in office |
| Mr P B Morgan | <i>Group Executive Director</i> | 1 February 1992 | 28 November 1996 |

In accordance with Article 92 of the Articles of Association of the Company, Mr G J Hall will retire by rotation at the Annual General Meeting and, being eligible, offer himself for re-appointment. Mr G J Hall has a service agreement terminable by the Company upon 24 months' notice.

In accordance with Article 98 of the Articles of Association of the Company, Dr E L Draper Jr, Mr W H Brunetti, Mr R C Kelly, Mr D M Clements Jr, Mr A A Pena and Ms T S Madden, who were appointed by the Board of Directors on 5 April 1997, will each retire at the Annual General Meeting and will be recommended for re-appointment by the remaining Directors.

Directors' Interests

The Board 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.

The interests of the Directors in the share capital of the Company are set out in Note 7 to the Accounts on page 24.

Fixed Assets

The current cost value of land and buildings and investment properties is £141.8m compared to a historic cost value of £102.7m.

Charitable and Political Donations

Charitable donations made during the year amounted to £53,350.

The Company spent a further £358,812 on a range of community and sponsorship activities across the region. In addition 15 employees were seconded to various charitable organisations during the year.

No political donations were made by the Company or its subsidiaries.

Policy in respect of Supplier Payment

Yorkshire Electricity 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 our 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 23 days trade creditors were owed at the year end.

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 the Company newspaper. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees.

Health and Safety at Work

The Company promotes all aspects of health and safety throughout the Group in the interests of employees, customers and the public at large.

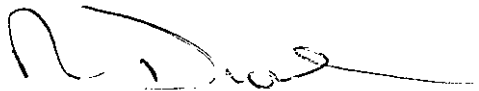
Research and Development

The Group's research activities have continued to be primarily in co-operation with Electricity Association Technology Limited and are mainly aimed at reducing our operating costs and improving the performance of our assets with a view to increasing our customer service performance. The major developments have been associated with distribution assets and customer service systems.

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

Yorkshire Electricity Group plc
Wetherby Road
Scarcroft
LEEDS
LS14 3HS

Registered in England
No. 2366995

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 for the financial year.

The Directors consider that, in preparing the financial statements on pages 11 to 41 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.

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 11 to 41 which have been prepared under the accounting policies set out in pages 15 to 18.

Respective responsibilities of Directors and auditors

As described earlier the Company's Directors are responsible for the preparation of financial statements. 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 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 the 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 at 31 March 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
LEEDS
LS1 2AJ
15 July 1997

Group Profit and Loss Account for the year ended 31 March 1997

| | <u>Note</u> | <u>1996/97</u> | <u>1995/96</u> |
|--|-------------|----------------|---------------------|
| | | | <u>Post NGG</u> |
| | | | <u>Exceptionals</u> |
| | | | <u>(Note 4)</u> |
| | | <u>£m</u> | <u>£m</u> |
| Turnover | 2 | 1,328.9 | 1,332.3 |
| Cost of sales (after charging an exceptional item of £78.1m, note 17) | | 967.7 | 960.6 |
| Gross profit | | 361.2 | 371.7 |
| Distribution costs (after charging an exceptional item of £12.1m, note 5) | | 172.0 | 157.3 |
| Administrative expenses (after charging an exceptional item of £37.6m, note 5) | | 139.2 | 101.6 |
| Other operating income | 3(b) | (0.9) | (5.4) |
| Operating profit | 2&3 | 50.9 | 118.2 |
| Share of (losses)/profits of associated undertakings: | | | |
| Continuing | | (0.5) | 0.5 |
| Discontinued | 11(d) | (1.9) | (4.0) |
| | | (2.4) | (3.5) |
| Income from investments | | 1.4 | 127.2 |
| Profit on disposal of associated undertakings | 11(d) | 14.5 | - |
| Profit/ (loss) on disposal of subsidiary undertakings | 11(c) | 0.0 | (2.5) |
| Profit on ordinary activities before interest | | 64.4 | 239.4 |
| Net interest payable | 6 | (33.2) | (20.1) |
| Profit on ordinary activities before taxation | | 31.2 | 219.3 |
| Taxation | 8 | 37.1 | 89.6 |
| (Loss)/ profit on ordinary activities after taxation | | (5.9) | 129.7 |
| Equity minority interests | | 2.1 | 1.2 |
| (Loss)/ profit for the financial year | | (8.0) | 128.5 |
| NGG distribution on equity shares | 9 | - | 289.1 |
| Special dividend on equity shares | 9 | - | 184.9 |
| Ordinary dividends on equity shares | 9 | 25.2 | 61.6 |
| Retained deficit for the financial year | 20 | (33.2) | (407.1) |

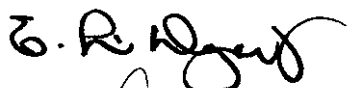
Except as identified above all items relate to continuing operations.

Balance Sheets

| | Note | Group | | Company | |
|---|-------|----------|----------|----------|----------|
| | | 31 March | 31 March | 31 March | 31 March |
| | | 1997 | 1996 | 1997 | 1996 |
| | | £m | £m | £m | £m |
| Fixed assets | | | | | |
| Tangible assets | 10 | 798.2 | 772.0 | 670.9 | 653.6 |
| Investments | 11 | 111.0 | 104.3 | 194.5 | 214.1 |
| | | 909.2 | 876.3 | 865.4 | 867.7 |
| Current assets | | | | | |
| Stocks | 12 | 5.6 | 4.3 | 3.3 | 2.5 |
| Debtors | 13 | 207.2 | 252.4 | 194.5 | 229.8 |
| Investments | 14 | 229.6 | 287.4 | 167.3 | 219.4 |
| Cash at bank and in hand | | 20.2 | 1.1 | 18.1 | 0.6 |
| | | 462.6 | 545.2 | 383.2 | 452.3 |
| Creditors (amounts falling due within one year) | 15&16 | (336.7) | (429.4) | (302.9) | (403.9) |
| Net current assets | | 125.9 | 115.8 | 80.3 | 48.4 |
| Total assets less current liabilities | | 1,035.1 | 992.1 | 945.7 | 916.1 |
| Creditors (amounts falling due after more than one year) | 15&16 | (419.4) | (423.7) | (376.0) | (375.7) |
| Provisions for liabilities and charges | 17&18 | (121.6) | (47.3) | (159.1) | (37.4) |
| Net assets | | 494.1 | 521.1 | 410.6 | 503.0 |
| Capital and reserves | | | | | |
| Called up share capital | 19 | 108.5 | 108.1 | 108.5 | 108.1 |
| Share premium account | 20 | 12.2 | 10.5 | 12.2 | 10.5 |
| Investment property revaluation reserve | 20 | 1.7 | 1.7 | 1.7 | 1.7 |
| Revaluation reserve | 20 | 18.7 | 23.1 | 18.7 | 23.1 |
| Capital redemption reserve | 20 | 0.1 | 0.1 | 0.1 | 0.1 |
| Profit and loss account | 20 | 352.2 | 377.5 | 269.4 | 359.5 |
| Equity shareholders' funds | | 493.4 | 521.0 | 410.6 | 503.0 |
| Equity minority interests | | 0.7 | 0.1 | - | - |
| | | 494.1 | 521.1 | 410.6 | 503.0 |

The financial statements on pages 11 to 41 were approved by the Board of Directors on 15 July 1997 and signed on its behalf by:

E L Draper Jr., Chairman:



A W J Coleman, Director:



Group Cash Flow Statement for the year ended 31 March 1997

| | <u>Note</u> | <u>1996/97</u> | <u>1995/96</u> |
|--|--------------|----------------|------------------------------|
| | | <u>£m</u> | <u>Restated</u> <u>£m</u> |
| Net cash inflow from operating activities | 21(a) | 148.0 | 225.8 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 21.0 | 25.1 |
| Interest paid | | (42.3) | (45.9) |
| Dividends received | | 1.9 | 114.9 |
| Dividends paid to minority shareholders in subsidiary undertaking | | (3.0) | - |
| Net cash (outflow)/inflow from returns on investment and servicing of finance | | (22.4) | 94.1 |
| Taxation | | | |
| Corporation tax (including ACT) | | (30.2) | (97.6) |
| Tax paid | | (30.2) | (97.6) |
| Capital expenditure and financial investment | | | |
| Payments to acquire tangible fixed assets (including systems development costs of £5.2m (1995/96 £6.7m), note 5) | | (103.4) | (101.1) |
| Receipts from sale of tangible fixed assets | | 28.7 | 33.4 |
| Purchase of other investments | | (17.0) | (25.0) |
| Loans to associated undertakings | 11(d) | (3.4) | 2.0 |
| Receipts from sale of PSB | | 9.9 | 52.6 |
| Net cash outflow from capital expenditure and financial investment | | (85.2) | (38.1) |
| Acquisitions and disposals | | | |
| Receipts from sale of associated undertakings | 11(d) | 25.8 | - |
| Receipts from sale of subsidiary undertakings | 11(c) | 0.0 | 32.5 |
| Net cash inflow from acquisitions and disposals | | 25.8 | 32.5 |
| Equity dividends paid | | | |
| Dividends paid | | (68.4) | (242.5) |
| | | (68.4) | (242.5) |
| Net cash outflow before use of liquid resources and financing | | (32.4) | (25.8) |
| Management of liquid resources | | | |
| Sale/ (purchase) of liquid resources | | 57.8 | (153.4) |
| | | 57.8 | (153.4) |
| Financing | | | |
| Issue of share capital | | 2.4 | 10.9 |
| Repurchase of own shares | | - | (0.4) |
| New borrowings | | - | 163.7 |
| Repayment of borrowings | | (5.2) | (47.1) |
| Issue of commercial paper | | 3.1 | 41.3 |
| Net cash inflow from financing | | 0.3 | 168.4 |
| Increase/(decrease) in cash in the period | 21(b)& 21(c) | 25.7 | (10.8) |

Statement of Total Recognised Gains & Losses for the year ended 31 March 1997

| | <u>1996/97</u> | <u>1995/96</u> |
|--|----------------|----------------|
| | £m | £m |
| (Loss)/Profit for the financial year | (8.0) | 128.5 |
| Unrealised deficit on revaluation of investment properties | - | (6.6) |
| Gain on deemed disposal of part holding in associate undertaking | - | 4.8 |
| Surplus on revaluation of investment in NGG | 0.3 | 233.2 |
| Surplus on revaluation of investment in PSB | 6.4 | 56.1 |
| Deferred tax provision on investment in NGG | (3.8) | - |
| Total recognised gains and losses for the year | (5.1) | 416.0 |

Note of Historical Cost Profits for the year ended 31 March 1997

| | <u>1996/97</u> | <u>1995/96</u> |
|--|----------------|----------------|
| | £m | £m |
| Reported profit on ordinary activities before taxation | 31.2 | 219.3 |
| Investment property disposal | - | 2.6 |
| Adjustment of administrative expenses to cost | - | 6.9 |
| Realisation of investment in PSB | 6.4 | 56.1 |
| Historical cost profit on ordinary activities before taxation | 37.6 | 284.9 |
| Taxation | (37.1) | (89.6) |
| Equity minority interests | (2.1) | (1.2) |
| Dividends on equity shares | (25.2) | (535.6) |
| Adjustment to restate NGG distribution to cost | - | 274.9 |
| Historical cost deficit for the year | (26.8) | (66.6) |

NOTES TO THE ACCOUNTS

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 certain fixed asset investments and investment properties). Compliance with Statement of Standard Accounting Practice (SSAP) No.19 "Accounting for investment properties" requires departure from the requirements of the Companies Act 1985 relating to the 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.

The accounts of subsidiary and associated undertakings are co-terminous with those of Yorkshire Electricity Group plc apart from those of certain subsidiaries and associated undertakings which have accounting reference dates between 30 April and 31 December for commercial reasons. Management accounts made up to 31 March 1997 are used for consolidation of such subsidiary and associated undertakings.

Associated undertakings

Investments, excluding those classified as subsidiaries, are regarded as associated undertakings where the Group has a long term interest in more than 20% of the equity and is in a position to exercise a significant influence over their affairs on a continuing basis. These are stated in the consolidated balance sheet at the Group's share of net assets after adjustment for goodwill or discount on acquisition. The consolidated profit and loss account includes the Group's share of the pre-tax profits and attributable taxation of the associated undertakings.

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 year end and the invoice value of other goods and services provided, exclusive of value added tax.

Under/over recovery of regulated income

Where there is an over recovery of supply or distribution business revenues against the regulated maximum allowable amount, such over recoveries are deferred. The deferred amount is deducted from turnover and included in creditors. Where there is an under recovery, no anticipation of any potential future recovery is made.

Tangible fixed assets and depreciation

i) Tangible fixed assets

Tangible fixed assets, other than investment properties are stated at cost less accumulated depreciation. Interest is capitalised for defined project finance.

NOTES TO THE ACCOUNTS

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 commencing in the year following acquisition or completion. The lives of each major class of depreciable asset are as follows:

| | Years |
|--|---|
| Distribution assets | 40 |
| Depreciation is charged at 3% for 20 years followed by 2% for the remaining 20 years | |
| Generation assets | 20 |
| 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 10 |
| 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 over a 40 year period at a rate of 3% for the first 20 years followed by 2% for the remaining 20 years.

iv) Property clawback

Arrangements have been put in place to entitle HM Government to a proportion of any property gain (above certain thresholds) accruing as a result of disposals, or events treated as disposals for clawback purposes, occurring after 31 March 1990 in relation to land in which the Company had an interest at that date (and, in certain circumstances, land in which the Company acquires an interest thereafter from other members of the electricity industry) and any buildings on that land. These arrangements will last until 31 March 2000.

A provision for clawback in respect of property disposals is made only to the extent that it is probable that a liability will crystallise. Such a liability will crystallise when an actual or deemed disposal occurs.

NOTES TO THE ACCOUNTS

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 & 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 SSAP19. 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 SSAP19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year 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 or valuation. 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 year 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 year in which it is incurred.

Expenditure on the development of specific projects is carried forward when its recoverability can be foreseen with reasonable assurance and is amortised in line with the future life of the project.

Discounting

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.

Deferred taxation

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.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (continued)

Leases

- i) As Lessee rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.
- ii) As Lessor the Group's net investment in finance leases is stated at the total value of rentals receivable less finance charges allocated to future periods.

Total gross earnings from finance leases are allocated so as to give a constant periodic rate of return on the net cash investment.

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 scheme, are charged to the profit and loss account as incurred.

Goodwill

Goodwill arising on consolidation, representing the excess of the purchase consideration of the businesses over the fair value of the net assets acquired, is set off against reserves in the year of acquisition.

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) No.5, transactions entered into by the Group are recorded in the financial statements taking into account their full commercial substance.

NOTES TO THE ACCOUNTS

2. TURNOVER, OPERATING PROFIT AND NET ASSETS

Turnover for 1996/97 is all in respect of sales from continuing businesses to United Kingdom customers. Turnover, operating profit and net assets are attributable to the following activities:

| | <u>Turnover</u> | | <u>Operating Profit</u> | | <u>Net Assets</u> | |
|---|----------------------|----------------------|-------------------------|----------------------|----------------------------|----------------------------|
| | <u>1996/97</u> £m | <u>1995/96</u> £m | <u>1996/97</u> £m | <u>1995/96</u> £m | <u>31 March 1997</u> £m | <u>31 March 1996</u> £m |
| Distribution | 306.2 | 334.4 | 125.5 | 164.7 | 578.1 | 520.5 |
| Electricity Supply | 1,178.5 | 1,308.7 | (132.5) | 30.5 | (68.4) | 36.9 |
| Other (including effects of NGG customer discounts) | 171.3 | 63.8 | 11.4 | (77.0) | 62.5 | 105.5 |
| Less: | | | | | | |
| Inter-activity sales * | (327.1) | (374.6) | 46.5 | - | - | - |
| Non-allocated net assets | - | - | - | - | (78.1) | (141.8) |
| | <u>1,328.9</u> | <u>1,332.3</u> | <u>50.9</u> | <u>118.2</u> | <u>494.1</u> | <u>521.1</u> |

* Inter activity sales relate mainly to sales by the Distribution business for use of system to the Supply business and also include transfer pricing sales made between the different businesses.

Turnover in respect of the Supply and Distribution businesses excludes revenues in excess of the regulated maximum allowed amount.

3. OPERATING PROFIT

a) Operating profit is stated after charging:

| | <u>1996/97</u> £m | <u>1995/96</u> £m |
|---|----------------------|----------------------|
| Employment costs (note 7(a)) | 68.8 | 72.9 |
| Depreciation (including write down of non-operational properties £5.4m (1995/96 nil) and £22.3m (1995/96 nil) exceptional item, see note 5) | 71.0 | 40.9 |
| Advisers fees arising from the take-over | 8.0 | - |
| Loss/(Profit) on sale of tangible assets | 0.2 | (2.4) |
| Other operating lease rentals | 4.4 | 5.4 |
| Research and development | 1.9 | 1.1 |
| Gas & electricity contracts provision (note 17) | 78.1 | - |
| Systems development costs, excluding provision for permanent diminution in value of tangible fixed assets included in depreciation above (note 5.) | 27.4 | - |
| Auditors' remuneration - Audit fees | 0.2 | 0.1 |
| - Other fees | 1.3 | 0.4 |

NOTES TO THE ACCOUNTS

3. OPERATING PROFIT (continued)

b) Other operating income consists of:

| | <u>1996/97</u> | <u>1995/96</u> |
|----------------------------|----------------|----------------|
| | £m | £m |
| Investment property rental | 0.8 | 5.3 |
| Ancillary services | <u>0.1</u> | <u>0.1</u> |
| | <u>0.9</u> | <u>5.4</u> |

4. NATIONAL GRID GROUP plc

The profit and loss account for 1995/96 showing separately exceptional items is set out below:

| | <u>Pre Exceptional</u> | <u>1995/96</u> | |
|---|------------------------|------------------------|--------------|
| | <u>Items</u> | <u>NGG Exceptional</u> | <u>Total</u> |
| | £m | £m | £m |
| Turnover | 1,426.0 | (93.7) | 1,332.3 |
| Cost of sales | 969.1 | (8.5) | 960.6 |
| Gross profit | 456.9 | (85.2) | 371.7 |
| Distribution costs | 157.3 | - | 157.3 |
| Administrative expenses | 88.6 | 13.0 | 101.6 |
| Other operating income | (5.4) | - | (5.4) |
| Operating profit/(loss) | 216.4 | (98.2) | 118.2 |
| Share of losses of associated undertakings | (3.5) | - | (3.5) |
| Income from investment in NGG | 8.9 | 118.3 | 127.2 |
| Loss on disposal of subsidiary undertakings | (2.5) | - | (2.5) |
| Profit on ordinary activities before interest | 219.3 | 20.1 | 239.4 |
| Net interest payable | (20.1) | - | (20.1) |
| Profit on ordinary activities before taxation | 199.2 | 20.1 | 219.3 |
| Taxation | 52.1 | 37.5 | 89.6 |
| Profit/(loss) on ordinary activities after taxation | 147.1 | (17.4) | 129.7 |
| Equity minority interests | 1.2 | - | 1.2 |
| Profit/(loss) for the financial year | 145.9 | (17.4) | 128.5 |
| NGG distribution on equity shares | - | 289.1 | 289.1 |
| Special dividend on equity shares | 184.9 | - | 184.9 |
| Ordinary dividends on equity shares | 61.6 | - | 61.6 |
| Retained deficit for the financial year | (100.6) | (306.5) | (407.1) |

At 1 April 1995 the Group held 9.2% of the issued share capital of National Grid Group plc ("NGG"), formerly National Grid Holding plc, which was held in the balance sheet at £71.7m. During the year ended 31 March 1996, the majority of the investment was realised and distributed to shareholders, in addition domestic customers received a discount. The transactions which comprised the NGG distribution were:

a) In December 1995 special dividends of £118.3m (gross) were paid by NGG to the Group. £15.8m of which was re-subscribed for additional shares.

b) In December 1995 NGG became a company listed on the London Stock Exchange. The Group revalued its investment to market value of £320.7m.

NOTES TO THE ACCOUNTS

4. NATIONAL GRID GROUP plc (continued)

c) During December 1995 the Group made a distribution in specie to its shareholders of approximately 90% of its interest in NGG issued ordinary share capital, with a market value of £289.1m.

d) Following the Listing of NGG, domestic customers received a discount of approximately £50 (plus VAT) during the early part of 1996. This resulted in a reduction in gross profit of £85.2m.

e) On 17 November 1995 a specie dividend of NGG's holding in PSB Holdings Limited ("PSB") was made. Following this the Group's investment in PSB was recognised at its estimated market value of £56.1m. Subsequently, on 21 December 1995 this investment was realised. In the year to 31 March 1997 further consideration of £6.4m was realised (note 20b) and the revaluation of the investment was adjusted accordingly.

f) In order that holders of options in Yorkshire Electricity shares were not disadvantaged by the above arrangements, the Directors established a new employee share trust. The trustee has purchased NGG shares from the Company. Upon the exercise of options (granted prior to 8 December 1995) under the Savings-Related Share Option Scheme and Executive Share Option Scheme, the trustee transfers to the relevant option holder such number of NGG shares (or if required by the option holder Yorkshire Electricity shares of equivalent value) as the option holder would have been entitled to receive had the shares under option been issued and allotted on the date of the distribution. This compensation along with other costs related to the distribution, resulted in a charge to the profit and loss account for the year of £13.0m. The number of shares held by the trust at 31 March 1997 was 224,435, 31 March 1996 642,819 NGG ordinary 10p shares, with a market value of £470,191 and £1,234,212 respectively and 811 Yorkshire Electricity Group plc ordinary 68 2/11p shares with a market value of £6,593 as at 31 March 1996.

The charge to the profit and loss account in respect of taxation on the above transactions was £37.5m. This comprises a corporation tax charge arising from the distribution of £49.4m, tax on NGG dividends of £20.6m, offset by corporation tax reductions relating to the customer discount and other expenses of £32.5m.

5. SYSTEMS DEVELOPMENT COSTS

£49.7m (including £22.3m provision for permanent diminution in value of tangible fixed assets) has been charged to the profit and loss account in respect of IT costs relating to the opening up of the competitive electricity market in 1998. It is the Directors' opinion that, at this stage in the development of the future commercial and regulatory environment, it would not be prudent to capitalise these costs.

6. NET INTEREST PAYABLE

| | <u>1996/97</u> | <u>1995/96</u> |
|--|----------------|----------------|
| | £m | £m |
| Interest payable: | | |
| On bank loans, overdrafts and other loans (wholly repayable within five years) | *(17.9) | (9.0) |
| On other loans | (36.8) | (36.7) |
| | <u>(54.7)</u> | <u>(45.7)</u> |
| Interest receivable | 21.5 | 25.6 |
| | <u>(33.2)</u> | <u>(20.1)</u> |

* Includes £7.1m in relation to the termination of interest rate financial instruments.

NOTES TO THE ACCOUNTS

7. DIRECTORS AND EMPLOYEES

| | <u>1996/97</u> | <u>1995/96</u> |
|--|----------------|----------------|
| | £m | £m |
| a) Employment Costs | | |
| The aggregate remuneration of all employees including the Directors of the Company, comprised: | | |
| Wages and salaries | 84.5 | 87.7 |
| Social security costs | 7.2 | 9.1 |
| Other pension costs | 6.2 | 6.7 |
| | <u>97.9</u> | <u>103.5</u> |
| Less: charged as capital expenditure | <u>(29.1)</u> | <u>(30.6)</u> |
| Charged to the profit and loss account | <u>68.8</u> | <u>72.9</u> |

b) Number of employees

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

| | <u>1996/97</u> | <u>Group</u> | <u>1995/96</u> |
|-------------------------------------|----------------|--------------|----------------|
| | Number | | Number |
| Distribution and Electricity Supply | 3,380 | | 3,482 |
| Other | 596 | | 812 |
| | <u>3,976</u> | | <u>4,294</u> |

ii) The full time equivalent number of employees, including Directors, as at 31 March was:

| | <u>1997</u> | <u>Group</u> | <u>1996</u> |
|-------------------------------------|--------------|--------------|--------------|
| | Number | | Number |
| Distribution and Electricity Supply | 3,236 | | 3,262 |
| Other | 552 | | 645 |
| | <u>3,788</u> | | <u>3,907</u> |

NOTES TO THE ACCOUNTS

7. DIRECTORS AND EMPLOYEES (continued)

c) Directors

The following table shows the aggregate of Directors emoluments and other payments, excluding shares under the Long Term Incentive Scheme and share options.

| | <u>1996/97</u> | <u>1995/96</u> |
|----------------------------|----------------|----------------|
| | £000 | £000 |
| Fees | 186.4 | 170.5 |
| Emoluments | 903.0 | 725.5 |
| Long Term Incentive Scheme | - | - |
| Pension contributions | 68.1 | 65.8 |
| | <u>1,157.5</u> | <u>961.8</u> |

Number of Directors who :

| | <u>1996/97</u> | <u>1995/96</u> |
|--|----------------|----------------|
| | Number | Number |
| - are members of a defined benefit pension scheme | 4* | 4* |
| - exercised share options | 4* | 4* |
| - have become entitled to awards during the year in the form of shares under long-term incentive schemes | 4* | 4* |

* includes highest paid director.

| | <u>1996/97</u> | <u>1995/96</u> |
|--|----------------|----------------|
| | £000 | £000 |
| Highest-paid director's remuneration : | | |
| Aggregate of emoluments and awards under long-term incentive schemes (excluding pension contributions, share options and awards in the form of shares) | 291.7 | 237.2 |

The amount of the accrued pension and accrued lump sum of the highest-paid director at 31 March 1997 were £100,181 and £203,302 respectively.

Compensation payments to directors for loss of office amounted to £135,000, of which £105,000 was paid into the directors pension scheme.

NOTES TO THE ACCOUNTS

7. DIRECTORS AND EMPLOYEES (continued)

The beneficial interests of each Director in the ordinary shares of the Company according to the register kept by the Company under Section 325 of the Companies Act 1985 are set out in the tables below:

| | <u>31 March 1997</u> | | | <u>1 April 1996</u> | | |
|-----------------|----------------------|-------------------------|---------------------|---------------------|-------------------------|---------------------|
| | <u>Issued</u> | <u>Sharesave Scheme</u> | <u>Under Option</u> | <u>Issued</u> | <u>Sharesave Scheme</u> | <u>Under Option</u> |
| C Hampson | 3,000 | - | - | 3,000 | - | - |
| J M Chatwin | 29,897 | 1,206 | 22,552 | 28,958 | 629 | 111,482 |
| A W J Coleman | 12,751 | 1,206 | 5,253 | 12,690 | 629 | 61,718 |
| G J Hall | 28,061 | 1,206 | 6,169 | 27,972 | 629 | 54,928 |
| Lady Eccles | 2,933 | - | - | 2,933 | - | - |
| J N Hardman | 1,867 | - | - | 1,867 | - | - |
| Sir Philip Beck | 2,573 | - | - | 2,573 | - | - |
| J V H Robins | 1,000 | - | - | 1,000 | - | - |

The number of ordinary shares held in Trust under the 1994/97 Long Term Incentive Scheme and the movements in the year were:

| | <u>At 1 April 1996</u> | <u>Dividends received and reinvested</u> | <u>At 31 March 1997</u> |
|---------------|------------------------|--|-------------------------|
| J M Chatwin | 7,379 | 363 | 7,742 |
| A W J Coleman | 4,849 | 234 | 5,083 |
| G J Hall | 4,265 | 205 | 4,470 |

The Vesting percentage in accordance with the Scheme relates in each case to 80% of the number of shares shown above.

The number of ordinary shares held in Trust under the 1995/98 Long Term Incentive Scheme and the movements in the year were:

| | <u>Purchase in respect of 1995/96 performance</u> | <u>At 31 March 1997</u> |
|---------------|---|-------------------------|
| J M Chatwin | 9,367 | 9,367 |
| A W J Coleman | 6,320 | 6,320 |
| G J Hall | 5,643 | 5,643 |

The Vesting percentage in accordance with the Scheme relates in each case to 40% of the number of shares shown above.

NOTES TO THE ACCOUNTS

7. DIRECTORS AND EMPLOYEES (continued)

Share options including share options granted to or exercised by the Directors in 1996/97 were as follows:

| | <u>At</u> <u>01.04.96</u> | <u>Number of share options</u> <u>During the year</u> <u>Granted</u> | <u>Exercised</u> | <u>At</u> <u>31.03.97</u> | <u>Exercise</u> <u>price</u> | <u>Market</u> <u>price at</u> <u>date of</u> <u>exercise</u> | <u>Date from</u> <u>which</u> <u>exercisable</u> | <u>Expiry</u> <u>date</u> |
|---------------|------------------------------|--|------------------|------------------------------|---------------------------------|---|--|------------------------------|
| J M Chatwin | 88,930# | - | 88,930 | - | 478p | 730p | 21.12.95 | 21.12.02 |
| | 22,552# | - | - | 22,552# | 782p | - | 23.01.98 | 23.01.05 |
| | 629* | - | - | 629* | 548p | - | 22.03.01 | 21.09.01 |
| | - | 577* | - | 577* | 597p | - | 22.03.02 | 22.09.02 |
| A W J Coleman | 56,465# | - | 56,465 | - | 478p | 730p | 21.12.95 | 21.12.02 |
| | 5,253# | - | - | 5,253# | 782p | - | 23.01.98 | 23.01.05 |
| | 629* | - | - | 629* | 548p | - | 22.03.01 | 21.09.01 |
| | - | 577* | - | 577* | 597p | - | 22.03.02 | 22.09.02 |
| G J Hall | 48,759# | - | 48,759 | - | 478p | 730p | 21.12.95 | 21.12.02 |
| | 6,169# | - | - | 6,169# | 782p | - | 23.01.98 | 23.01.05 |
| | 629* | - | - | 629* | 548p | - | 22.03.01 | 21.09.01 |
| | - | 577* | - | 577* | 597p | - | 22.03.02 | 22.09.02 |

* Grant of options under the Savings-Related Share Options Scheme.

Upon exercise of these options, the option holder will receive 0.7566 NGG shares for every Yorkshire Electricity share option exercised (or Yorkshire Electricity shares of equivalent value). The market value of NGG shares at 28 March 1997 was 209.5p per share.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | <u>1996/97</u> <u>£m</u> | <u>1995/96</u> <u>£m</u> |
|---|-----------------------------|-----------------------------|
| Taxation on profit for the year: | | |
| UK corporation tax at 33% (1995/96 33%) | 36.4 | 53.5 |
| Tax on franked investment income | 0.2 | 1.8 |
| Associated undertakings | 0.5 | 0.2 |
| | <u>37.1</u> | <u>55.5</u> |
| Adjustment in respect of earlier years: | | |
| Parent & subsidiary undertakings | - | (4.5) |
| Associated undertakings | - | 1.1 |
| | <u>37.1</u> | <u>52.1</u> |
| Tax on NGG transactions | - | 37.5 |
| | <u>37.1</u> | <u>89.6</u> |

The tax charge has increased by £2.8m (1995/96 £12.3m reduction) as a result of accelerated capital allowances and increased by £25.8m (1995/96 £6.9m) as a result of provisions disallowed for corporation tax purposes. No deferred tax has been provided in respect of these items.

NOTES TO THE ACCOUNTS

9. DIVIDENDS

| | <u>1996/97</u> £m | <u>1995/96</u> £m |
|--|----------------------|----------------------|
| NGG distribution | - | 289.1 |
| Special dividend (1995/96 100.00p per 56 9/11p ordinary share) | - | 184.9 |
| Interim dividend of 15.80p per consolidated ordinary share (1995/96 11.88p) | 25.2 | 18.3 |
| Proposed final dividend per consolidated ordinary share (1995/96 27.30p) | - | 43.3 |
| | <u>25.2</u> | <u>535.6</u> |

In January 1996 the share capital was consolidated on the basis of 5 new 68 2/11p ordinary shares for every 6 existing 56 9/11p ordinary shares.

10. TANGIBLE FIXED ASSETS

The Group's tangible fixed assets comprise:

| | <u>Investment</u> <u>Properties</u> £m | <u>Gener</u> <u>-ation</u> £m | <u>Distrib</u> <u>-ution</u> £m | <u>Non Op</u> <u>Land &</u> <u>Buildings</u> £m | <u>Other</u> £m | <u>Deduct:</u> <u>Capital</u> <u>Contr'ns</u> £m | <u>Total</u> £m |
|--------------------------|--|-------------------------------------|---------------------------------------|--|--------------------|---|--------------------|
| <u>Cost or Valuation</u> | | | | | | | |
| At 1 April 1996 | 44.2 | 128.4 | 1,088.5 | 49.5 | 144.9 | (229.0) | 1,226.5 |
| Additions | 6.6 | 15.9 | 95.5 | 1.3 | 34.1 | (27.3) | 126.1 |
| Disposals | (28.8) | - | (3.2) | - | (2.7) | 0.1 | (34.6) |
| Revaluation adjustment | 0.0 | - | - | - | - | - | 0.0 |
| At 31 March 1997 | 22.0 | 144.3 | 1,180.8 | 50.8 | 176.3 | (256.2) | 1,318.0 |
| <u>Depreciation</u> | | | | | | | |
| At 1 April 1996 | - | 12.3 | 393.2 | 12.0 | 86.5 | (49.5) | 454.5 |
| Disposals | - | - | (3.2) | - | (2.6) | 0.1 | (5.7) |
| Charge for the year | - | 6.6 | 29.3 | 6.5 | 35.3 | (6.7) | 71.0 |
| At 31 March 1997 | - | 18.9 | 419.3 | 18.5 | 119.2 | (56.1) | 519.8 |
| <u>Net book amount</u> | | | | | | | |
| At 31 March 1997 | 22.0 | 125.4 | 761.5 | 32.3 | 57.1 | (200.1) | 798.2 |
| At 31 March 1996 | 44.2 | 116.1 | 695.3 | 37.5 | 58.4 | (179.5) | 772.0 |

Included in fixed assets at 31 March 1997 are assets in the course of construction amounting to £30.6m (31 March 1996 £16.7m) and land of £4.2m (31 March 1996 £6.3m) which are not depreciated.

NOTES TO THE ACCOUNTS

10. TANGIBLE FIXED ASSETS (continued)

The Company's tangible fixed assets comprise:

| | <u>Investment Properties</u> £m | <u>Distrib- ution</u> £m | <u>Non Op Land & 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 April 1996 | 44.2 | 1,088.5 | 48.7 | 143.0 | (229.0) | 1,095.4 |
| Additions | 6.6 | 95.5 | 1.3 | 34.1 | (27.3) | 110.2 |
| Disposals | (28.8) | (3.2) | - | (2.7) | 0.1 | (34.6) |
| Revaluation adjustment | 0.0 | - | - | - | - | 0.0 |
| At 31 March 1997 | 22.0 | 1,180.8 | 50.0 | 174.4 | (256.2) | 1,171.0 |
| <u>Depreciation</u> | | | | | | |
| At 1 April 1996 | - | 393.2 | 12.1 | 86.0 | (49.5) | 441.8 |
| Disposals | - | (3.2) | - | (2.6) | 0.1 | (5.7) |
| Charge for the year | - | 29.3 | 6.5 | 34.9 | (6.7) | 64.0 |
| At 31 March 1997 | - | 419.3 | 18.6 | 118.3 | (56.1) | 500.1 |
| <u>Net book amount</u> | | | | | | |
| At 31 March 1997 | 22.0 | 761.5 | 31.4 | 56.1 | (200.1) | 670.9 |
| At 31 March 1996 | 44.2 | 695.3 | 36.6 | 57.0 | (179.5) | 653.6 |

Included in fixed assets at 31 March 1997 are assets in the course of construction amounting to £18.0m (31 March 1996 £16.4m) and land of £3.8m (31 March 1996 £5.9m) which are not depreciated.

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

| | <u>Group</u> | | <u>Company</u> | |
|----------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | <u>31 March 1997</u> £m | <u>31 March 1996</u> £m | <u>31 March 1997</u> £m | <u>31 March 1996</u> £m |
| Freehold | 26.4 | 28.4 | 25.5 | 27.5 |
| Long Leasehold | 5.9 | 9.1 | 5.9 | 9.1 |
| | <u>32.3</u> | <u>37.5</u> | <u>31.4</u> | <u>36.6</u> |

NOTES TO THE ACCOUNTS

10. TANGIBLE FIXED ASSETS (continued)

Investment Properties are revalued annually by employees of the Group who are members of either the Royal Institution of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers. The basis of the valuation is open market value in existing use. 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 & loss account. In compliance with the requirements of SSAP19 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 £1.7m (31 March 1996 £1.7m).

11. FIXED ASSET INVESTMENTS

a) Fixed asset investments

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | <u>31 March</u> <u>1997</u> £m | <u>31 March</u> <u>1996</u> £m | <u>31 March</u> <u>1997</u> £m | <u>31 March</u> <u>1996</u> £m |
| National Grid Group plc at valuation | 23.7 | 24.4 | 23.7 | 24.4 |
| Subsidiary undertakings | - | - | 137.5 | 164.0 |
| Associated undertakings | 3.1 | 14.0 | - | 1.3 |
| Other investments at cost | 84.2 | 65.8 | 33.3 | 24.3 |
| Own shares | - | 0.1 | - | 0.1 |
| | <u>111.0</u> | <u>104.3</u> | <u>194.5</u> | <u>214.1</u> |

b) National Grid Group plc and other investments

| | <u>Group</u> | | <u>Company</u> | |
|------------------|------------------|--------------------|------------------|--------------------|
| | <u>NGG</u> £m | <u>Other</u> £m | <u>NGG</u> £m | <u>Other</u> £m |
| At 1 April 1996 | 24.4 | 65.8 | 24.4 | 24.3 |
| Additions | - | 18.4 | - | 9.0 |
| Revaluation | 0.3 | - | 0.3 | - |
| Disposal | (1.0) | - | (1.0) | - |
| At 31 March 1997 | <u>23.7</u> | <u>84.2</u> | <u>23.7</u> | <u>33.3</u> |

The National Grid Group plc shares are listed on the London Stock Exchange and are valued at their market value.

During the year, the Group invested a further £9.6m in the Armada Gas Field and £8.8m in Ionica L3 Ltd.

NOTES TO THE ACCOUNTS

11. FIXED ASSET INVESTMENTS (continued)

c) Company - Investment in subsidiary undertakings

| | <u>1996/97</u> £m | <u>1995/96</u> £m |
|--|----------------------|----------------------|
| At 1 April | 23.7 | 21.4 |
| Additions | - | 2.3 |
| Disposals | (2.3) | (0.0) |
| | <u>21.4</u> | <u>23.7</u> |
| Loans | 119.5 | 142.8 |
| | <u>140.9</u> | <u>166.5</u> |
| Provision against carrying value of subsidiary undertaking | (3.4) | (2.5) |
| At 31 March | <u>137.5</u> | <u>164.0</u> |

On 11 November 1996 the Company sold its wholly owned subsidiary, Scarcroft Holdings Ltd, for an amount equivalent to its net asset value of £0.0m.

On 4 October 1995 the Company sold two 100% subsidiary undertakings, Scarcroft Leasing (1) Ltd and Scarcroft Leasing (2) Ltd for £32.5m. The sale gave rise to a loss on disposal of £2.5m. No goodwill was attributable to the sale. The Group's profit on ordinary activities before taxation for 1995/96 includes £0.1m in respect of these companies.

d) Associated undertakings

| | <u>Share of</u> <u>net assets</u> £m | <u>Group</u> <u>Loans</u> £m | <u>Total</u> £m | <u>Shares at</u> <u>cost</u> £m | <u>Company</u> <u>Loans</u> £m | <u>Total</u> £m |
|------------------------------------|--|------------------------------------|--------------------|---------------------------------------|--------------------------------------|--------------------|
| At 1 April 1996 | 1.5 | 12.5 | 14.0 | - | 15.8 | 15.8 |
| Additions at cost | - | 4.6 | 4.6 | - | - | - |
| Disposal of associated undertaking | 1.9 | (13.2) | (11.3) | - | (1.3) | (1.3) |
| Loss for the period | (1.3) | - | (1.3) | - | - | - |
| Repaid | - | (1.2) | (1.2) | - | - | - |
| Dividends received | (0.1) | - | (0.1) | - | - | - |
| At 31 March 1997 | <u>2.0</u> | <u>2.7</u> | <u>4.7</u> | <u>-</u> | <u>14.5</u> | <u>14.5</u> |
| Provisions | | | | | | |
| At 1 April 1996 | - | - | - | - | (14.5) | (14.5) |
| Provided in year | (1.6) | - | (1.6) | - | - | - |
| At 31 March 1997 | <u>(1.6)</u> | <u>-</u> | <u>(1.6)</u> | <u>-</u> | <u>(14.5)</u> | <u>(14.5)</u> |
| Net Book Value | | | | | | |
| At 31 March 1997 | 0.4 | 2.7 | 3.1 | - | - | - |
| At 31 March 1996 | <u>1.5</u> | <u>12.5</u> | <u>14.0</u> | <u>-</u> | <u>1.3</u> | <u>1.3</u> |

NOTES TO THE ACCOUNTS

11. FIXED ASSET INVESTMENTS (continued)

d) Associated undertakings (continued)

The aggregate net losses retained for associated undertakings was £39.7m (31 March 1996 £36.8m).

On 9 October 1996 the Company sold its share of the joint venture, Torch Telecom, for £25.8m (net of costs), giving rise to a profit on sale of £14.5m before tax (£12.8m after tax). The Group's profit on ordinary activities before taxation includes £1.9m loss in respect of Torch Telecom.

e) Principal subsidiary and associated undertakings

The principal subsidiary and associated undertakings incorporated and operating in the United Kingdom (unless otherwise indicated) at 31 March 1997 are shown below.

| i) | <u>Principal subsidiary undertaking</u> | <u>Class of Capital</u> | <u>% Equity Held</u> | <u>Principal activities</u> |
|-----|---|-------------------------|----------------------|---|
| | Scarcroft Insurance Ltd (Registered in Guernsey) | Ordinary | 100% | Insurance |
| | Yorkshire Electric Power Ltd | Ordinary | 100% | Holding company for generation activities |
| | Regional Power Generators Ltd | Ordinary | 75% * | Operation of CCGT generation station |
| | Yorkshire Energy Ltd | Ordinary | 100% * | Gas investment and supply |
| | Scarcroft Investments Ltd | Ordinary | 100% | Holding company |
| | YE Gas Ltd | Ordinary | 100% | Supply of gas |
| | Yorkshire Cogen Ltd | Ordinary | 100% * | Construction and operation of CHP generating plants |
| ii) | <u>Principal associated undertaking</u> | | | |
| | Yorkshire Windpower Ltd | Ordinary | 50% * | Construction and operation of windfarms |

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

NOTES TO THE ACCOUNTS

12. STOCKS

| | <u>Group</u> | | <u>Company</u> | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Raw materials and consumables | 4.4 | 3.2 | 2.1 | 1.4 |
| Work in progress | 1.2 | 1.1 | 1.2 | 1.1 |
| | <u>5.6</u> | <u>4.3</u> | <u>3.3</u> | <u>2.5</u> |

13. DEBTORS

| | <u>Group</u> | | <u>Company</u> | |
|--|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Amounts falling due within one year: | | | | |
| Trade debtors | 174.4 | 188.6 | 169.7 | 186.1 |
| Amounts owed by group undertakings | - | - | 4.1 | 2.7 |
| Amounts owed by associated undertakings | 0.1 | 0.2 | 0.1 | 0.0 |
| Credit sale instalments not yet due | - | 0.1 | - | 0.1 |
| Other debtors | 17.6 | 22.7 | 14.1 | 20.5 |
| Prepayments and accrued income | 13.4 | 11.0 | 2.5 | 5.4 |
| Dividends receivable | - | 0.7 | 2.3 | 1.1 |
| Purchase of electricity | 1.7 | 1.2 | 1.7 | 1.2 |
| Investment in finance leases | - | 1.3 | - | 0.5 |
| | <u>207.2</u> | <u>225.8</u> | <u>194.5</u> | <u>217.6</u> |
| Amounts falling due after more than one year: | | | | |
| ACT recoverable on proposed dividends | - | 11.4 | - | 10.6 |
| Credit sale instalments not yet due | - | 0.1 | - | 0.1 |
| Investment in finance leases | - | 15.1 | - | 1.5 |
| | <u>207.2</u> | <u>252.4</u> | <u>194.5</u> | <u>229.8</u> |
| Included in trade debtors are the following amounts for unbilled consumption | <u>83.9</u> | <u>99.3</u> | <u>83.9</u> | <u>99.3</u> |

The cost of assets acquired for the purpose of leasing under finance leases was £2.1m (1995/96 £3.1m). Rentals receivable were £0.9m (1995/96 £9.4m).

NOTES TO THE ACCOUNTS

14. INVESTMENTS

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Money market investments | <u>229.6</u> | <u>287.4</u> | <u>167.3</u> | <u>219.4</u> |

15. CREDITORS

| | <u>Group</u> | | <u>Company</u> | |
|--|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Creditors (amounts falling due within one year): | | | | |
| Bank loans and overdrafts | 1.0 | 7.6 | 0.9 | 7.6 |
| Loan stock 2007 (note 16) | - | 3.0 | - | 3.0 |
| Unsecured loans (note 16) | 4.6 | 2.2 | - | - |
| Payments received in advance | 14.1 | 54.7 | 14.5 | 53.5 |
| Other trade creditors | 15.2 | 16.8 | 9.7 | 11.4 |
| Amounts owed to group undertakings | - | - | 5.4 | 6.4 |
| Commercial paper | 80.6 | 77.5 | 80.6 | 77.5 |
| Purchase of electricity | 64.5 | 74.9 | 64.5 | 74.9 |
| Corporation tax | 51.2 | 56.8 | 45.3 | 55.8 |
| Taxation and social security | 4.7 | 5.3 | 3.1 | 3.3 |
| Other creditors | 21.1 | 21.9 | 19.2 | 18.5 |
| Accruals and deferred income | 69.3 | 52.4 | 50.2 | 35.7 |
| Over recovery of regulated income | 9.5 | 13.0 | 9.5 | 13.0 |
| Proposed dividend | - | 43.3 | - | 43.3 |
| Amounts owed to associated undertakings | 0.9 | - | - | - |
| | <u>336.7</u> | <u>429.4</u> | <u>302.9</u> | <u>403.9</u> |

Creditors (amounts falling due after more than one year):

| | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| 10 year 8 5/8% Eurobond (note 16) | 148.8 | 148.6 | 148.8 | 148.6 |
| 25 year 9 1/4% Eurobond (note 16) | 196.6 | 196.5 | 196.6 | 196.5 |
| Unsecured long term loans (note 16) | 74.0 | 78.6 | 0.6 | 0.6 |
| Amounts owed to group undertakings | - | - | 30.0 | 30.0 |
| | <u>419.4</u> | <u>423.7</u> | <u>376.0</u> | <u>375.7</u> |

NOTES TO THE ACCOUNTS

16. LOANS AND DEBENTURES

Unsecured loans and loan stocks outstanding are repayable as follows:

| | <u>Group</u> | | <u>Company</u> | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Within one year, or on demand | 4.6 | 5.2 | - | 3.0 |
| Between one and two years | 3.0 | 4.6 | - | - |
| Between two and five years | 29.4 | 28.7 | - | - |
| Over five years | 387.0 | 390.4 | 346.0 | 345.7 |
| | <u>424.0</u> | <u>428.9</u> | <u>346.0</u> | <u>348.7</u> |

| | <u>Group</u> | | <u>Company</u> | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Unsecured loans and loan stocks: | | | | |
| 10 year 8 5/8% Eurobond | 148.8 | 148.6 | 148.8 | 148.6 |
| 25 year 9 1/4% Eurobond | 196.6 | 196.5 | 196.6 | 196.5 |
| 7.52% credit facility due 1999-2002 | 15.0 | 15.0 | - | - |
| 6.55% credit facility due 1997-2000 | 15.0 | 15.0 | - | - |
| 0% unsecured loan due 2004 | 0.6 | 0.6 | 0.6 | 0.6 |
| Unsecured loan stock LIBOR | | | | |
| minus 0.5% due 2007 | - | 3.0 | - | 3.0 |
| Fixed rate 8.05% due 2009 | 48.0 | 50.2 | - | - |
| | <u>424.0</u> | <u>428.9</u> | <u>346.0</u> | <u>348.7</u> |

The unsecured loan stock 2007 was redeemed at par.

NOTES TO THE ACCOUNTS

17. PROVISIONS FOR LIABILITIES AND CHARGES

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------|-----------------|--------------|-----------------|--------------|
| | <u>Pensions</u> | <u>Other</u> | <u>Pensions</u> | <u>Other</u> |
| | £m | £m | £m | £m |
| Balance at 1 April 1996 | 2.0 | 45.3 | 2.0 | 35.4 |
| Utilised/paid in the year | (1.6) | (18.2) | (1.6) | (17.7) |
| Provided in the year | - | 94.1 | - | 141.0 |
| Balance at 31 March 1997 | <u>0.4</u> | <u>121.2</u> | <u>0.4</u> | <u>158.7</u> |

Other provisions comprise:

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Rationalisation costs | 8.0 | 17.2 | 8.0 | 17.2 |
| Third party claims | 5.3 | 4.7 | - | - |
| Homepower related costs | 4.7 | 8.0 | 4.7 | 8.0 |
| Systems development costs (note 5) | 8.1 | - | 8.1 | - |
| Gas & electricity contracts | 78.1 | - | 124.6 | - |
| Deferred tax (note 18) | 3.8 | - | 3.8 | - |
| Other | 13.2 | 15.4 | 9.5 | 10.2 |
| | <u>121.2</u> | <u>45.3</u> | <u>158.7</u> | <u>35.4</u> |

Following the pension scheme valuation (note 22) the pensions provision is being released to the profit and loss account in accordance with SSAP 24.

Provision has been made for contracts in respect of gas and electricity purchases entered into by the Company and its subsidiaries for a period of up to 2008/9. The provision, for the net present value of expected future payments in excess of anticipated recoverable amounts, reflects the Directors' current expectations of market prices for electricity following the opening up of the competitive market post April 1998 and future gas prices. The actual net costs are highly sensitive to movements in the future prices. The Company provision includes amounts in respect of contracts with a non wholly owned subsidiary.

18. DEFERRED TAXATION

Deferred taxation provided in the accounts represents gains crystallised shortly after the year end.

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Capital gains tax on revalued assets | 3.8 | - | 3.8 | - |
| | <u>3.8</u> | <u>-</u> | <u>3.8</u> | <u>-</u> |

NOTES TO THE ACCOUNTS

18. DEFERRED TAXATION (continued)

Total potential unprovided deferred tax liabilities computed at the current rate of corporation tax of 31% (1995/96 33%) are as follows:

| | <u>Group</u> | | <u>Company</u> | |
|--|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Capital allowances in excess of depreciation | 194.5 | 197.3 | 166.1 | 171.6 |
| Capital gains tax on revalued assets | - | 4.0 | - | 4.0 |
| Other timing differences | (33.4) | (7.6) | (45.6) | (5.5) |
| | <u>161.1</u> | <u>193.7</u> | <u>120.5</u> | <u>170.1</u> |

19. CALLED UP SHARE CAPITAL

| | <u>31 March</u> | <u>31 March</u> |
|--|-----------------|-----------------|
| | <u>1997</u> | <u>1996</u> |
| | £m | £m |
| Authorised: | | |
| 220,000,000 ordinary shares of 68 2/11p each | <u>150.0</u> | <u>150.0</u> |
| | <u>150.0</u> | <u>150.0</u> |
| Allotted and fully paid: | | |
| 159,131,326 ordinary shares of 68 2/11p each (1995/96 158,555,100) | <u>108.5</u> | <u>108.1</u> |
| | <u>108.5</u> | <u>108.1</u> |

139,193 shares were allotted at £1.75 and 3,181 at £5.48 through the year as a result of the exercise of options in special circumstances under the Savings-Related Share Option Scheme. 433,852 shares were allotted through the year as a result of the exercise of options under the Executive Share Option Scheme (note 19(b)).

Employee share schemes

Under arrangements put in place for employees the number of participants and the number of share options under each of the share schemes at 31 March 1997 were:

a) Savings-Related Share Option Schemes

i) Sharesave Scheme 1996

| | |
|---------------------------------------|-----------------------|
| Participants | 2,656 |
| Shares subject to options to purchase | 1,473,496 |
| Price per share | £5.48 |
| Date of grant | 16 February 1996 |
| Period of option | At the end of 5 years |

NOTES TO THE ACCOUNTS

19. CALLED UP SHARE CAPITAL (continued)

a) Savings-Related Share Option Schemes (continued)

ii) Sharesave Scheme 1997

| | |
|---------------------------------------|-----------------------|
| Participants | 2,146 |
| Shares subject to options to purchase | 1,059,218 |
| Price per share | £5.97 |
| Date of grant | 7 January 1997 |
| Period of option | At the end of 5 years |

b) Executive Share Option Scheme

Options outstanding:

| Date Granted | Price per Share | Period of Option | <u>31 March 1997</u> | | <u>31 March 1996</u> | |
|-----------------|--------------------|---------------------|----------------------------|-----------------|----------------------------|-----------------|
| | | | No of Partic- ipants | No of Shares | No of Partic- ipants | No of Shares |
| 21 Dec 1992 | £4.78 | 3-10 yrs | 12 | 129,781 | 27 | 563,633 |
| 23 Jan 1995 | £7.82 | 3-10 yrs | 4 | 36,741 | 5 | 45,636 |
| 26 Jan 1996 | £6.85 | 3-10 yrs | 18 | 116,066 | 18 | 116,066 |

During the year:

16 participants exercised options over 433,852 shares at an option price of £4.78 per share.

1 participant cancelled options over 8,895 shares at an option price of £7.82 per share.

c) 1996 Profit Sharing Scheme

On 1 July 1996 Yorkshire Electricity Group Scheme Trustees Limited, a wholly owned subsidiary of Yorkshire Electricity plc, as the Trustees of the Company's Profit Sharing Scheme purchased 243,356 Ordinary Shares of 68 2/11p each in the Company at a price of 727p per share. The shares were appropriated under the Scheme by the Trustees on the same terms to participating Executive Directors and employees.

At 31 March 1997

| | |
|-------------------------------|------------|
| Participants | 4,039 |
| Number of appropriated shares | 236,525 |
| Shares price on appropriation | £7.27 |
| Value of appropriated shares | £1,719,537 |

1,258 appropriated shares were released from the Trust during the year ended 31 March 1997.

Following the appropriation of the 1996 Profit Sharing Scheme, 5,573 shares were surplus to requirements. The shares were allocated to a residual account named the Yorkshire Electricity Group Share Scheme Trustees Limited Unappropriated Account.

NOTES TO THE ACCOUNTS

19. CALLED UP SHARE CAPITAL (continued)

d) Long Term Incentive Scheme

The Long Term Incentive Scheme terminated as a result of the take-over event on 1 April 1997. In accordance with Scheme rules, Vesting percentages were agreed for the two performance periods ending on 31 March 1997 and the relevant number of shares were subsequently transferred to the Executives. The costs of the trust were charged to the profit & loss account. The number of shares held in trust at 31 March 1997, prior to the transfer of Vesting percentages, was 54,025 (31 March 1996 23,951) at an aggregate market value of £498,110 (1996 £194,722). In accordance with Scheme rules the dividends on these shares were received by the trust for the 1994/97 Scheme whilst dividends for the 1995/98 Scheme were used to offset costs.

e) The YEG (NGG) Trust

The purpose and operation of the trust is explained in note 4(f).

20. RESERVES

a) Reconciliation of Movement in Equity Shareholders' Funds

| | <u>1996/97</u> £m | <u>1995/96</u> £m |
|--|----------------------|----------------------|
| (Loss)/profit for the financial year | (8.0) | 128.5 |
| Dividends | (25.2) | (535.6) |
| Retained deficit for the financial year | <u>(33.2)</u> | <u>(407.1)</u> |
| Other recognised gains and losses for the year | 2.9 | 287.5 |
| Shares issued | 2.4 | 10.9 |
| Purchase of own shares | - | (0.3) |
| Goodwill | 0.3 | 4.1 |
| Net decrease in shareholders' funds for the year | <u>(27.6)</u> | <u>(104.9)</u> |
| Equity shareholders' funds at 1 April | 521.0 | 625.9 |
| Equity shareholders' funds at 31 March | <u>493.4</u> | <u>521.0</u> |

NOTES TO THE ACCOUNTS

20. RESERVES (continued)

b) Reserves

| | <u>Group</u> | | | | | |
|---|--------------------------------------|--|--------------------------------|---|--|--------------|
| | <u>Share Premium Account</u> | <u>Investment Property Revaluation Reserve</u> | <u>Revaluation Reserve</u> | <u>Capital Redemption Reserve</u> | <u>Profit and Loss Account</u> | <u>Total</u> |
| | £m | £m | £m | £m | £m | £m |
| Balance at 1 April 1996 | 10.5 | 1.7 | 23.1 | 0.1 | 377.5 | 412.9 |
| Movement/(deficit) for the financial year | 2.0 | - | - | - | (33.2) | (31.2) |
| Revaluation of NGG | - | - | 0.3 | - | - | 0.3 |
| Realisation of NGG revaluation | - | - | (0.9) | - | 0.9 | - |
| Deferred tax provision on NGG investment (note 18) | - | - | (3.8) | - | - | (3.8) |
| Revaluation of PSB | - | - | 6.4 | - | - | 6.4 |
| Realisation of PSB revaluation | - | - | (6.4) | - | 6.4 | - |
| Amortisation of bond finance costs | (0.3) | - | - | - | 0.3 | - |
| Release of subsidiary goodwill | - | - | - | - | 0.3 | 0.3 |
| Balance at 31 March 1997 | <u>12.2</u> | <u>1.7</u> | <u>18.7</u> | <u>0.1</u> | <u>352.2</u> | <u>384.9</u> |

| | <u>Company</u> | | | | | |
|---|--------------------------------------|--|--------------------------------|---|--|--------------|
| | <u>Share Premium Account</u> | <u>Investment Property Revaluation Reserve</u> | <u>Revaluation Reserve</u> | <u>Capital Redemption Reserve</u> | <u>Profit and Loss Account</u> | <u>Total</u> |
| | £m | £m | £m | £m | £m | £m |
| Balance at 1 April 1996 | 10.5 | 1.7 | 23.1 | 0.1 | 359.5 | 394.9 |
| Movement/(deficit) for the financial year | 2.0 | - | - | - | (97.7) | (95.7) |
| Revaluation of NGG | - | - | 0.3 | - | - | 0.3 |
| Realisation of NGG revaluation | - | - | (0.9) | - | 0.9 | - |
| Deferred tax provision on NGG investment (note 18) | - | - | (3.8) | - | - | (3.8) |
| Revaluation of PSB | - | - | 6.4 | - | - | 6.4 |
| Realisation of PSB revaluation | - | - | (6.4) | - | 6.4 | - |
| Amortisation of bond finance costs | (0.3) | - | - | - | 0.3 | - |
| Balance at 31 March 1997 | <u>12.2</u> | <u>1.7</u> | <u>18.7</u> | <u>0.1</u> | <u>269.4</u> | <u>302.1</u> |

The loss for the financial year dealt with in the accounts of the Company was £72.5m (1995/96 profit £135.1m). 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 15 July 1997. The cumulative goodwill set off to reserves is £3.6m (1995/96 £3.9m).

NOTES TO THE ACCOUNTS

21. CASH FLOW STATEMENT

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

| | <u>1996/97</u> | <u>1995/96</u> |
|---|----------------|----------------|
| | £m | £m |
| Operating profit | 50.9 | 118.2 |
| Depreciation | 71.0 | 40.9 |
| Loss/(profit) on sale of tangible assets | 0.2 | (2.4) |
| Release of subsidiary goodwill | 0.3 | 2.6 |
| Compensation of option holders | - | 7.2 |
| Receipts from sale of leases | 15.2 | - |
| Increase/ (decrease) in provisions | 69.9 | (9.5) |
| Decrease in debtors | 12.8 | 9.7 |
| (Decrease)/ increase in creditors | (71.1) | 58.4 |
| (Increase)/ decrease in stocks | (1.2) | 0.7 |
| Net cash inflow from operating activities | <u>148.0</u> | <u>225.8</u> |

£19.3m (1995/96 nil) of expenditure on system development costs (note 5) and £6.8m (1995/96 nil) on advisers fees are included in 1996/97 net cash inflow from operating activities.

b) Analysis of changes in net debt

| | 31 March <u>1996</u> | <u>Cash flows</u> | <u>Other Changes</u> | 31 March <u>1997</u> |
|--------------------------|-------------------------|-------------------|----------------------|-------------------------|
| | £m | £m | £m | £m |
| Cash at bank and in hand | 1.1 | 19.1 | - | 20.2 |
| Overdrafts | (7.6) | 6.6 | - | (1.0) |
| Debt due within 1 year | (82.7) | 2.1 | (4.6) | (85.2) |
| Debt due after 1 year | (423.7) | - | 4.3 | (419.4) |
| Money market investments | 287.4 | (57.8) | - | 229.6 |
| | <u>(225.5)</u> | <u>(30.0)</u> | <u>(0.3)</u> | <u>(255.8)</u> |

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

| | <u>1996/97</u> | <u>1995/96</u> |
|--|----------------|----------------|
| | £m | £m |
| Increase /(decrease) in cash in period | 25.7 | (10.8) |
| Repayment of loan | 5.2 | 47.1 |
| New borrowings | - | (163.7) |
| Commercial paper issued | (3.1) | (41.3) |
| (Sale)/ purchase of liquid resources | (57.8) | 153.4 |
| Change in net debt | <u>(30.0)</u> | <u>(15.3)</u> |
| Amortisation of bond finance costs | (0.3) | - |
| Net Debt 1 April | <u>(225.5)</u> | <u>(210.2)</u> |
| Net Debt 31 March | <u>(255.8)</u> | <u>(225.5)</u> |

d) Restatement of March 1996 cash flow

The March 1996 cash flow has been restated to comply with FRS 1 (Revised).

NOTES TO THE ACCOUNTS

22. PENSION COMMITMENTS

Most 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 year was £6.2m (1995/96 £6.7m).

The latest actuarial valuation of the Group's section of the scheme was carried out as at 31 March 1995. The projected unit method was used for the valuation, the principal actuarial assumptions adopted being an investment return of 9% per annum, salary increases (exclusive of merit awards) of 6.5% per annum, price inflation of 5% per annum and equity dividend growth of 4.5% per annum.

At the date of the latest actuarial valuation the market value of the Group's section of the scheme was £576.4m and the actuarial value of the assets was sufficient to cover 106.4% of the benefits that had accrued to members. The resultant past service surplus of £33.8m is being utilised partly to pay benefits to members from 1 April 1996, 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 year were £7.8m (1995/96 £7.8m). The balance outstanding to the Scheme at 31 March 1997 was £0.1m (31 March 1996 £0.1m).

The next actuarial valuation is due as at 31 March 1998.

From the 1 April 1995 new employees are only 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 year were £0.1m (1995/96 £0.0m).

23. LEASE OBLIGATIONS

The Group has the following annual commitments under operating leases for equipment and vehicles which expire:

| | <u>Group & Company</u> | |
|---------------------------------------|--------------------------------------|--------------------------------------|
| | <u>31 March</u> <u>1997</u> £m | <u>31 March</u> <u>1996</u> £m |
| Within one year | 2.1 | 2.2 |
| In the second to fifth year inclusive | 0.7 | 1.4 |
| | <u>2.8</u> | <u>3.6</u> |

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

| | <u>1996/97</u> £m | <u>1995/96</u> £m |
|---------------------|----------------------|----------------------|
| Land and buildings | 0.3 | 0.4 |
| Plant and machinery | 4.1 | 5.0 |
| | <u>4.4</u> | <u>5.4</u> |

NOTES TO THE ACCOUNTS

24. COMMITMENTS

a) Capital Commitments

| | <u>Group</u> | | <u>Company</u> | |
|------------|-----------------|-----------------|-----------------|-----------------|
| | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> | <u>31 March</u> |
| | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> |
| | £m | £m | £m | £m |
| Contracted | <u>47.0</u> | <u>30.0</u> | <u>29.2</u> | <u>20.5</u> |

25. RELATED PARTY TRANSACTIONS

With the exception of transactions with associated undertakings, detailed in note 11d, there have been no material related party transactions during the year.

26. POST BALANCE SHEET EVENTS

It was announced on 24 February 1997 that a cash offer for the whole of the issued share capital of Yorkshire Electricity Group plc had been received from Yorkshire Holdings plc, a company indirectly owned by American Electric Power (AEP) and Public Service Company of Colorado (PS Colorado). The offer was declared wholly unconditional on 1 April 1997.

On 2 July 1997 HM Government announced a 'windfall tax' to be applied at that date to companies privatised by flotation and regulated by relevant privatising statutes. The Group's liability in respect of this levy has been calculated to be £135m which is payable in two instalments on or before 1 December 1997 and 1998.