YORKSHIRE ELECTRICITY GROUP plc

ANNUAL REPORT AND ACCOUNTS

for the year ended

31 MARCH 1999

Registered in England No 2366995

16-6-99/172

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 1999.

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"). During the year the Company operated the distribution and supply businesses as more self-sufficient businesses.

Information regarding the principal activities of the Company's subsidiary undertakings is set out in Note 11 to the Accounts on page 25.

Distribution Business

The Company's distribution business consists 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 price cap regulatory framework providing economic incentives to operate in a cost effective manner.

Strategy for the Distribution Business

The Company's distribution strategy consists of maintaining a reliable and safe distribution system which meets customer expectations while maximising its operating efficiencies and fulfilling its regulatory obligations.

To implement its strategy, the Company is taking a number of steps. The Company intends to maintain a sufficient level of investment in the distribution system to ensure its continued reliability and safety. In 1998/99, it invested £181 million in the distribution system, of which £125 million represented capital improvements in new substations, cables and overhead lines and £56 million represented expenditures related to the operation, repair and maintenance of the distribution system. The Company is currently completing its investment in the Distribution Asset Management System that has centralised information previously stored in over sixty computerised and paper-based systems into one integrated computerised system. The centralisation of this information has improved both access to and quality of information which is vital to the operation of an efficient distribution system.

The Company is also continuing to maintain and improve its responses to system faults. In 1998/99, the Company restored services to 94.3% of all customers affected by faults within three hours and on average a customer was without power for only 53.6 minutes. Furthermore, a freephone number is available for customers who have lost power. Such direct access is intended to permit the Company to respond more effectively and rapidly to power loss situations. Finally, the Company publishes a Quality of Supply Report which details the manner in which it intends to improve both the availability and quality of electricity supply in its region in order to inform both its customers and OFFER as to its plans for the period to April 2000.

Supply Business

Electricity Supply

The Company's electricity supply business consists of selling electricity to end users, purchasing such electricity and arranging for its distribution to those end users. Under its PES License, the Company had an exclusive right to supply electricity to Franchise Supply Customers between 1990 and 1998. Between September 1998 and February 1999 competition was introduced and the electricity supply business inside the Company's Authorised Area is now fully open to competition.

Competition in the Electricity Supply Business

On 14 September 1998 competition was introduced to the domestic electricity market in the UK. Since then the Regulator has announced several dates for the introduction of competition in supply to residential and small commercial customers for all 14 PES areas. This process was completed in May 1999. The Company completed the opening of its market on 22 February 1999, making it one of the first PES's to do so. However, transitional price regulation applies for residential or commercial customers using less than 12,000 kWh of electricity per year for an initial period of two years from April 1998 until an adequate level of competition is established. These transitional arrangements, together with an adjustment to the Fossil Fuel Levy, will result in a small reduction in prices in October 1999.

Gas Supply

The Company markets gas to all sectors of the gas market which has been open to competition since May 1998. By the end of March 1999, gas was being supplied to more than 250,000 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 the 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 and (iv) seeking marketing and strategic alliances in the supply business.

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 Non-Franchise Supply Customers in the Authorised Area by purchasing electricity at competitive rates from power generators in the UK and providing high quality customer service. In doing so, in 1998/99, the Company maintained a significant portion of its existing business.

Business Restructuring

In December 1997, the Company announced a planned business restructuring intended to enable it to meet increased competition and react to potential regulatory developments in the energy markets in the UK. The restructuring has resulted in the distribution and supply businesses of the Company becoming more self-sufficient businesses and a significant reduction in the size of the Corporate Centre.

As part of its restructuring strategy and to reduce debt the Company's generation business was disposed of during 1998/99.

In November 1998, the Company completed the sale of its 75% interest in Regional Power Generators Limited ("RPG") to IVO Energy Limited. IVO Energy Limited is a subsidiary of Imatran Voima Oy, part of Finland's energy group Forum. RPG owns Brigg power station, a 272 MW combined cycle, gas-fired plant located in North Lincolnshire, England.

On 31 December 1998 the Company entered into an unconditional agreement to sell its subsidiary, Yorkshire Cogen Limited ("YCL") to PowerGen CHP Limited, a subsidiary of PowerGen plc. YCL owned three combined heat and power plants and seven peaking facilities with a total declared capacity of 70 MW which were operational, a 50 MW combined cycle gas plant currently under test operation, a 56 MW combined heat and power plant under construction and a 56 MW combined heat and power plant under development.

The remaining generation assets of the Company, windpower plants held within a 50:50 joint venture Company, Yorkshire Windpower Limited were sold in February 1999 to PowerGen UK plc.

Substantially all of the cash received from these sales, net of cash retained by RPG, approximately £150m, has been used to reduce the debt of Yorkshire Power Group Limited (the holding company for Yorkshire Holdings plc which is in turn the holding company for the Company).

Year 2000 Issues

A potentially world-wide problem has arisen with computer programs and micro-processing chips due to the method used to represent the year part of a date. This may lead systems and equipment to wrongly interpret dates falling after 31 December 1999. In addition, certain systems may fail to detect that the Year 2000 is a leap year.

Objective

The Year 2000 issue is one of the key business priorities. The objective is to provide a 'business as usual' service to all customers up to and beyond the Year 2000.

In fact, the Company has recently been awarded a CBI Year 2000 Recognition Award for its work in ensuring it is fully prepared for the millennium date change.

Approach

In 1996, Year 2000 project teams were established in each of the main business units to tackle the problem. These teams are supported and monitored by a specialist central team that reports to a steering group chaired by the Chief Executive of the Company.

The first priority was to carry out a detailed audit to establish which of the computer systems and other equipment, such as metering, substation equipment and plant etc, could be affected by the millennium bug.

The matters identified were then prioritised according to the potential impact of failure using the following key criteria:

- maintaining electricity and gas supplies
- maintaining safety standards
- safeguarding our assets
- minimising the commercial impact.

Progress So Far

This process enabled the teams to concentrate on those items that had the potential to cause the most disruption to customers and to determine what, if any, action was required. Excellent progress has been made to date.

So far as the Company's network is concerned the Directors believe that it will be business as usual through into the next millennium.

Some of the commercial computer programs, such as the billing system for example, are affected by the Year 2000 date problem. However, work is well underway to upgrade or replace the software well in advance of the millennium, leaving sufficient time for the necessary testing.

The Company also takes its responsibilities as a supplier of gas very seriously, working particularly closely with British Gas's infrastructure company Transco, and its gas trading company Centrica, who are among the most critical suppliers.

Working with Key Suppliers

Assurances have been sought from key suppliers that their products and services will not be affected by the millennium bug and therefore will have no adverse impact on the Company's business. So far, over 4,000 suppliers have been contacted and, as appropriate targeted for close scrutiny.

The Company is also an active member of the Y2k Utilities Group, a national forum which encourages utilities such as electricity, gas, water and telecommunications to share experiences and develop best practice. This forum enables the Company to work closely with some of its key suppliers such as National Grid, National Power, PowerGen, British Gas, BT and Transco.

In addition, the Company is contributing to DTI, Action 2000 and OFFER (the industry's regulator) initiatives as well as sharing knowledge and experience with local businesses and enterprises.

Contingency Planning

While the Directors believe that the steps being taken should enable the objectives of 'business as usual' to be met it is recognised that unforeseen or unexpected circumstances could arise and that there is the need for careful contingency planning to enable the Company to deal with any such circumstances. The Company is currently reviewing its tried and tested contingency plans to make sure that they are also 'millennium proof'.

Financial Implications

The Company has expended £13m to 31 March 1999 on the Year 2000 Programme and estimates spending an additional £6m to achieve Year 2000 readiness. Of this £19m, approximately £15m will be expensed as incurred and £4m will be capitalised. The Company intends to fund these expenditures through internal sources. Although significant, the cost of becoming Year 2000 ready is not expected to have a material impact on the Company's results of operations, cash flows or financial condition.

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 and Dividends

Profit before taxation for 1998/99 was £217.0m (1997/98 £149.7m) and profit after taxation was £211.2m (1997/98 £19.8m). A dividend of £140.0m (1997/98 £80.0m) was proposed and paid during the year, and a dividend in specie of £33.4m was made.

Directors

The Directors of the Company during the year and at 31 March 1999 were:

NAME	POSITION	APPOINTED	RESIGNED
*Mr W H Brunetti	*Chairman*	5 April 1997	Still in office
*Dr E L Draper Jr	*Vice Chairman*	5 April 1997	Still in office
Mr A A Pena	*Non-Executive Director*	5 April 1997	Still in office
Mr D M Clements Jr	*Non-Executive Director*	5 April 1997	Still in office
Ms T S Madden	*Non-Executive Director*	5 April 1997	7 December 1998
Mr R C Kelly	*Non-Executive Director*	5 April 1997	Still in office
Mr G J Hall	*Chief Executive - appointed 1 Jan 1998 (previously Group Operations Director)*	8 March 1990	Still in office
Mr P J Bonavia	*Non-Executive Director*	7 December 1998	Still in office

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

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.

The interests of the Directors in the share capital of the Company are set out in Note 7 to the Accounts on page 20.

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 30 days (31 March 1998 - 29 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 newsletters. Employee representatives are consulted regularly on a wide range of matters affecting the current and future interests of employees.

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 our operating costs and improving the performance of the Company's assets with a view to increasing our customer service performance. Most 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 10 to 45 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 10 to 45 which have been prepared under the accounting policies set out in pages 14 to 18.

Respective responsibilities of Directors and auditors

As described on page 8 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 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 Group at 31 March 1999 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

Deloitte & Touche
Chartered Accountants and Registered Auditors
LEEDS
LS1 2AJ
9 June 1999

Group Profit and Loss Account for the year ended 31 March 1999

	Note	1998/99	1998/99	1997/98	1997/98
				Restated (note 5)	Restated (note 5)
		£m	£m	£m	£m
Turnover: group and share of joint ventures					
Continuing operations		1,363.9		1,228.1	
Discontinued operations		31.0		52.5	
		1,394.9		1,280.6	
Less: share of joint ventures' turnover					
Discontinued operations		(2.1)		(2.2)	
Group turnover	2		1,392.8		1,278.4
Cost of sales	3(b)		918.0		882.3
Gross profit			474.8		396.1
Distribution costs	3(b)		143.2		115.3
Administrative expenses	3(b)		121.5		105.2
Other operating income	3(b)		(0.8)		(1.0)
Group operating profit					
Continuing operations		204.1		163.5	
Discontinued operations		6.8		13.1	
			210.9		176.6
Share of operating profits of joint ventures					
-discontinued operations	11(d)		1.9		1.3
Income from investments			0.1		2.8
Loss on disposal of investment	11(b)		(1.4)		-
Loss on disposal of joint ventures-discontinued operations	11(d)		(0.4)		-
Profit on disposal of subsidiary undertakings-discontinued operations	11(c)		47.3		0.0
Profit on ordinary activities before interest			258.4		180.7
Net interest payable-group	6	(41.4)		(30.8)	
Net interest payable-joint ventures	6	(0.0)		(0.2)	
			(41.4)		(31.0)
Profit on ordinary activities before taxation			217.0		149.7
Taxation (after charging windfall tax of 1998/99 £nil (1997/98 £133.6m))	8		5.8		129.9
Profit on ordinary activities after taxation			211.2		19.8
Equity minority interests			1.7		1.0
Profit for the financial year			209.5		18.8
Ordinary dividends on equity shares	9		173.4		80.0
Retained profit /(deficit) for the financial year	20		36.1		(61.2)

Balance Sheets

	Note	Group 31 March 1999	Group 31 March 1998 Restated (note 5)	Company 31 March 1999	Company 31 March 1998 Restated (note 5)
		£m	£m	£m	£m
Fixed assets					
Tangible assets	10	832.8	904.1	829.7	751.9
Investments	11(a)	51.1	93.0	112.2	218.3
Investment in joint ventures					
Share of gross assets	11(d)	-	6.1	-	-
Share of gross liabilities	11(d)	-	(4.8)	-	-
Loans	11(d)	-	1.4	-	-
		883.9	999.8	941.9	970.2
Current assets					
Stocks	12	3.4	6.6	3.2	2.8
Debtors	13	249.6	207.7	208.2	186.7
Investments	14	29.8	64.3	0.1	-
Cash at bank and in hand		6.1	11.2	4.4	1.8
		288.9	289.8	215.9	191.3
Creditors (amounts falling due within one year)	15&16	(254.7)	(290.1)	(298.8)	(260.6)
Net current assets/ (liabilities)		34.2	(0.3)	(82.9)	(69.3)
Total assets less current liabilities		918.1	999.5	859.0	900.9
Creditors (amounts falling due after more than one year)	15&16	(383.1)	(434.1)	(383.1)	(391.1)
Provisions for liabilities and charges	17&18	(55.4)	(122.7)	(43.8)	(160.7)
Net assets		479.6	442.7	432.1	349.1
Capital and reserves					
Called up share capital	19	108.6	108.6	108.6	108.6
Share premium account	20(b)	12.3	12.6	12.3	12.6
Investment property revaluation reserve	20(b)	0.4	1.7	0.4	1.7
Revaluation reserve	20(b)	-	-	-	-
Capital redemption reserve	20(b)	0.1	0.1	0.1	0.1
Profit and loss account	20(b)	358.2	319.5	310.7	226.1
Equity shareholders' funds	20(a)	479.6	442.5	432.1	349.1
Equity minority interests		-	0.2	-	-
		479.6	442.7	432.1	349.1

The financial statements on pages 10 to 45 were approved by the Board of Directors on 9th June 1999 and signed on its behalf by:

E. R. Draper

E L Draper Jr., Chairman.

Group Cash Flow Statement for the year ended 31 March 1999

	Note	1998/99 £m	1997/98 £m
Net cash inflow from operating activities	21(a)	196.3	215.6
Returns on investments and servicing of finance			
Interest received		5.5	15.2
Interest paid		(38.2)	(51.1)
Dividends received		0.7	-
Dividends paid to minority shareholders in subsidiary undertaking		(2.7)	(0.8)
Net cash outflow from returns on investment and servicing of finance		(34.7)	(36.7)
Taxation			
Corporation tax (including ACT)		(65.5)	(76.8)
Tax paid		(65.5)	(76.8)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(150.3)	(167.8)
Receipts from sale of tangible fixed assets		10.0	20.0
Purchase of other investments		(0.2)	(10.9)
Repayment of loans to joint ventures	11(d)	1.4	1.3
Receipts from sale of investment		0.6	25.6
Receipts from sale of Ionica	11(b)	1.7	-
Receipts from sale of other investments		0.1	-
Net cash outflow from capital expenditure and financial investment		(136.7)	(131.8)
Acquisitions and disposals			
Receipts from sale of joint venture	11(d)	2.5	-
Receipts from sale of subsidiary undertakings	11(c)/21(d)	149.9	0.0
Net cash inflow from acquisitions and disposals		152.4	0.0
Equity dividends paid			
Dividends paid		(140.0)	(80.0)
		(140.0)	(80.0)
Net cash outflow before use of liquid resources and financing		(28.2)	(109.7)
Management of liquid resources			
Sale of liquid resources	21(c)	4.2	165.3
		4.2	165.3
Financing			
Issue of share capital		-	0.8
Repayment of borrowings	21(c)	(4.3)	(85.2)
New borrowings	21(c)	13.0	20.0
Net cash inflow/ (outflow) from financing		8.7	(64.4)
Decrease in cash in the period	21(b)& 21(c)	(15.3)	(8.8)

Statement of Total Recognised Gains & Losses for the year ended 31 March 1999

	1998/99	1997/98 Restated (note 5)
	£m	£m
Profit for the financial year	209.5	18.8
Surplus on revaluation of investment in PSB	0.6	-
Unrealised surplus on revaluation of investment properties	0.4	-
Total recognised gains relating to the year	210.5	18.8
Prior year adjustment (note5)	2.3	-
Total recognised gains for the year	212.8	18.8

Note of Historical Cost Profits for the year ended 31 March 1999

	1998/99	1997/98 Restated (note 5)
	£m	£m
Reported profit on ordinary activities before taxation	217.0	149.7
Realisation of investment in NGG	-	18.7
Realisation of investment in PSB	0.6	-
Realisation of investment property	1.7	-
Historical cost profit on ordinary activities before taxation	219.3	168.4
Taxation	(5.8)	(129.9)
Equity minority interests	(1.7)	(1.0)
Dividends on equity shares	(173.4)	(80.0)
Historical cost surplus/ (deficit) for the year	38.4	(42.5)

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 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 in the year, the results are included up to the date of disposal.

The accounts of subsidiary and joint ventures are coterminous with those of Yorkshire Electricity Group plc apart from those of certain subsidiaries which have different accounting reference dates for commercial reasons. Management accounts made up to 31 March 1999 are used for consolidation of such subsidiaries and joint ventures.

Joint ventures

Due to the introduction of FRS 9, the results of the joint ventures, entities held on a long-term basis which are jointly controlled by the reporting entity and other venturers under contractual arrangement, are recognised in the consolidated balance sheet and profit and loss account using the gross equity method. Comparatives have been restated to reflect this change in accounting policy. The change has no effect on the current or prior year's profit and loss account.

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.

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 less depreciation. Depreciation is charged on wasting assets based upon an estimate of the remaining life of the asset.

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.

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.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (continued)

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.

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) No.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 financial 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.

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.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (continued)

Derivatives (continued)

If an instrument ceases to be accounted for as a hedge, for example, because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Gains or losses arising from speculative trading, which is only undertaken within agreed risk parameters, are recognised in the profit and loss account in the period in which they occur.

2. GROUP TURNOVER, OPERATING PROFIT AND NET ASSETS

Group turnover for 1998/99 is all in respect of sales to United Kingdom customers. Group turnover, operating profit and net assets are attributable to the following activities:

	Turnover		Operating Profit		Net Assets	
	1998/99	1997/98 restated (note 5)	1998/99	1997/98 restated (note 5)	31 March 1999	31 March 1998 restated (note 5)
	£m	£m	£m	£m	£m	£m
Distribution	318.0	309.3	137.8	142.6	799.7	699.4
Electricity Supply	1,170.0	1,108.5	67.2	13.3	46.8	(87.2)
Other	346.8	248.4	5.4	23.6	80.9	56.3
Less: Inter-activity sales *	(442.0)	(387.8)	0.5	(2.9)	-	-
Non-allocated net assets					(447.8)	(225.8)
	1,392.8	1,278.4	210.9	176.6	479.6	442.7

* 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 gas and generation businesses and between the electricity supply and gas businesses.

The segmental analysis for 1997/98 has been restated due to a revised presentation of intercompany gas trading which, in the opinion of the Directors, more fully reflects the nature of the underlying transaction.

NOTES TO THE ACCOUNTS

3. OPERATING PROFIT

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

	1998/99	1997/98
	£m	£m
Employment costs (note 7(a))	72.4	60.4
Depreciation of tangible fixed assets	49.0	46.6
Depreciation of fixed asset investments	7.6	2.8
Profit on sale of tangible assets	(3.3)	(3.5)
Operating lease rentals (note 24)	3.3	3.4
Rationalisation costs	5.5	9.7
Research and development	1.2	0.8
Costs arising from the opening up of the competitive market (note 4)	4.9	5.0
Year 2000 costs	9.5	1.7
Auditors' remuneration - Audit fees	0.1	0.2
- Other fees	0.3	0.2

b) Analysis of costs

	1998/99	1998/99	1998/99	1997/98	1997/98	1997/98
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued Operations	Total
	£m	£m	£m	£m	£m	£m
Cost of sales	906.1	11.9	918.0	862.5	19.8	882.3
Distribution costs	143.2	-	143.2	115.3	-	115.3
Administrative costs	110.8	10.7	121.5	87.6	17.6	105.2
Other operating income	(0.3)	(0.5)	(0.8)	(0.8)	(0.2)	(1.0)
Net operating expenses	253.7	10.2	263.9	202.1	17.4	219.5

c) Other operating income consists of:

	1998/99	1997/98
	£m	£m
Investment property rental	0.3	0.8
Ancillary services	0.5	0.2
	0.8	1.0

4. COMPETITIVE MARKET COSTS

In 1997/98 provision was made of £5.0m for committed costs arising from delays in the opening up of the competitive market. An additional £4.9m has been charged to the profit and loss account during 1998/99.

NOTES TO THE ACCOUNTS

5. PRIOR YEAR ADJUSTMENT

(a) The introduction of FRS 12, which changes the definition of provisions, has resulted in a change of accounting policy in relation to the under or over recovery of regulated income. Previously, where there was an over recovery of supply or distribution revenues against the regulated maximum allowable amount, such over recoveries were deferred and the deferred amount deducted from turnover and included in creditors. FRS12 disallows any such deferral and consequently £2.3m of provisions at 31 March 1998 and £9.5m of provisions at 31 March 1997 are written back to the profit and loss reserve. The effect on the prior year's profit and loss account is a reduction in profit of £7.2m. The effect on the current year's profit and loss is not material.

(b) The introduction of FRS12 has also resulted in a change in the treatment of decommissioning costs in relation to an investment included within Other investments (note 11(b)). Additions to other investments in the year to 31 March 1998 have been restated from £8.8m to £11.9m to include such decommissioning costs. There is no effect on the current year or prior year's profit and loss account.

6. NET INTEREST PAYABLE

	1998/99	1997/98
	£m	£m
Interest payable:		
On loans from parent companies	(1.5)	(0.2)
On bank loans, overdrafts and other loans (wholly repayable within five years)		
-Group	(4.6)	(3.3)
-Joint ventures	(0.0)	(0.2)
On other loans	(34.5)	(35.8)
On discounted provisions (note 17)	(6.3)	(5.9)
	(46.9)	(45.4)
Interest receivable	5.5	14.4
	(41.4)	(31.0)

7. DIRECTORS AND EMPLOYEES

a) **Employment Costs**	1998/99	1997/98
	£m	£m
The aggregate remuneration of all employees including the Directors of the Company, comprised:		
Wages and salaries	95.6	84.9
Social security costs	8.4	7.2
Other pension costs	3.4	5.0
	107.4	97.1
Less: charged as capital expenditure	(35.0)	(36.7)
Charged to the profit and loss account	72.4	60.4

NOTES TO THE ACCOUNTS

7. DIRECTORS AND EMPLOYEES (continued)

b) Number of employees

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

	Group	
	1998/99	1997/98
	Number	Number
Distribution and Supply	4,232	3,782
Other	118	265
	4,350	4,047

Distribution and Supply includes gas and metering.

c) Directors

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

	1998/99	1997/98
	£000	£000
Fees	-	2.4
Emoluments	423.4	654.2
	423.4	656.6

Number of Directors who :

	1998/99	1997/98
	Number	Number
- are members of a defined benefit pension scheme at 31 March 1999	1	1
- received awards during the year in the form of shares in respect of entitlements under long term incentive schemes earned in previous years	-	3*
- have become entitled to awards during the year in the form of shares under long-term incentive schemes	-	-

* includes highest paid director.

NOTES TO THE ACCOUNTS

7 DIRECTORS AND EMPLOYEES (continued)

	1998/99	1997/98
	£000	£000
Highest-paid director's remuneration :		
Aggregate of emoluments and awards under long-term incentive schemes (excluding pension contributions)	423.4	255.4

The amounts of the accrued pension and accrued lump sum of the highest paid director at 31 March 1999 were £129,000 and £230,000 respectively.

Compensation payments to directors for loss of office amounted to 1998/99 £nil (1997/98 £1,265,000, none of which was paid into the directors pension scheme).

No Director had a beneficial interest in the ordinary shares of the Company or any other group company at 31 March 1999.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998/99	1997/98
	£m	£m
Taxation on profit for the year:		
UK corporation tax at 31% (1997/98 31%)	18.5	6.0
Windfall tax	-	133.6
Tax on franked investment income	-	0.2
Tax on joint ventures	0.4	0.3
	18.9	140.1
Adjustment in respect of earlier years:		
Parent & subsidiary undertakings	(12.9)	(10.1)
Joint ventures	(0.2)	(0.1)
	5.8	129.9

The tax charge has been reduced by £17.8m (1997/98 £17.7m) as a result of accelerated capital allowances, by £14.5m (1997/98 £1m) as a result of the release of provisions disallowed for corporation tax purposes and by £20.4m as a result of losses surrendered by fellow group companies for which no payment will be made. The tax charge has been increased by £8.0m (1997/98 £2.0m) as a result of disallowable expenditure. No deferred tax has been provided in respect of these items.

NOTES TO THE ACCOUNTS

9. DIVIDENDS

	1998/99 £m	1997/98 £m
Interim dividend paid of 87.9p per ordinary share (1997/98 50.23p)	140.0	80.0
Proposed final dividend per ordinary share (1997/98 nil)	-	-
Dividend in specie (note 11(b))	33.4	-
	173.4	80.0

10. TANGIBLE FIXED ASSETS

The Group's tangible fixed assets comprise:

	Investment properties £m	Gener -ation £m	Distrib -ution £m	Non op land & buildings £m	Other £m	Deduct: Capital contr'ns £m	Total £m
Cost or Valuation							
At 1 April 1998	13.5	174.1	1,310.6	43.5	206.5	(285.3)	1,462.9
Additions	-	15.4	124.6	0.5	35.4	(31.8)	144.1
Disposals	(4.0)	(189.5)	(8.2)	(0.9)	(2.6)	-	(205.2)
Revaluation adjustment	0.4	-	-	-	-	-	0.4
Reclassification	0.3	-	-	(0.3)	-	-	-
At 31 March 1999	10.2	-	1,427.0	42.8	239.3	(317.1)	1,402.2
Depreciation							
At 1 April 1998	-	25.7	446.6	19.6	130.4	(63.5)	558.8
Disposals	-	(30.6)	(6.1)	(0.1)	(1.6)	-	(38.4)
Charge for the year	-	4.9	37.4	0.7	14.3	(8.3)	49.0
At 31 March 1999	-	-	477.9	20.2	143.1	(71.8)	569.4
Net book amount							
At 31 March 1999	10.2	-	949.1	22.6	96.2	(245.3)	832.8
At 31 March 1998	13.5	148.4	864.0	23.9	76.1	(221.8)	904.1

Included in fixed assets at 31 March 1999 are assets in the course of construction amounting to £14.9m (31 March 1998 £67.9m) and land of £5.1m (31 March 1998 £5.6m) which are not depreciated.

NOTES TO THE ACCOUNTS

10. TANGIBLE FIXED ASSETS (continued)

The Company's tangible fixed assets comprise:

	Investment properties £m	Distrib -ution £m	Non op land & buildings £m	Other £m	Deduct: Capital contr'ns £m	Total £m
Cost or Valuation						
At 1 April 1998	13.5	1,310.6	43.1	202.1	(285.3)	1,284.0
Additions	-	124.6	0.5	34.3	(31.8)	127.6
Disposals	(4.0)	(8.2)	(0.4)	(1.2)	-	(13.8)
Revaluation adjustment	0.4	-	-	-	-	0.4
Reclassification	0.3	-	(0.3)	-	-	-
At 31 March 1999	10.2	1,427.0	42.9	235.2	(317.1)	1,398.2
Depreciation						
At 1 April 1998	-	446.6	19.7	129.3	(63.5)	532.1
Disposals	-	(6.1)	(0.1)	(0.6)	-	(6.8)
Charge for the year	-	37.4	0.7	13.4	(8.3)	43.2
At 31 March 1999	-	477.9	20.3	142.1	(71.8)	568.5
Net book amount						
At 31 March 1999	10.2	949.1	22.6	93.1	(245.3)	829.7
At 31 March 1998	13.5	864.0	23.4	72.8	(221.8)	751.9

Included in fixed assets at 31 March 1999 are assets in the course of construction amounting to £14.9m (31 March 1998 £27.8m) and land of £5.1m (31 March 1998 £4.5m) which are not depreciated.

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

	Group		Company	
	31 March 1999 £m	31 March 1998 £m	31 March 1999 £m	31 March 1998 £m
Freehold	17.3	18.2	17.3	17.7
Long Leasehold	5.3	5.7	5.3	5.7
	22.6	23.9	22.6	23.4

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 to 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 & 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 £0.4m (31 March 1998 £1.7m).

NOTES TO THE ACCOUNTS

11. FIXED ASSET INVESTMENTS

a) Fixed asset investments

	Group		Company	
	31 March 1999	31 March 1998 Restated (note 5)	31 March 1999	31 March 1998
	£m	£m	£m	£m
Subsidiary undertakings (note 11(c))	-	-	111.3	184.0
Other investments (note 11(b))	51.1	93.0	0.9	34.3
	51.1	93.0	112.2	218.3

b) Other investments

	Group		Company	
	1998/99	1997/98 Restated (note 5)	1998/99	1997/98
	£m	£m	£m	£m
At 1 April	93.0	84.2	34.3	33.3
Additions	3.1	11.9	-	1.3
Dividend in specie	(33.4)	-	(33.4)	-
Depreciation	(7.6)	(2.8)	-	-
Disposal	(3.1)	(0.3)	-	(0.3)
Other	(0.9)	-	-	-
At 31 March	51.1	93.0	0.9	34.3

Other investments at 1 April 1998 included Ionica Group plc shares at cost of £33.4m. This investment was transferred to Yorkshire Holdings Limited as a dividend in specie. The investment was sold by Yorkshire Holdings Limited to Yorkshire Electric Power Limited for £3.1m, and subsequently sold externally for £1.7m.

The cost and cumulative depreciation of other investments in the Group at 31 March 1999 were £61.5m (31 March 1998 £95.8m after a prior year adjustment of £3.1m) and £10.4m (31 March 1998 £2.8m) respectively.

NOTES TO THE ACCOUNTS

11. FIXED ASSET INVESTMENTS (continued)

c) Company - Investment in subsidiary undertakings

	1998/99	1997/98
	£m	£m
At 1 April	18.0	21.4
Disposals	-	(3.4)
	18.0	18.0
Loans	93.3	166.0
At 31 March	111.3	184.0

On 26 November 1998 Yorkshire Electric Power Limited sold its 75% subsidiary Regional Power Generators Limited for £56.4m (net of fees and including payment for intercompany loans). The sale gave rise to a profit on disposal before tax of £32.5m. The tax effect on disposal was £7.6m. The subsidiary contributed to profit before tax, up to the date of disposal, an amount of £4.4m (1997/98 £13.5m).

On 31 December 1998 Yorkshire Electric Power Limited sold its wholly owned subsidiary Yorkshire Cogen Limited for £95.4m (net of fees and including payment for intercompany loans). The sale gave rise to a profit on disposal before tax of £26.4m, of which £11.6m has been deferred to future periods. The tax effect on disposal was £3.1m. The subsidiary contributed to profit before tax, up to the date of disposal, an amount of £1.4m (1997/98 £0.3m loss).

On 7 July 1997 the Company sold its wholly owned subsidiary Cyril Exelby Limited for £0.0m. The sale gave rise to a loss on disposal of £3.4m which had been fully provided against in 1996/97.

d) Group - joint ventures

	Share of net assets		Loans	
	1998/99	1997/98	1998/99	1997/98
	£m	£m	£m	£m
At 1 April	1.3	0.4	1.4	2.7
Profit for the period	1.7	0.9	-	-
Disposal	(3.0)	-	-	-
Loan repaid	-	-	(1.4)	(1.3)
At 31 March	-	1.3	-	1.4

On 9 February 1999 Yorkshire Electric Power Limited sold its joint venture Yorkshire Windpower Limited for £2.6m. The sale gave rise to a loss on disposal before tax of £0.4m. The tax effect on disposal was £0.8m.

11. FIXED ASSET INVESTMENTS (continued)

e) Principal subsidiary undertakings

The principal subsidiary undertakings incorporated and operating in the United Kingdom (unless otherwise indicated) at 31 March 1999 are shown below.

Principal subsidiary undertaking	Class of Capital	% Equity Held	Principal activities
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.

12. STOCKS

	Group		Company	
	31 March 1999	31 March 1998	31 March 1999	31 March 1998
	£m	£m	£m	£m
Raw materials and consumables	2.3	4.4	2.1	0.6
Work in progress	1.1	2.2	1.1	2.2
	3.4	6.6	3.2	2.8

NOTES TO THE ACCOUNTS

13. DEBTORS

	Group		Company	
	31 March 1999	31 March 1998	31 March 1999	31 March 1998
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	191.6	139.9	166.4	129.7
Amounts owed by group undertakings	-	-	-	3.5
Amounts owed by joint ventures	-	0.1	-	0.1
Other debtors	15.2	23.6	7.5	20.6
Prepayments and accrued income	19.7	21.0	11.2	7.6
Dividends receivable	-	0.7	-	2.8
Purchase of electricity	3.5	4.9	3.5	4.9
	230.0	190.2	188.6	169.2
Amounts falling due after more than one year:				
Other debtors	19.6	17.5	19.6	17.5
	249.6	207.7	208.2	186.7
Included in trade debtors are the following amounts for unbilled consumption	83.6	77.6	64.2	70.3

14. INVESTMENTS

	Group		Company	
	31 March 1999	31 March 1998	31 March 1999	31 March 1998
	£m	£m	£m	£m
Money market investments	29.8	64.3	0.1	-

NOTES TO THE ACCOUNTS

15. CREDITORS

	Group		Company	
	31 March 1999	31 March 1998 Restated (note 5)	31 March 1999	31 March 1998 Restated (note 5)
	£m	£m	£m	£m
Creditors (amounts falling due within one year):				
Bank loans and overdrafts	24.0	0.8	23.2	0.8
Unsecured loans (note 16)	8.3	5.6	-	-
Payments received in advance	11.0	13.2	11.0	13.1
Other trade creditors	13.0	15.8	12.2	12.9
Amounts owed to parent companies	0.3	0.4	0.3	0.4
Amounts owed to fellow subsidiaries	4.9	-	1.7	-
Amounts owed to group undertakings	-	-	97.4	14.2
Purchase of electricity	64.2	65.7	64.2	65.7
Corporation tax	37.5	107.7	31.3	100.5
Taxation and social security	6.8	5.9	3.2	2.6
Other creditors	26.5	22.2	25.5	20.1
Accruals and deferred income	58.2	51.8	28.8	30.3
Amounts owed to joint ventures	-	1.0	-	-
	254.7	290.1	298.8	260.6
Creditors (amounts falling due after more than one year):				
10 year 8 5/8% Eurobond (note 16)	149.1	148.9	149.1	148.9
25 year 9 1/4% Eurobond (note 16)	196.9	196.8	196.9	196.8
Unsecured long term loans (note 16)	17.1	68.4	0.6	0.6
Amounts owed to fellow subsidiaries (note 16)	20.0	20.0	20.0	20.0
Amounts owed to group undertakings (note 16)	-	-	16.5	24.8
	383.1	434.1	383.1	391.1

NOTES TO THE ACCOUNTS

16. BORROWINGS

Outstanding borrowings are repayable as follows:

	Group		Company	
	31 March 1999	31 March 1998	31 March 1999	31 March 1998
	£m	£m	£m	£m
Within one year, or on demand	32.3	6.4	31.5	3.8
Between one and two years	9.0	11.1	9.0	8.3
Between two and five years	8.1	26.5	8.1	16.5
Over five years	366.0	396.5	366.0	366.3
	415.4	440.5	414.6	394.9

	Group		Company	
	31 March 1999	31 March 1998	31 March 1999	31 March 1998
	£m	£m	£m	£m
Bank overdrafts	11.0	0.8	10.2	0.8
Unsecured loans and loan stocks:				
Bank loans	13.0	-	13.0	-
10 year 8 5/8% Eurobond	149.1	148.9	149.1	148.9
25 year 9 1/4% Eurobond	196.9	196.8	196.9	196.8
7.52% credit facility due 1999-2002	15.0	15.0	-	-
6.55% credit facility due 1997-2000	9.8	12.8	-	-
0% unsecured loan due 2004	0.6	0.6	0.6	0.6
Fixed rate 8.05% due 2009	-	45.6	-	-
Amounts owed to fellow subsidiaries	20.0	20.0	20.0	20.0
Amounts owed to group undertakings	-	-	24.8	27.8
	415.4	440.5	414.6	394.9

NOTES TO THE ACCOUNTS

17. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Rationalisation £m	Third party claims £m	Decommi-ssioning £m	Onerous contracts £m	Other £m	Total £m
Balance at 1 April 1998	10.7	6.4	-	84.0	18.5	119.6
Prior year adjustment (note 5)	-	-	3.1	-	-	3.1
Balance at 1 April 1998 restated	10.7	6.4	3.1	84.0	18.5	122.7
Additional provision created	6.7	-	-	31.6	3.1	41.4
Utilised in the year	(15.2)	(0.1)	-	(91.7)	(8.0)	(115.0)
Effects of changes in discounting	-	-	-	6.3	-	6.3
Balance at 31 March 1999	2.2	6.3	3.1	30.2	13.6	55.4

Company

	Rationalisation £m	Onerous contracts £m	Other £m	Total £m
Balance at 1 April 1998	10.7	134.0	16.0	160.7
Additional provision created	6.7	31.6	3.1	41.4
Utilised in the year	(15.2)	(145.1)	(7.7)	(168.0)
Effects of changes in discounting	-	9.7	-	9.7
Balance at 31 March 1999	2.2	30.2	11.4	43.8

Rationalisation

The rationalisation provision relates primarily to the cost of future severance payments. These costs are expected to be incurred from April 1999 to March 2000.

Third party claims

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

Onerous contracts

The provision of £84.0m at 1 April 1998 relating to onerous gas and electricity contracts was released during the year following renegotiation of these contracts as part of the sale agreement for the disposal of Regional Power Generators Limited. In light of the renegotiated contracts a reduced provision of £31.6m was created. The new provision relates to a financial instrument which compensates Regional Power Generators Limited in respect of gas purchases in excess of market price for a period up to 2008/9. 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. At the year end the provision was £30.2m.

17. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Decommissioning

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

18. DEFERRED TAXATION

Total potential unprovided deferred tax liabilities computed at the current rate of corporation tax of 30% (1997/98 31%) are as follows:

	Group		Company	
	31 March 1999	31 March 1998	31 March 1999	31 March 1998
	£m	£m	£m	£m
Capital allowances in excess of depreciation	192.3	193.7	187.8	161.8
Other timing differences	(17.1)	(30.5)	(12.5)	(45.9)
	175.2	163.2	175.3	115.9

19. CALLED UP SHARE CAPITAL

	31 March 1999	31 March 1998
	£m	£m
Authorised:		
220,000,000 ordinary shares of 68 2/11p each	150.0	150.0
Allotted and fully paid:		
159,270,954 ordinary shares of 68 2/11p each	108.6	108.6

NOTES TO THE ACCOUNTS

20. RESERVES

a) Reconciliation of Movement in Equity Shareholders' Funds

	1998/99 £m	1997/98 Restated (note 5) £m
Profit for the financial year	209.5	18.8
Dividends	(173.4)	(80.0)
Retained profit/ (deficit) for the financial year	36.1	(61.2)
Other recognised gains and losses for the year	1.0	-
Shares issued	-	0.8
Net increase/(decrease) in shareholders' funds for the year	37.1	(60.4)
Equity shareholders' funds at 1 April (1997/98 originally £493.4m before prior year adjustment of £9.5m)	442.5	502.9
Equity shareholders' funds at 31 March	479.6	442.5

NOTES TO THE ACCOUNTS

20. RESERVES (continued)

b) Reserves

Group

	Share premium account £m	Investment property revaluation reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Balance at 1 April 1998	12.6	1.7	-	0.1	317.2	331.6
Prior year adjustment (note 5)	-	-	-	-	2.3	2.3
Balance at 1 April 98 as restated	12.6	1.7	-	0.1	319.5	333.9
Retained profit for the financial year	-	-	-	-	36.1	36.1
Revaluation of investment property	-	0.4	-	-	-	0.4
Realisation of investment property	-	(1.7)	-	-	1.7	-
Revaluation of PSB	-	-	0.6	-	-	0.6
Realisation of PSB revaluation	-	-	(0.6)	-	0.6	-
Amortisation of bond finance costs	(0.3)	-	-	-	0.3	-
Balance at 31 March 1999	12.3	0.4	-	0.1	358.2	371.0

Company

	Share premium account £m	Investment property revaluation reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Balance at 1 April 1998	12.6	1.7	-	0.1	223.8	238.2
Prior year adjustment (note 5)	-	-	-	-	2.3	2.3
Balance at 1 April 98 as restated	12.6	1.7	-	0.1	226.1	240.5
Retained profit for the financial year	-	-	-	-	82.0	82.0
Revaluation of investment property	-	0.4	-	-	-	0.4
Realisation of investment property	-	(1.7)	-	-	1.7	-
Revaluation of PSB	-	-	0.6	-	-	0.6
Realisation of PSB revaluation	-	-	(0.6)	-	0.6	-
Amortisation of bond finance costs	(0.3)	-	-	-	0.3	-
Balance at 31 March 1999	12.3	0.4	-	0.1	310.7	323.5

The profit for the financial year dealt with in the accounts of the Company was £255.4m (1997/98 profit £8.2m after a prior year adjustment reducing profit by £7.2m). 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 9 June 1999.

NOTES TO THE ACCOUNTS

21. CASH FLOW STATEMENT

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

	1998/99 £m	1997/98 £m
Operating profit	210.9	176.6
Depreciation of fixed assets	49.0	46.6
Depreciation of fixed asset investments	7.6	2.8
Profit on sale of tangible assets	(3.3)	(3.5)
Decrease in provisions	(30.4)	(4.0)
Increase in debtors	(46.6)	(0.2)
Increase/(decrease) in creditors	7.7	(1.4)
Decrease/(increase) in stocks	1.4	(1.3)
Net cash inflow from operating activities	196.3	215.6

b) Analysis of changes in net debt

	31 March 1998 £m	Cash flows £m	Other Changes £m	31 March 1999 £m
Cash at bank and in hand	11.2	(5.1)	-	6.1
Overdrafts	(0.8)	(10.2)	-	(11.0)
	10.4	(15.3)	-	(4.9)
Debt due within 1 year	(5.6)	(8.7)	(7.0)	(21.3)
Debt due after 1 year	(434.1)	-	51.0	(383.1)
Money market investments	64.3	(4.2)	(30.3)	29.8
	(365.0)	(28.2)	13.7	(379.5)

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

	1998/99 £m	1997/98 £m
Decrease in cash in period	(15.3)	(8.8)
Repayment of loan	4.3	85.2
New borrowings	(13.0)	(20.0)
Disposal of subsidiary	14.0	-
Sale of liquid resources	(4.2)	(165.3)
Change in net debt	(14.2)	(108.9)
Amortisation of bond finance costs	(0.3)	(0.3)
Net Debt 1 April	(365.0)	(255.8)
Net Debt 31 March	(379.5)	(365.0)

NOTES TO THE ACCOUNTS

21. CASH FLOW STATEMENT (continued)

d) Cash flow on disposals

	Subsidiaries 1999 £m
Net assets disposed of:	
Tangible fixed assets	160.1
Liquid resources	30.4
Net current liabilities	(9.2)
Creditors due > 1year	(44.4)
Provisions	(43.4)
Minority interest	(0.6)
Book value of assets disposed	92.9
Deferral of profit on disposal	11.6
Profit on disposal	47.3
Disposal price	151.8
Less:	
Cash included in undertakings disposed	(1.9)
	149.9

The businesses sold during the year contributed £15.7m to the Group's net operating cash flows, paid £3.2m in respect to net returns on investments and servicing of finance, utilised £15.5m for capital expenditure and financial investment, utilised £1.3m for repayment of debt, raised £3.2m from the sale of liquid resources resulting in an overall decrease in cash of £1.1m.

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 £3.2m (1997/98 £4.9m).

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 year were £6.8m (1997/98 £5.6m). The balance outstanding to the Scheme at 31 March 1999 was £0.6m (31 March 1998 £0.6m).

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

NOTES TO THE ACCOUNTS

22. PENSION COMMITMENTS (continued)

From 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 £0.2m (1997/98 £0.1m).

23. 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 75% of borrowings on a fixed rate basis with an average maturity for the borrowings of at least 10 years. At the year end 94% of the Group's borrowings was at fixed rates and the average maturity for the borrowings was 13 years.

The only derivative instrument 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 100% of the borrowing requirement forecast for the next 12 months and of at least 50% of the borrowing requirement forecast for the next 5 years subject to a minimum of £100m. These cover levels were both complied with at year-end, with further headroom.

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

NOTES TO THE ACCOUNTS

23. DERIVATIVES (continued)

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 March 1999, the Group has no material currency risks.

Trading
It is, and has been throughout the period under 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 12000 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 therefore 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. No such instruments were outstanding at the year-end.

CFDs, EFAs and similar contracts in place at 31 March 1999 will hedge a portion of electricity purchases through to the year 2003. As set out below, management's estimate of the fair value of the contracts outstanding at 31 March 1999 is a net liability of £5.6m (1998 £10.3 m).

Trading
No trading in financial instruments took place in the year under review. However it is the Company's policy that trading in CFDs, EFAs and similar contracts may be undertaken within agreed risk parameters.

Other financial instruments
As explained in note 17 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.

NOTES TO THE ACCOUNTS

DERIVATIVES (continued)

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*" (FRS 13). 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 at 31 March 1999 was:

Currency	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is received £m
Sterling	36.8	10.5	25.4	0.9

The floating rate financial assets comprise £4.5m of deposits placed on money markets at overnight and seven day rates; £3.6m of debt securities bearing interest at rates fixed in advance for three months by reference to the three-month LIBOR rate and £2.4m of bank and other deposits at a margin below bank base rates.

The fixed rate financial assets comprise certificates of deposit, and debt securities. The weighted average interest rate on these assets is 6.5% and the weighted average period for which the interest rate remains fixed is 1.9 years.

NOTES TO THE ACCOUNTS

23. DERIVATIVES (continued)

Financial liabilities

The interest rate profile of the Group's financial liabilities at 31 March 1999 was:

Currency	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m
Sterling	445.6	24.0	390.8	30.8

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	8.9	13.5	5.2

The floating rate liabilities comprise bank loans of £13.0m that bear interest at rates based on inter-bank money market rates and bank overdrafts of £11.0m that bear interest at a margin over the bank's base rate.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 March 1999 was as follows:

	Total £m	Borrowings £m	Derivative financial instruments £m
In one year or less on demand	33.5	32.3	1.2
In more than one year but not more than two years	10.9	9.0	1.9
In more than two years but not more than five years	16.3	8.1	8.2
In more than five years	384.9	366.0	18.9
	445.6	415.4	30.2

NOTES TO THE ACCOUNTS

23. DERIVATIVES (continued)

Borrowing facilities

The Group has various undrawn committed borrowing facilities. The undrawn facilities available at 31 March 1999 in respect of which all conditions precedent had been met were as follows:

	£m
Expiring in one year or less	-
Expiring in more than one year but not more than two years	-
Expiring in more than two years	262.3
	262.3

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 as at 31 March 1999:

	Book value £m	Fair value £m
Financial assets		
Money market investments, certificates of deposit, debt securities, bank deposits and equity investments	36.8	37.0
Primary financial instruments issued to finance the Group's operations		
Short-term financial liabilities and current portion of long-term borrowings	(32.3)	(32.3)
Long-term borrowings	(383.1)	(487.4)
Derivative financial instruments held to manage the interest rate profile		
Interest rate caps	-	0.0
Derivative financial instruments held to manage commercial risks in the Supply business		
CFDs, EFAs and similar contracts	-	(5.6)
Other derivative financial instruments		
Instrument that compensates a third party in respect of costs of gas purchased	(30.2)	(30.2)

NOTES TO THE ACCOUNTS

23. 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 £383.1m 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.

NOTES TO THE ACCOUNTS

23. 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:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 1 April 1998	0.4	10.7	(10.3)
Gains and losses arising in previous years that were recognised in year ended 31 March 1999	0.4	6.9	(6.5)
Gains and losses arising before 1 April 1998 that were not recognised in year ended 31 March 1999	-	3.8	(3.8)
Gains and losses arising in year ended 31 March 1999 that were not recognised in the year	2.5	4.3	(1.8)
Unrecognised gains and losses on hedges at 31 March 1999	2.5	8.1	(5.6)
Of which:			
Gains and losses expected to be recognised in period ended 31 December 1999	0.1	4.1	(4.0)
Gains and losses expected to be recognised in 2000 or later	2.4	4.0	(1.6)

NOTES TO THE ACCOUNTS

24. LEASE OBLIGATIONS

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

	Group & Company Land & Buildings		Group & Company Other	
	31 March 1999 £m	31 March 1998 £m	31 March 1999 £m	31 March 1998 £m
Within one year	-	-	3.5	2.3
In the second to fifth year inclusive	0.1	-	0.9	0.3
Over five years	0.4	0.3	-	-
	0.5	0.3	4.4	2.6

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

	1998/99 £m	1997/98 £m
Land and buildings	0.5	0.3
Plant and machinery	2.8	3.1
	3.3	3.4

25. CAPITAL COMMITMENTS

	Group		Company	
	31 March 1999 £m	31 March 1998 £m	31 March 1999 £m	31 March 1998 £m
Contracted	3.9	36.3	3.9	20.5

26. 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.

NOTES TO THE ACCOUNTS

27. 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.

28. CONTINGENT LIABILITIES

Legal Proceedings

(a) 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 each has three months in which to initiate appeals to the House of Lords. It is expected that any hearing by the House of Lords will not take place before 2000.

The Company has made similar use of actuarial surplus. Pension deficiency costs totaling £33 million have been offset against actuarial surplus. Management is in the process of reviewing the Court of Appeal's decision and any potential impact of this decision on its results of operations and financial condition. The final outcome of this matter cannot yet be determined but the directors consider that there would be no adverse effect on the Group's profit and loss account were the Court of Appeal ruling to be finalised.

(b) On May 18, 1998, Optimum Solutions Limited ("Optimum"), a company that conducts research and development in the UK electric industry, entered a claim in the UK High Court of Justice, Chancery Division, against the Company, Eastern Electricity plc, National Grid Company plc and Logica plc alleging, in the case of the Company, that the Company breached a confidentiality agreement with Optimum regarding the use of confidential information in the Company's preparation for the competitive changes to the electricity supply market in and after 1998. Optimum has requested an injunction against the continued use of, and the return of, such confidential information, an unspecified amount of damages relating to breach of contract and equitable compensation for misuse of such confidential information.

On October 7, 1998, the Company filed a defence to the claim made against it by Optimum. The final outcome of this matter cannot be determined at present.