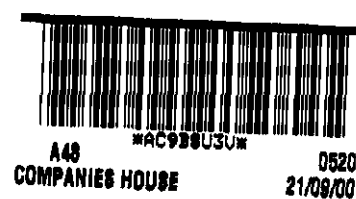


REGISTRATION NO. 2366906

**ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 1999**

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## DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report and the Audited Accounts of Eastern Electricity plc for the year ended 31 December 1999. The comparatives are for the nine month period ended 31 December 1998.

### 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.

### Results and dividends

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

### Share capital

Details of the authorised and issued share capital of the Company are given in note 18 to the accounts on page 14.

### Directors and their interests

The Directors who served during the period were:

Dr. D.J.H. Huber	
Mr E.B. Hyams	
Mr J.A. Keohane	(resigned 30 September 1999)
Mr P.C. Marsh	
Mr D.W. Owens	(resigned 10 April 2000)
Mr R.E. Partington	(appointed 6 December 1999)
Mr P.G. Turberville	(appointed 4 January 1999)
Mr J. Whelan	(resigned 22 November 1999)

There were no notifiable interests of the Directors in office on 31 December 1999. 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.

### Charitable and political contributions

During the period the Company donated £139,390 for charitable purposes (1998 £95,668). No donations were made for political purposes.

### Policy on payment of creditors

The Company supports the Better Payment Practice Code, the terms of which are:

- \* agree payment terms at the outset of a deal and stick to them,
- \* explain payment procedures to suppliers,
- \* pay bills in accordance with any contract agreed with suppliers or as required by law and
- \* tell suppliers without delay when an invoice is contested and settle disputes quickly.

Information about and copies of the code may be obtained from The Better Payment Practice Group, c/o Polhill Communications, 48 Artillery Lane, London E1 7LS.

The number of creditor days outstanding at the year end was 34 days (1998: 46 days).

### Year 2000 Issues

Following their initial review, The Directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the Directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. All business-critical work was completed 31 December 1999. The total costs associated with TXU Europe Group's (formerly Eastern Group) year 2000 efforts are currently estimated to be approximately £12 million. A total of approximately £2 million is expected to be incurred during 2000. There can be no assurance that these estimates will not change as a result of the discovery of unexpected needs for additional remedial work.

## DIRECTORS' REPORT

### Employees

TXU Europe Group's (formerly Eastern Group) employment policies are based on equal opportunities for all the staff. They have been designed to ensure that applications from people who wish to work for the Group, and 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.

The Group operates a Sharesave Scheme and associated Loyalty Reward Plan whereby staff are encouraged to make regular savings which may be used for the purchase of shares in its ultimate parent company, TXU Corp.

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.

### Auditors

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

By Order of the Board



P.A. Ellis  
Secretary

27 JULY 2000

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 financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial year 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 financial statements 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 financial statements on pages 4 to 15, 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 financial statements on pages 4 to 15 which have been prepared under the accounting policies set out on pages 6 and 7.

#### Respective responsibilities of directors and auditors

As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

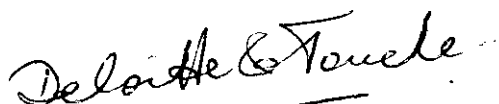
#### Basis of opinion

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

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 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**  
Chartered Accountants  
and Registered Auditors

Hill House  
Little New Street  
London  
EC4A 3TR

27 July 2000

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 1999**

	Note	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m
<b>Turnover: Continuing operations</b>	1,2	<b>1,928.7</b>	<b>1,479.8</b>
<b>Cost of sales: Continuing operations</b>	2	<b>(1,449.7)</b>	<b>(1,093.2)</b>
<b>Gross profit</b>		<b>479.0</b>	<b>386.6</b>
Distribution costs			
Exceptional restructuring and reorganisation costs		(5.0)	
Other		(123.4)	(90.9)
Administrative expenses			
Exceptional restructuring and reorganisation costs		(5.6)	-
Other		(118.9)	(88.2)
<b>Total operating costs</b>		<b>(252.9)</b>	<b>(179.1)</b>
<b>Operating profit: Continuing operations</b>	2,3,4,5	<b>226.1</b>	<b>207.5</b>
Income from fixed asset investments	6	3.9	1.1
Net interest	7	(44.2)	(27.0)
<b>Profit on ordinary activities before taxation</b>		<b>185.8</b>	<b>181.6</b>
Taxation on profit on ordinary activities	8	(67.5)	(5.4)
<b>Profit for the financial period</b>		<b>118.3</b>	<b>176.2</b>
Equity Dividends	9	(171.0)	(375.0)
<b>Loss retained</b>	21	<b>(52.7)</b>	<b>(198.8)</b>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**

Reported profit on ordinary activities before taxation		<b>185.8</b>	<b>181.6</b>
Depreciation charge relating to the revaluation of the distribution system	20	<b>10.2</b>	<b>7.7</b>
Historical cost profit on ordinary activities before taxation		<b>196.0</b>	<b>189.3</b>
Historical cost loss retained		<b>(42.5)</b>	<b>(191.1)</b>

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 1999

	Note	31 December 1999 £m	31 December 1998 £m
<b>Fixed assets</b>			
Tangible assets	10	1,372.0	1,308.5
Investments	11	0.1	0.2
		<u>1,372.1</u>	<u>1,308.7</u>
<b>Current assets</b>			
Stocks	12	1.6	2.7
Debtors - amounts falling due within one year	13	325.8	366.1
Debtors subject to financing		223.9	268.7
Less: Non-recourse amount		(223.9)	(268.7)
		-	-
Cash at bank and in hand		23.8	29.6
		<u>351.2</u>	<u>398.4</u>
<b>Creditors</b> (amounts falling due within one year)	14	<u>(432.0)</u>	<u>(352.9)</u>
<b>Net current (liabilities)/assets</b>		<u>(80.8)</u>	<u>45.5</u>
<b>Total assets less current liabilities</b>		<b>1,291.3</b>	<b>1,354.2</b>
<b>Creditors</b> (amounts falling due after more than one year)	14	<u>(745.9)</u>	<u>(746.2)</u>
<b>Provisions for liabilities and charges</b>	16	<u>(41.7)</u>	<u>(51.6)</u>
<b>Net assets</b>		<u>503.7</u>	<u>556.4</u>
<b>Capital and reserves</b>			
Called up share capital	18	125.8	125.8
Share premium account	19	5.6	5.6
Other reserves	20	208.6	218.8
Profit and loss account	21	163.7	206.2
Total shareholders' funds - equity	26	<u>503.7</u>	<u>556.4</u>

The accounts on pages 4 to 15, were approved by the Board of Directors on 27 July 2000 and were signed on its behalf by:

  
P.C. Marsh  
Director

## NOTES TO THE ACCOUNTS - 31 December 1999

## 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:

	<u>Years</u>
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 1999

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.

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 impairment. 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 and net realisable value on a weighted average cost basis. 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 it is 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 1999

## 2. Turnover, operating profit and net assets by segment

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

By activity:	Turnover		Operating Profit		Net assets	
	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m	31 Dec 1999 £m	31 Dec 1998 £m
Energy	1,818.3	1,423.5	15.0	55.4	(142.4)	(137.3)
Networks	441.7	310.2	221.7	152.1	1,286.8	1,259.6
	<b>2,260.0</b>	<b>1,733.7</b>	<b>236.7</b>	<b>207.5</b>	<b>1,144.4</b>	<b>1,122.3</b>
Inter activity sales	(331.3)	(253.9)	-	-	-	-
Exceptional - Restructuring	-	-	(10.6)	-	(20.0)	(32.7)
Unallocated net assets	-	-	-	-	142.7	236.2
Unallocated net borrowings	-	-	-	-	(763.4)	(769.4)
Continuing operations	<b>1,928.7</b>	<b>1,479.8</b>	<b>226.1</b>	<b>207.5</b>	<b>503.7</b>	<b>556.4</b>

Energy includes the regulated electricity supply business.

Networks includes the regulated electricity distribution business.

Exceptional restructuring and reorganisation costs include full provision for 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.

All activities are in the UK.

## 3. Operating profit

The operating profit is stated after charging:

	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m
Employment costs (note 4)	71.7	53.2
Depreciation (net of profits or losses on disposals):		
Owned assets	79.7	54.4
Finance lease assets	1.2	1.0
Research and development	1.4	0.8
Auditors' remuneration:		
Audit services	-	0.1
Non-audit services	-	0.3

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

As from this year the audit fee is borne by another group company, TXU Europe Ltd. It is not practicable to apportion it over the group companies.

Operating profit for the year included a charge of £16.1m in respect of a revision of estimated amounts for certain prior year items, within the energy business.

## 4. Employees

The average number of employees, including Directors, during the period was 4,378 (1998 4,471).

The aggregate remuneration of employees, including Directors, comprised:

	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m
Wages and salaries	101.8	75.5
Social security costs	8.0	5.9
Other pension costs (note 22)	3.0	2.8
	<b>112.8</b>	<b>84.2</b>
Less: charged as capital expenditure	(41.1)	(31.0)
Charged to the profit and loss account	<b>71.7</b>	<b>53.2</b>

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

## 5. Directors' emoluments

	Year ended 31 Dec 1999 £000	Period ended 31 Dec 1998 £000
Aggregate emoluments	<u>2,360</u>	<u>2,666</u>

Retirement benefits are accruing to six (1998: six) Directors under a defined benefit scheme.

The aggregate emoluments of the highest paid Director for the period ended 31 December 1999 were £445,000 (1998: £804,000) and his accrued pension at 31 December 1999 was £72,000 (31 December 1998 £104,000).

## 6. Income from fixed asset investments

	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m
Income from fixed asset investments	<u>3.9</u>	<u>1.1</u>
	<u>3.9</u>	<u>1.1</u>

## 7. Net interest

	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m
Interest payable:		
On long term loans (repayable in whole or in part after five years)	63.8	47.9
To group undertakings	0.6	0.1
Debt securitisation discount	15.8	16.8
On finance leases	0.3	0.2
Other	1.6	1.5
	<u>82.1</u>	<u>66.5</u>
Interest receivable:		
From Group undertakings	(26.8)	(38.3)
Other	(11.1)	(1.2)
	<u>(37.9)</u>	<u>(39.5)</u>
Net interest payable	<u>44.2</u>	<u>27.0</u>

## 8. Taxation

	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m
Taxation on profit on ordinary activities:		
UK corporation tax at 30% (1998 31%)	67.5	-
Taxation attributable to associates and investments	-	0.2
Prior year items	-	5.2
	<u>67.5</u>	<u>5.4</u>

If full provision had been made for deferred tax for the period, the tax charge would have been increased by £12.5m (31 Dec 1998: 30.0m) being £8.6 more in respect of capital allowances in excess of depreciation and £3.9m less in respect of other timing differences (note 17).

## 9. Dividends

	Year ended 31 Dec 1999 £m	Period ended 31 Dec 1998 £m
Dividend to parent company	171.0	-
Dividend in specie (note 11)	-	375.0
	<u>171.0</u>	<u>375.0</u>

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

## 10. Tangible fixed assets

	Distribution system £m	Other land & buildings £m	Other £m	Deduct Customers' contributions £m	Total £m
<b>Cost or valuation</b>					
At 31 December 1998	2,087.7	105.8	262.0	(414.1)	2,041.4
Additions	156.7	9.3	31.6	(45.2)	152.4
Disposals	-	(8.9)	(2.7)	-	(11.6)
At 31 December 1999	<b>2,244.4</b>	<b>106.2</b>	<b>290.9</b>	<b>(459.3)</b>	<b>2,182.2</b>
<b>Depreciation</b>					
At 31 December 1998	667.0	17.6	159.1	(110.8)	732.9
Disposals	-	(2.7)	(0.9)	-	(3.6)
Charge for the year	60.0	3.1	29.6	(11.8)	80.9
At 31 December 1999	<b>727.0</b>	<b>18.0</b>	<b>187.8</b>	<b>(122.6)</b>	<b>810.2</b>
<b>Net book amount</b>					
At 31 December 1999	<b>1,517.4</b>	<b>88.2</b>	<b>103.1</b>	<b>(336.7)</b>	<b>1,372.0</b>
At 31 December 1998	<b>1,420.7</b>	<b>88.2</b>	<b>102.9</b>	<b>(303.3)</b>	<b>1,308.5</b>

- (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 1999 £m	31 December 1998 £m
Cost	2,002.9	1,846.2
Depreciation	(683.5)	(633.7)
Net book amount	<b>1,319.4</b>	<b>1,212.5</b>

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 1999 £m	31 December 1998 £m
Freehold	86.0	86.4
Long leasehold	0.2	0.2
Short leasehold	1.6	1.6
	<b>87.8</b>	<b>88.2</b>

- (iii) Tangible fixed assets include the following:

Assets in the course of construction	38.3	33.6
Land not depreciated	12.6	13.0

- (iv) Included in the above are assets subject to finance leases of cost £5.9m (31 December 1998: £5.9m) and net book amount £3.8m (31 December 1998: £5m).

## EASTERN ELECTRICITY PLC

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

## 11. Fixed asset investments

	31 December 1999 £m	31 December 1998 £m
Shares in subsidiaries		
At 31 December 1998	-	375.0
Disposals	-	(375.0)
At 31 December 1999	-	-
Other investments	0.1	0.2
	<u>0.1</u>	<u>0.2</u>

The Company's shares in subsidiaries at 1 January 1999 are for its 100% ownership of Eastern Generation Limited, a company registered in England and Wales. This interest was transferred to its shareholder to satisfy in specie the dividend declared during the period.

## 12. Stocks

	31 December 1999 £m	31 December 1998 £m
Raw materials and consumables	0.4	1.1
Work in progress	1.2	1.6
	<u>1.6</u>	<u>2.7</u>

## 13. Debtors

	31 December 1999 £m	31 December 1998 £m
Amounts falling due within one year:		
Trade debtors	35.3	13.5
Amounts owed by group undertakings	199.1	274.8
Other debtors	5.3	18.3
Advance corporation tax recoverable	13.5	13.5
Prepayments and accrued income	17.3	20.6
Unbilled consumption	56.3	24.4
	<u>325.8</u>	<u>366.1</u>

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 (£276.1m (31 December 1998: £31.3m)) is shown in Payments on account (note 14).

## 14. Creditors

	31 December 1999 £m	31 December 1998 £m
Creditors (amounts falling due within one year):		
Bank loans, overdrafts, short term borrowings (unsecured)	16.7	22.2
Net obligations in respect of finance leases	0.9	0.9
Payments received on account	86.3	8.0
Trade creditors	159.0	214.7
Corporation tax	87.6	-
Other taxation and social security	5.1	5.3
Other creditors	9.5	37.5
Accruals and deferred income	87.0	64.4
	<u>432.0</u>	<u>352.9</u>
Creditors (amounts falling due after more than one year):		
Bonds (unsecured)	(i) 743.8	743.1
Net obligations in respect of finance leases	2.1	3.1
	<u>745.9</u>	<u>746.2</u>

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

**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 1999 the Company had gross long term fixed rate borrowings of £350m, 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 1999 £m	31 December 1998 £m
Amounts falling due after more than one year:		
Amounts due between one and five years	2.1	3.0
Amounts due after five years	-	0.1
	<u>2.1</u>	<u>3.1</u>

**15. Derivatives and other financial instruments**

The Company's principal financial instruments, other than derivatives, comprise of bank loans, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Company has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations.

The Board reviews and agrees policies managing each of the risks. The key risks are:

## \* Liquidity risk

The Company maintains a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. Short-term flexibility is achieved by overdraft facilities.

Short-term debtors and creditors have been excluded from this note as permitted under FRS 13.

As permitted by FRS 13, comparative figures have not been provided

**Interest rate risk profile of financial liabilities**

The financial liabilities of the Company at 31 December 1999 subject to interest rate risk were as follows:

Currency	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m
Sterling	746.8	16.7	-	763.5
Euro related	-	-	-	-
US dollar	-	-	-	-
Other	-	-	-	-
Total	<u>746.8</u>	<u>16.7</u>	<u>-</u>	<u>763.5</u>
		Fixed rate financial liabilities	Financial liabilities on which no interest is paid	
		Weighted average interest rate %	Weighted average period for which rates are fixed Years	Weighted average period until maturity Years
Currency				
Sterling		8.5	14.4	-
Euro related		-	-	-
US dollar		-	-	-
Other		-	-	-
Total		<u>8.5</u>	<u>14.4</u>	<u>-</u>

The floating rate of interest is based upon prevailing bank lending rates.

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

15. Derivatives and other financial instruments  
(continued)

## Interest rate risk of financial assets

As at 31 December 1999 there were financial assets totalling £23.8 million with interest at prevailing bank lending rates.

## Currency exposures

At 31 December 1999, as a result of policies as described elsewhere in note 15 the Company does not have any significant exposure on monetary assets and liabilities.

## Maturity of financial liabilities

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

	1999 £m
In one year or less, or on demand	17.6
In more than one year but not more than two years	1.0
In more than two years but not more than five years	324.7
In more than five years	420.2
<b>Total</b>	<b>763.5</b>

## Borrowing facilities

The Company has various borrowing facilities available to it. The undrawn committed borrowing level available from such facilities at 31 December 1999 in respect of which all conditions precedent had been met at that date are as follows:

	1999 £m
Expiring in one year or less	-
Expiring in more than one year but not more than two	-
Expiring in more than two years	390.0
<b>Total</b>	<b>390.0</b>

## Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all the Company's financial assets and (financial liabilities) at 31 December 1999.

	Book value £m	Fair value £m
<b>Primary financial instruments held or used to finance Company's operations:</b>		
Short-term borrowings	(17.6)	(17.6)
Long-term borrowings	(745.9)	(936.9)
Cash deposits	23.8	23.8

All financial instruments held or used for trading purposes are carried in financial statements at fair value.

Quoted market values have been used to determine the fair value of all listed debt issued and held.

## 16. Provisions for liabilities and charges

	Restructuring and reorganisation £m	Pensions £m	Other £m	Total £m
Balance at 1 January 1999	32.7	15.2	3.7	51.6
Additions during the year	10.6	4.4	0.5	15.5
Applied during the year	(23.3)	(1.4)	(0.7)	(25.4)
<b>Balance at 31 December 1999</b>	<b>20.0</b>	<b>18.2</b>	<b>3.5</b>	<b>41.7</b>

As at 31 December 1999, the main uncertainties as to the settlement of provisions related to the ultimate amount of insurance claims for which provision has been made and to future pension accounting balances. Provisions are expected to reverse over a variety of periods.

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

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

## 17. Deferred taxation

No provision for deferred tax is required at 31 December 1999 (31 December 1998 £nil). Total potential deferred tax liabilities, for which no provision has been made, computed at the current rate of corporation tax of 30% (1998 31%) are as follows:

	31 December 1999 £m	31 December 1998 £m
Capital allowances in excess of depreciation and other items	264.0	255.4
Other timing differences	(10.1)	(14.0)
	<u>253.9</u>	<u>241.4</u>

## 18. Called up share capital

Authorised:

400 million ordinary shares of 50p each

31 December 1999 £m	31 December 1998 £m
<u>200.0</u>	<u>200.0</u>

Allotted and fully paid:

251.5 million ordinary shares of 50p each

31 December 1999 £m	31 December 1998 £m
<u>125.8</u>	<u>125.8</u>

## 19. Share premium account

Balance at 31 December

31 December 1999 £m	31 December 1998 £m
<u>5.6</u>	<u>5.6</u>

## 20. Other reserves

Balance at 31 December 1998

Transferred to profit and loss account (note 21)

Balance at 31 December 1999

Revaluation Reserve £m	Capital Redemption Reserve £m	Total £m
208.2	10.6	218.8
(10.2)	-	(10.2)
<u>198.0</u>	<u>10.6</u>	<u>208.6</u>

The revaluation reserve at 31 December 1999 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.

## 21. Profit and loss account

Balance at 31 December 1998

Transfer from revaluation reserve (note 20)

Retained profit for the year

Balance at 31 December 1999

£m

206.2

10.2

(52.7)

163.7

## 22. 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 TXU Europe Group plc's annual report and accounts.

## 23. Capital and other commitments

Capital commitments in respect of contracts placed

31 December 1999 £m	31 December 1998 £m
<u>5.9</u>	<u>25.4</u>

## 24. Significant post balance sheet events

In 1999 it was determined to sell the metering business of the Company. Completion of the sale took place on 24 May 2000. The results of the business for 1999 were not material to the Company to require disclosure as 'discontinued activities' under Financial Reporting Standard No. 3.

## NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

**25. 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).

**26. Parent company and controlling party**

The ultimate parent company and the parent undertaking of the largest group for which group accounts are prepared and of which the Company is a member is TXU Corp. (incorporated in the State of Texas, USA). The smallest group for which group accounts are prepared and of which the Company is a member is TXU Europe Group plc (formerly Eastern Group plc). These accounts are obtainable from the Company Secretary at Wherstead Park, Wherstead, Ipswich, Suffolk, IP9 2AQ.

**27. Reconciliation of movement in shareholders' funds**

	31 December 1999 £m	31 December 1998 £m
Total recognised gains and losses	118.3	176.2
Dividends	(171.0)	(375.0)
	(52.7)	(198.8)
Opening shareholders' funds	556.4	755.2
Closing shareholders' funds	503.7	556.4

**28. Related party transactions**

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