EASTERN ELECTRICITY PLC

REGISTRATION NO. 2366906

ANNUAL REPORT AND ACCOUNTS
FOR THE NINE MONTHS ENDED 31 DECEMBER 1998

CONTENTS

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DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report and the Audited Accounts of Eastern Electricity plc (Eastern) for the nine month period ended 31 December 1998. The comparatives are for the year ended 31 March 1998. The Company changed its accounting reference date to be consistent with that of its ultimate parent undertaking.

Principal activities and business review

The Company's principal activities are the distribution and supply of electricity, and will continue to be so in the foreseeable future.

TXU Corp.

On 19 May 1998 Texas Utilities Company (doing business as TXU Corp.) announced that its offer for the Company's then ultimate parent company, The Energy Group PLC, had been declared unconditional in all respects.

Results and dividends

The Company's results are shown in the profit and loss account on page 4.

At an Extraordinary General Meeting held on 6 October 1998, the Company declared a dividend to its shareholder totalling £375,000,000 satisfied in specie by the transfer of the Company's interest in its subsidiaries Eastern Generation Limited and Nedalo (UK) Limited.

Share capital

Details of the authorised and issued share capital of the Company are given in note 17 to the accounts on page 12.

Directors and their interests

The Directors who served during the period were:

Mr. J.F. Devaney	(resigned 14 September 1998)
Dr. D.J.H. Huber	
Mr. E.B. Hyams	
Mr. J.A. Keohane	
Mr P.C. Marsh	
Mr D.W. Owens	(appointed 18 May 1998)
Mr. J. Whelan	

Mr. P.G. Turberville was appointed a Director of the Company on 4 January 1999.

There were no notifiable interests of the Directors in office on 31 December 1998. Advantage has been taken of paragraph 3(1) (b) of the Companies (Disclosure of Directors' Interests) (Exemptions) Regulations 1985.

Research and development

The Company is committed to a programme of research and development activities appropriate to its business.

DIRECTORS' REPORT

Charitable and political contributions

During the period the Company donated £95,668 for charitable purposes (1997/98 £98,810). No donations were made for political purposes.

Policy on payment of creditors

The Company supports the CBI Code of Prompt Payment, a copy of which is available from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU. It is the Company's policy to agree payment terms as part of any formal contract with a supplier and to make every endeavour to abide by the agreed terms. Where a purchase is not covered by a formal contract, and no agreement is reached in advance of raising an order, the policy is that any valid invoice will be paid in full by the end of the month following the month in which that invoice was raised and dated. However, the Company is sympathetic to, and pays particular attention to, the cash flow needs of its smaller suppliers.

The number of creditor days outstanding at the period end was 46 days (1997/98: 34 days).

Millennium compliance

The Year 2000 issue, which stems from computer programs written using two digits rather than four to define the applicable years, could result in processing faults on the change of the century, producing a wide range of consequences. In August 1996, Eastern Group plc established a programme of projects to ensure that all its systems are Year 2000 compliant. In testing for conformity, the Group uses the British Standard definition of Year 2000 conformity (BSI DISC PD2000 -1).

Eastern Group's Year 2000 project is managed by a committee consisting of Eastern Directors and Senior Managers. Most of the projects are in the correction and testing stages with many of the older information technology systems having already been replaced by systems which are Year 2000 compliant. The approximate cost of this work is estimated at £20m and all business-critical work is due to be completed by the summer of 1999.

The Group's operations are also exposed, to an unquantifiable degree, to the failure of third parties to deal with with their Year 2000 exposure. As part of its compliance programme, the Group is co-operating with other utility companies, trade associations and its suppliers and customers, sharing information and experience. Eastern is also an active member of the UK Year 2000 interest group which, together with a wide range of other businesses, focuses on dealing with the issue of Year 2000 compliance.

Employees

Eastern Group employment policies are based on equal opportunity for all staff. They have been designed to ensure that applications from people who wish to work for the Group, and the subsequent training, development, promotion and assessment of performance of staff are based on competence and not gender, ethnic origin, age or disability.

In the event of a member of staff becoming disabled every effort is made to ensure that their employment within the Group is continued through the provision of appropriate facilities. Policies are in place to ensure the health, safety and welfare of staff, supported by training and working practices. It is the Group's policy to consult staff on these issues.

Staff are kept fully informed of the Group's progress, both on issues that directly affect their day-to-day work and the Group's overall performance through a range of in-house publications, routine work group briefings and discussion, a regular video news bulletin, staff events and consultation with recognised trade unions. The Group has also set up a European Works Council style body through which employee representatives are consulted on transnational and European issues.

By Order of the Board

PA Ellis
Secretary

29 July 1999

Registered Office:
Wherstead Park, Wherstead, Ipswich, Suffolk IP9 2AQ
Registered in England, No. 2366906.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare accounts which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit for the financial period. They are responsible 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 accounts comply with the Companies Act 1985. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors consider that, in preparing the accounts on pages 4 to 14, 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. After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the group accounts.

AUDITORS' REPORT

TO THE MEMBERS OF EASTERN ELECTRICITY PLC

We have audited the accounts on pages 4 to 14 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors
The Directors are responsible for the preparation of the Annual Report, including as described above, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained within the Annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion
We have 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 December 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

1 Embankment Place
London
WC2N 6NN

29 July 1999

PROFIT AND LOSS ACCOUNT
FOR THE NINE MONTHS ENDED 31 DECEMBER 1998

	Note	Period ended 31 Dec 1998 £m	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m	Year ended 31 Mar 1998 £m
Turnover	2				
Continuing operations			1,479.8		2,037.0
Cost of sales					
Continuing operations		(1,093.2)		(1,556.0)	
Exceptional contract costs		-	(1,093.2)	(154.0)	(1,710.0)
Gross profit			386.6		327.0
Distribution costs					
Exceptional restructuring and reorganisation costs		-		(13.0)	
Other		(90.9)	(90.9)	(140.9)	(153.9)
Administrative expenses			(88.2)		(116.5)
Total operating costs			(179.1)		(270.4)
Operating profit	2,3,4,5		207.5		56.6
Income from fixed asset investments	6		1.1		61.9
Net interest	7		(27.0)		(62.5)
Profit on ordinary activities before taxation			181.6		56.0
Taxation	8				
On results		(5.4)		29.6	
Windfall		-	(5.4)	(111.6)	(82.0)
Profit/(Loss) for the financial period			176.2		(26.0)
Dividends	9		(375.0)		-
(Loss) retained	20		(198.8)		(26.0)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	Note	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m
Reported profit on ordinary activities before taxation		181.6	56.0
Depreciation charge relating to the revaluation of the distribution system	19	7.7	10.2
Historical cost profit on ordinary activities before taxation		189.3	66.2
Historical cost (loss) retained		(191.1)	(15.8)

There are no recognised gains or losses other than shown in the profit and loss account above, therefore no separate statement of total recognised gains and losses has been presented.

BALANCE SHEET - 31 DECEMBER 1998

	Note	31 December 1998 £m	31 March 1998 £m
Fixed assets			
Tangible assets	10	**1,308.5**	*1,213.9*
Investments	11	**0.2**	*375.2*
		1,308.7	*1,589.1*
Current assets			
Stocks	12	**2.7**	*4.2*
Debtors - amounts falling due within one year	13	**366.1**	*247.1*
Debtors - amounts falling due after more than one year	13	**-**	*0.2*
Debtors subject to financing		**268.7**	*273.2*
Less: Non-recourse amount		**(268.7)**	*(200.0)*
		-	*73.2*
Cash at bank and in hand		**29.6**	*13.1*
		398.4	*337.8*
Creditors (amounts falling due within one year)	14	**(352.8)**	*(357.4)*
Net current assets/(liabilities)		**45.5**	*(19.6)*
Total assets less current liabilities		**1,354.2**	*1,569.5*
Creditors (amounts falling due after more than one year)	14	**(746.2)**	*(746.6)*
Provisions for liabilities and charges	15	**(51.6)**	*(67.7)*
Net assets		**556.4**	*755.2*
Capital and reserves			
Called up share capital	17	**125.8**	*125.8*
Share premium account	18	**5.6**	*5.6*
Other reserves	19	**218.8**	*226.5*
Profit and loss account	20	**206.2**	*397.3*
Total shareholders' funds - equity	25	**556.4**	*755.2*

The accounts on pages 4 to 14, were approved by the Board of Directors on 29 July 1999 and were signed on its behalf by:

P G Turberville
Director

NOTES TO THE ACCOUNTS - 31 December 1998

1. Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention, as modified by the valuation of the distribution system, and accord with applicable accounting standards and, except for the treatment of customers' contributions, with the Companies Act 1985 (the Act). An explanation of this departure from the requirements of the Act is given below under "tangible fixed assets and depreciation".

No consolidated accounts have been prepared as the Company is exempt under section 228 of the Companies Act 1985 being a wholly owned subsidiary of another UK company. Accordingly the financial statements present information about the Company as an individual undertaking and not about its group. From 6 October 1998, the Company had no subsidiaries.

Cash flow

The Company, which is a wholly owned subsidiary, has elected to utilise the exemption provided in Financial Reporting Standard 1 (Revised) and not produce a cash flow statement.

Turnover

Turnover represents the value of electricity consumption during the period, including an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end, and the invoice value of other goods sold and services provided, exclusive of value added tax, but inclusive of the fossil fuel levy.

Leases

Assets held under finance leases are included under fixed assets at the capitalised value of future minimum lease payments and are depreciated over the shorter of the lease terms or their useful lives. The capital element of the future payments is treated as a liability and the interest element is charged to the profit and loss account on an annual basis to reflect a constant rate of interest on the remaining balance of the outstanding obligation.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less accumulated depreciation. The charge for depreciation is calculated to write off assets over their estimated useful lives. The lives of each major class of depreciable asset are as follows:

	Years
Distribution system assets	40
Depreciation is charged at:	
3% per annum for 20 years followed by	
2% per annum for the remaining 20 years	
Other assets	
Buildings - freehold	Up to 60
- leasehold	Lower of lease period or 60 years
Fixtures and equipment	Up to 10
Vehicles and mobile plant	Up to 10

Freehold land is not depreciated. No allowance is made for residual values.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

1. Accounting policies
(continued)

Tangible fixed assets and depreciation
(continued)

Customers' contributions relating to distribution system assets are credited to the profit and loss account over a 40 year period at a rate of 3% per annum for the first 20 years followed by 2% per annum for the remaining 20 years. The unamortised amount of such contributions has been shown as a deduction from tangible fixed assets. This is not in accordance with the Act, which requires fixed assets to be included at their purchase price or production cost and hence the unamortised amount of customers' contributions would be presented as deferred income. Contributions from customers relate directly to the cost of fixed assets required to provide electricity supplies and it is the opinion of the Directors that the treatment adopted is necessary to give a true and fair view. The effect of the departure is fully disclosed in note 10.

The profit or loss on the disposal of tangible fixed assets is taken to the profit and loss account as part of the depreciation charge.

HM Government is entitled to a proportion of any gain realised by the Company on certain property disposals made up to 31 March 2000. A provision for clawback in respect of such 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.

Investments

Fixed asset investments are stated at cost less provisions for diminutions in value. Current asset investments are stated at the lower of cost and net realisable value. Investment income is included in the accounts of the period in which it is receivable.

Stocks

Stocks are valued at the lower of cost (on a weighted average cost method) and net realisable value. The valuation of work in progress is based on the cost of labour plus appropriate overheads and cost of materials. Progress invoices are deducted in arriving at the amounts stated.

Research and development

Expenditure on research and development is written off to the profit and loss account in the period in which its incurred.

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 the liability will crystallise in the foreseeable future. Deferred taxation assets are only recognised if recovery is reasonably certain.

Pension costs

Contributions to the Electricity Supply Pension Scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' anticipated working lives with the Company. Variations in pension cost, which are identified as a result of actuarial valuations, are similarly amortised over the average expected remaining working lives of employees. Differences between the amount funded and the amounts charged to profit and loss account are treated as either provisions or prepayments in the balance sheet.

Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence if the accounts are to give a true and fair view. Such items are shown separately on the face of the profit and loss account, or included under the profit and loss heading to which they relate and separately disclosed in the notes to the accounts.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

2. Turnover, operating profit and net assets by segment

Turnover, operating profit and net assets are attributable to the following activities:

	Turnover		Operating Profit		Net assets	
	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m	31 Dec 1998 £m	31 Mar 1998 £m
By activity:						
Energy	1,423.5	*1,910.4*	55.4	*27.6*	(137.3)	*(127.3)*
Networks	310.2	*468.8*	152.1	*196.0*	1,259.6	*1,178.8*
	1,733.7	*2,379.2*	**207.5**	*223.6*	**1,122.3**	*1,051.5*
Inter activity sales	(253.9)	*(342.2)*	-	-	-	-
Exceptional contracts	-	-	-	*(154.0)*	-	-
Exceptional restructuring and reorganisation costs	-	-	-	*(13.0)*	(32.7)	*(53.8)*
Unallocated net assets	-	-	-	-	236.2	*511.7*
Unallocated net borrowings	-	-	-	-	(769.4)	*(754.2)*
	1,479.8	*2,037.0*	**207.5**	*56.6*	**556.4**	*755.2*

Energy includes the regulated electricity supply business (incorporating competitive market electricity sales).
Networks includes the regulated electricity distribution business.

Exceptional contracts represents payments made to another Group undertaking to assume exceptional liabilities arising from certain long term contracts.

Exceptional restructuring and reorganisation costs include full provision for announced voluntary retirement and severance.

Income and costs are allocated specifically to the activity to which they relate wherever possible. However, because of the integrated nature of the Group's activities it is necessary to apportion or recharge certain costs between activities. Unallocated net assets include corporate items such as investments and tax.

3. Operating profit

The operating profit is stated after charging:

	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m
Employment costs (note 4)	**53.2**	*80.6*
Depreciation (net of profits or losses on disposals):		
Owned assets	**54.4**	*70.0*
Finance lease assets	**1.0**	-
Research and development	**0.8**	*0.9*
Auditors' remuneration:		
Audit services	**0.1**	*0.2*
Non-audit services	**0.3**	*0.2*

Fees for non-audit services cover taxation advice and management consultancy.

4. Employees

The average number of employees, including Directors, during the period was 4,471(1997/98 5,497).

The aggregate remuneration of employees, including Directors, comprised:

	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m
Wages and salaries	**75.5**	*110.7*
Social security costs	**5.9**	*8.3*
Other pension costs (note 21)	**2.8**	*5.3*
	84.2	*124.3*
Less: charged as capital expenditure	**(31.0)**	*(43.7)*
Charged to the profit and loss account	**53.2**	*80.6*

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

5. Directors' emoluments

	Period ended 31 Dec 1998 £000	Year ended 31 Mar 1998 £000
Aggregate emoluments	2,666	*1,357*

Retirement benefits are accruing to six (1997/98: six) Directors under a defined benefit scheme.

During the period none of the Directors have been awarded shares under a long term incentive scheme (1997/98: none).

The aggregate emoluments of the highest paid Director for the period ended 31 December 1998 were £804,000 (1997/98: £376,000) and his accrued pension at 31 December 1998 was £104,000 (31 March 1998 £81,000).

6. Income from fixed asset investments

	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m
Dividends from Eastern Generation Ltd	-	*61.0*
Other	1.1	*0.9*
	1.1	*61.9*

7. Net interest

	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m
Interest payable:		
On long term loans (repayable in whole or in part after five years)	47.9	*63.8*
To group undertakings	0.1	*8.3*
Debt securitisation discount	16.8	*4.6*
On finance leases	0.2	-
Other	1.5	*0.7*
	66.5	*77.4*
Interest receivable:		
From Group undertakings	(38.3)	*(12.6)*
Other	(1.2)	*(2.3)*
	(39.5)	*(14.9)*
Net interest payable	27.0	*62.5*

8. Taxation

	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m
Taxation on profit on ordinary activities:		
UK corporation tax at 31% (1997/98 31%)	-	*(21.1)*
Windfall tax	-	*111.6*
Taxation attributable to associates and investments	0.2	-
Prior year items	5.2	*(8.5)*
	5.4	*82.0*

The Company bears no current UK tax charge because of losses surrendered by group companies for no consideration.

If full provision had been made for deferred tax for the period, the tax charge would have been increased by £30.0m (1997/98 £3.4m), being £28.8m more in respect of capital allowances in excess of depreciation and £1.2m less in respect of other timing differences (note 16).

9. Dividends

	Period ended 31 Dec 1998 £m	Year ended 31 Mar 1998 £m
Dividend in specie (note 11)	375.0	-
	375.0	-

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

10. Tangible fixed assets

	Distribution system £m	Other land & buildings £m	Other £m	Deduct Customers' contributions £m	Total £m
Cost or valuation					
At 1 April 1998	*1,957.4*	*97.6*	*230.5*	*(389.8)*	*1,895.7*
Additions	131.8	8.4	37.2	(24.3)	153.1
Disposals	(1.5)	(0.2)	(5.7)	-	(7.4)
At 31 December 1998	**2,087.7**	**105.8**	**262.0**	**(414.1)**	**2,041.4**
Depreciation					
At 1 April 1998	*625.5*	*16.1*	*142.6*	*(102.4)*	*681.8*
Disposals	(0.9)	(0.1)	(3.3)	-	(4.3)
Charge for the period	42.4	1.6	19.8	(8.4)	55.4
At 31 December 1998	**667.0**	**17.6**	**159.1**	**(110.8)**	**732.9**
Net book amount					
At 31 December 1998	**1,420.7**	**88.2**	**102.9**	**(303.3)**	**1,308.5**
At 31 March 1998	*1,331.9*	*81.5*	*87.9*	*(287.4)*	*1,213.9*

(i) The distribution system is included in tangible fixed assets at valuation and would have been included on a historical cost basis at:

	31 December 1998 £m	31 March 1998 £m
Cost	**1,846.2**	1,715.9
Depreciation	**(633.7)**	(599.9)
Net book amount	**1,212.5**	*1,116.0*

The distribution system was revalued (adjustment £241.5m) in 1995/96 to reflect the underlying asset values which, in the opinion of the Directors, were used by the Director General of Electricity Supply in his 1995 review of distribution charges.

(ii) The distribution system includes land and buildings that are an integral part of the operational network. The net book amount of other land and buildings comprises:

	31 December 1998 £m	31 March 1998 £m
Freehold	**86.4**	80.0
Long leasehold	**0.2**	0.3
Short leasehold	**1.6**	1.2
	88.2	*81.5*

(iii) Tangible fixed assets include the following:

Assets in the course of construction	**33.6**	92.1
Land not depreciated	**13.0**	11.9

(iv) Included in the above are assets subject to finance leases of cost £5.7m (31 March 1998: £5.7m) and net book amount £4.7m (31 March 1998: £5.7m).

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

11. Fixed asset investments

	31 December 1998 £m	31 March 1998 £m
Shares in subsidiaries		
At 1 April	**375.0**	*375.0*
Disposals	**(375.0)**	-
At 31 December	-	*375.0*
Other investments	**0.2**	*0.2*
	0.2	*375.2*

The Company's shares in subsidiaries at 1 April 1998 are for its 100% ownership of Eastern Generation Limited, a company registered in England. This interest was transferred to its shareholder to satisfy in specie the dividend declared during the period.

12. Stocks

	31 December 1998 £m	31 March 1998 £m
Raw materials and consumables	**1.1**	*2.4*
Work in progress	**1.6**	*1.8*
	2.7	*4.2*

13. Debtors

	31 December 1998 £m	31 March 1998 £m
Amounts falling due within one year:		
Trade debtors	**13.5**	*25.3*
Amounts owed by group undertakings	**274.8**	*155.2*
Other debtors	**19.3**	*18.3*
Advance corporation tax recoverable	**13.5**	*22.5*
Prepayments and accrued income	**20.6**	*7.2*
Unbilled consumption	**24.4**	*18.6*
	366.1	*247.1*
Amounts falling due after more than one year:		
Other debtors	-	*0.2*
	-	*0.2*

Eastern Electricity has entered into an agreement to securitise trade receivables and future receivables with a third party. The third party issues commercial paper secured on those assets. The issue terms of the commercial paper include provisions that the holders have no recourse to any member of the Group in any other form. Eastern Electricity is not obliged to support any losses nor does it intend to.

The amount of funding secured on future receivables (£31.3m (31 March 1998: £100m)) is shown in Other creditors (note 14).

14. Creditors

		31 December 1998 £m	31 March 1998 £m
Creditors (amounts falling due within one year):			
Bank loans, overdrafts, short term borrowings (unsecured)		**22.2**	19.2
Net obligations in respect of finance leases		**0.9**	*0.9*
Payments received on account		**7.9**	*5.4*
Trade creditors		**214.7**	*170.5*
Corporation tax		-	*43.3*
Other taxation and social security		**5.3**	*4.6*
Other creditors		**37.5**	*109.3*
Accruals and deferred income		**64.4**	*4.2*
		352.8	*357.4*
Creditors (amounts falling due after more than one year):			
Bonds (unsecured)	(i)	**743.1**	*742.7*
Net obligations in respect of finance leases		**3.1**	*3.9*
		746.2	*746.6*

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

14. Creditors
(continued)

(i) The Company has in issue £200m 8.5% bonds, due 2025, £200m 8.75% bonds due 2012 (issued 14 April 1997) and £350m 8.375% bonds due 2004. Amounts shown above for bonds are net of issue costs.

(ii) At 31 December 1998 the Company had gross long term fixed rate borrowings of £250m, after allowing for the effect of interest rate swaps, bearing an annual interest rate of 8.375% maturing on 31 March 2004, long term fixed rate borrowings of £200m bearing an annual interest rate of 8.75% maturing on 30 March 2012 and long term fixed rate borrowings of £200m bearing an annual interest rate of 8.5% maturing on 31 March 2025.

(iii) Net obligations in respect of finance leases are repayable as follows:

	31 December 1998 £m	31 March 1998 £m
Amounts falling due after more than one year:		
Amounts due between one and five years	**3.0**	*3.7*
Amounts due after five years	**0.1**	*0.2*
	3.1	*3.9*

15. Provisions for liabilities and charges

	Restructuring and reorganisation £m	Pensions £m	Other £m	Total £m
Balance at 1 April 1998	*53.8*	*9.3*	*4.6*	*67.7*
Transferred from/(to) profit and loss account	-	5.9	0.1	6.0
Applied during the period	(21.1)	-	(1.0)	(22.1)
Balance at 31 December 1998	**32.7**	**15.2**	**3.7**	**51.6**

Other provisions include those in respect of insurance claims and holiday pay.

16. Deferred taxation

No provision for deferred tax is required at 31 December 1998 (31 March 1998 £nil). Total potential deferred tax liabilities, for which no provision has been made, computed at the current rate of corporation tax of 31% (1997/98 31%) are as follows:

	31 December 1998 £m	31 March 1998 £m
Capital allowances in excess of depreciation	**255.4**	*226.6*
Other timing differences	**(14.0)**	*(15.2)*
	241.4	*211.4*

17. Called up share capital

	31 December 1998 £m	31 March 1998 £m
Authorised:		
400 million ordinary shares of 50p each	**200.0**	*200.0*
Allotted and fully paid:		
251.5 million ordinary shares of 50p each	**125.8**	*125.8*

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

18. Share premium account

	31 December 1998 £m	31 March 1998 £m
Balance at 31 December	**5.6**	5.6

19. Other reserves

	Revaluation Reserve £m	Capital Redemption Reserve £m	Total £m
Balance at 1 April 1998	215.9	10.6	226.5
Transferred to profit and loss account (note 20)	(7.7)	-	(7.7)
Balance at 31 December 1998	**208.2**	**10.6**	**218.8**

The revaluation reserve at 31 December 1998 relates to the revaluation of the Company's distribution system. The transfer to distributable reserves represents the depreciation cost relating to the revaluation which has been charged to the profit and loss account during the period.

The capital redemption reserve relates to the purchase of its own shares by the Company.

20. Profit and loss account

	£m
Balance at 1 April 1998	397.3
Transfer from revaluation reserve (note 19)	7.7
Retained loss for the period	(198.8)
Balance at 31 December 1998	**206.2**

21. Pension commitments

Most of the Company's employees are entitled to join the Group's section 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. Details relating to the Group's section of the Electricity Supply Pension Scheme are shown in Eastern Group plc's annual report and accounts.

22. Capital and other commitments

	31 December 1998 £m	31 March 1998 £m
Capital commitments in respect of contracts placed	25.4	22.8

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

23. Contingent liabilities

In February 1997,the official government representative of pensioners (Pensions Ombudsman) made a final determination against The National Grid Company plc (National Grid) and its group trustees with respect to complaints by two pensioners in National Grid's section of the Electricity Supply Pension Scheme (ESPS) relating to the use of the pension fund surplus resulting from the actuarial valuation of the National Grid section, as at 31 March 1992, to meet certain costs arising from the payment of pensions on early retirement pursuant to reorganisation or downsizing.

These determinations were set aside by the High Court on 10 June 1997 and the arrangements made by National Grid and its group trustees in dealing with the surplus were confirmed. The two pensioners have now appealed against this decision and judgement has now been received although a final order is awaited. The appeal was allowed endorsing the Pension Ombudsman's determination that the corporation was not entitled to unilaterally deal with any surplus. If a similar complaint were to be made against Eastern in relation to its use of actuarial surplus in its section of the ESPS, it would vigorously defend the action, ultimately through the courts. However, if a determination were finally to be made against it and upheld by the courts, Eastern could have a potential liability to repay to its section of the ESPS an amount estimated by the Directors to be up to £45 million (exclusive of any applicable interest charges).

24. Parent company

The immediate parent company and the parent of the smallest group to consolidate these financial statements is Eastern Group plc (Eastern). Eastern is registered in England and its group accounts may be obtained from the Company Secretary at Crown House, 51 Aldwych, London WC2B 4AX. The ultimate parent company and ultimate controlling party at 31 December 1998 was Texas Utilities Company (renamed TXU Corp.) (incorporated in the state of Texas, USA. The ultimate parent company's group accounts are available from Texas Utilities shareholder services, P.O. Box 225249, Dallas, Texas, 75222-524.

25. Reconciliation of movement in shareholders' funds

	31 December 1998 £m	31 March 1998 £m
Total recognised gains and losses	176.2	*(26.0)*
Dividends	(375.0)	-
	(198.8)	*(26.0)*
Opening shareholders' funds	755.2	*781.2*
Closing shareholders' funds	556.4	*755.2*

26. Related party transactions

The Company is a wholly owned subsidiary of Texas Utilities Company (doing business as TXU Corp.) and, as permitted by Financial Reporting Standard 8 "Related Party Disclosures ", transactions with other entities in the Group are not disclosed.