EASTERN ELECTRICITY plc

Registration No. 2366906

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1997

CONTENTS

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report and the Audited Accounts of Eastern Electricity plc (Eastern) for the year ended 31 March 1997.

Principal activities and business review

The Company's principal activities are the distribution and supply of electricity and electrical contracting. Eastern's energy trading activities were incorporated into Eastern Energy Management Limited (now known as Eastern Power and Energy Trading Limited) on 1 April 1996.

Group re-organisation

Following an internal re-organisation of the Eastern Group that was completed in October 1996, all of the Company's subsidiary undertakings, other than Eastern Generation Limited and its subsidiaries, were transferred to a newly incorporated holding company, Eastern Group plc, which became the immediate parent of the Company. As a consequence of this re-organisation, the name of the Company was changed from Eastern Group plc to Eastern Electricity plc on 2 October 1996.

Demerger

On 24 February 1997 Eastern Group plc was demerged along with the Peabody Coal business from Hanson PLC into The Energy Group PLC (TEG). TEG is incorporated under the laws of England and Wales and is listed on the London and New York Stock Exchanges.

Subsequent events

On 14 April 1997, the Company issued £200m 8.75% bonds, due 2012. The proceeds are to be used for general corporate purposes. On 13th June 1997 TEG announced that a recommended cash offer had been received from the US firm PacifiCorp which may lead to a combination of the two companies.

Results and dividends

The Company's results are shown in the profit and loss account on page 4. Dividends totalling £539.1m were paid in respect of the year.

Change of name

On 2 October 1996 the Company's name was changed from Eastern Group plc to Eastern Electricity plc.

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 year were:

Mr. J.F. Devaney	
Mr. E.E. Anstee	(resigned 24.2.97)
Mr. S.L. Connock	
Mr. E.B. Hyams	(appointed 1.4.96)
Mr P.C. Marsh	(appointed 24.2.97)
Mr. W.G. Watson	

On 13 September 1996 Mr. P.C. Marsh was appointed an Alternate Director to Mr. E.E. Anstee. This appointment terminated with Mr. E.E. Anstee's resignation on 24 February 1997.

All of the Directors are also Directors of Eastern Group plc. Details of their interests at the end of this financial period in the ordinary shares of TEG, together with their interests in the ordinary shares of Hanson PLC, the Company's ultimate parent company at 1 April 1996, are shown in Eastern Group plc's annual report and accounts.

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 year the Company donated £190,238 for charitable purposes (1995/96 £264,693). No donations were made for political purposes.

Policy on payment of creditors

The Company supports the CBI Code of Prompt Payment. 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 year end was 34 days.

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.

The Group operates an Inland Revenue approved sharesave scheme through TEG whereby staff are encouraged to make regular savings which may be used for the purchase of TEG shares.

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 Price Waterhouse as the Company's auditors will be proposed at the Annual General Meeting.

By Order of the Board

PA Ellis
Secretary

20 June 1997

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 year and of the profit for the financial year. 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.

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

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 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

20 June 1997

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1997

	Note	1996/97 £m	1996/97 £m	1995/96 £m	1995/96 £m
Turnover	1				
Continuing operations		2,019.6		2,122.5	
Exceptional discount		-	2,019.6	(145.7)	1,976.8
Cost of sales					
Continuing operations		(1,538.4)		(1,611.1)	
Exceptional discount		-	(1,538.4)	13.2	(1,597.9)
Gross profit			481.2		378.9
Distribution costs					
Exceptional restructuring and reorganisation costs		(20.0)		(30.0)	
Other		(146.6)	(166.6)	(153.1)	(183.1)
Administrative expenses					
Exceptional restructuring and reorganisation costs		-		(68.3)	
Other		(107.1)	(107.1)	(112.6)	(180.9)
Total operating costs			(273.7)		(364.0)
Operating profit	2,3,4,5		207.5		14.9
Income from fixed asset investments	6		14.2		236.7
Net interest	7		(38.2)		(12.0)
Profit on ordinary activities before taxation			183.5		239.6
Taxation	8		(34.6)		(37.6)
Profit for the financial year			148.9		202.0
Dividends	9		(539.1)		(416.8)
(Loss) retained	20		(390.2)		(214.8)

Note of historical cost profits and losses

	Note	1996/97 £m	1995/96 £m
Reported profit on ordinary activities before taxation		183.5	239.6
Depreciation charge relating to the revaluation of the distribution system	19	10.2	5.2
Historical cost profit on ordinary activities before taxation		193.7	244.8
Historical cost (loss)/profit retained		(380.0)	(209.6)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 1997

	1996/97 £m	1995/96 £m
Profit for the financial year	148.9	202.0
Unrealised surplus on revaluation of distribution system	-	241.5
Revaluation of National Grid investment	-	308.9
Total recognised gains and losses for the year	148.9	752.4

EASTERN ELECTRICITY plc

BALANCE SHEET - 31 MARCH 1997

	Note	31 March 1997 £m	31 March 1996 £m
Fixed assets			
Tangible assets	10	**1,137.8**	*1,093.5*
Investments	11	**375.2**	*356.4*
		1,513.0	*1,449.9*
Current assets			
Stocks	12	**5.8**	*9.1*
Debtors - amounts falling due within one year	13	**576.6**	*806.7*
Debtors - amounts falling due after more than one year	13	**76.5**	*104.6*
Short term deposits		**-**	*218.3*
Cash at bank and in hand		**23.5**	*34.3*
		682.4	*1,173.0*
Creditors (amounts falling due within one year)	14	**(652.1)**	*(833.4)*
Net current assets		**30.3**	*339.6*
Total assets less current liabilities		**1,543.3**	*1,789.5*
Creditors (amounts falling due after more than one year)	14	**(695.0)**	*(544.6)*
Provisions for liabilities and charges	15	**(67.1)**	*(73.5)*
Net assets		**781.2**	*1,171.4*
Capital and reserves			
Called up share capital	17	**125.8**	*125.8*
Share premium account	18	**5.6**	*5.6*
Other reserves	19	**236.7**	*246.9*
Profit and loss account	20	**413.1**	*793.1*
Total shareholders' funds - equity	27	**781.2**	*1,171.4*

The accounts on pages 4 to 14, were approved by the Board of Directors on 20 June 1997 and were signed on its behalf by:

J F Devaney
Executive Chairman

P C Marsh
Finance Director

NOTES TO THE ACCOUNTS - 31 MARCH 1997

1. Accounting policies

Basis of preparation

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.

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 year, including 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 sold and services provided, exclusive of value added tax.

Price regulation

The price regulation formulae established by the Government on privatisation and administered by OFFER set maximum allowable annual revenues for the distribution and franchise supply businesses. Where revenues exceed the regulated maximum allowable amount, an equivalent sum is deducted from turnover and unbilled consumption. Where there is an underrecovery of allowed revenues, future recovery is accrued to the extent that recovery is anticipated to be made in the published tariffs for the following year. The impact on the current and previous years is disclosed in note 28.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation. 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 Depreciation is charged at 3% per annum for 20 years followed by 2% per annum for the remaining 20 years	40
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.

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.

NOTES TO THE ACCOUNTS - 31 MARCH 1997

1. **Accounting policies**
(continued)

Investments

Fixed asset investments are stated at cost or Directors' valuation less provisions for permanent 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 year in 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 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 year 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.

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	
	1996/97 £m	1995/96 £m	1996/97 £m	1995/96 £m	1996/97 £m	1995/96 £m
By activity:						
Networks	**482.8**	*499.6*	**199.6**	*209.5*	**1,066.7**	*1,085.4*
Power	**1,915.9**	*2,011.9*	**27.9**	*36.2*	**210.6**	*169.7*
	2,398.7	*2,511.5*	**227.5**	*245.7*	**1,277.3**	*1,255.1*
Inter activity sales	**(379.1)**	*(389.0)*	-	-	-	-
Exceptional discount	-	*(145.7)*	-	*(132.5)*	-	-
Exceptional restructuring and reorganisation costs	-	-	**(20.0)**	*(98.3)*	**(56.9)**	*(50.2)*
Unallocated investment income	-	-	-	-	-	-
Unallocated net assets	-	-	-	-	**79.8**	*962.2*
Unallocated net borrowings	-	-	-	-	**(545.1)**	*(995.7)*
	2,019.6	*1,976.8*	**207.5**	*14.9*	**755.1**	*1,171.4*

Networks includes the regulated electricity distribution business and electrical contracting activities. Power includes the regulated electricity supply business (incorporating competitive market electricity sales).

Exceptional restructuring and reorganisation costs include full provision for announced and expected 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.

NOTES TO THE ACCOUNTS - 31 MARCH 1997

3. Operating profit

The operating profit is stated after charging:

	1996/97 £m	1995/96 £m
Employment costs (note 4)	**80.7**	*100.7*
Depreciation (net of profits or losses on disposals)	**58.9**	*54.9*
Research and development	**1.1**	*1.2*
Auditors' remuneration:		
Audit services	**0.2**	*0.3*
Non-audit services	**0.3**	*0.3*

4. Employees

The average number of employees, including Directors, during the year was 4635 (1995/96 5177).

The aggregate remuneration of employees, including Directors, comprised:

	1996/97 £m	1995/96 £m
Wages and salaries	**112.5**	*126.8*
Social security costs	**8.7**	*9.9*
Other pension costs (note 22)	**5.7**	*5.4*
	126.9	*142.1*
Less: charged as capital expenditure	**(46.2)**	*(41.4)*
Charged to the profit and loss account	**80.7**	*100.7*

5. Directors' emoluments and interests

	1996/97 £000	1995/96 £000
Aggregate emoluments	**1,842**	*1,267*
Compensation for loss of office	**-**	*533*

In 1996/97, in line with Greenbury recommendations, bonuses earned but not paid in respect of 1996/97 performance have been accrued. Previously bonuses were disclosed on a paid only basis. Thus the emoluments disclosed above include bonuses in respect of both 1996/97 and 1995/96.

Retirement benefits are accruing to six Directors under a defined benefit scheme.

Six Directors including the highest paid Director have been awarded shares in TEG's Special Bonus Scheme and Long Term Incentive Plan, both subject to the achievement of performance criteria.

Highest paid Director

The aggregate emoluments of the highest paid Director for 1996/97 were £595,000 (1995/96 £310,000) and his accrued pension at 31 March 1997 was £47,000. He did not exercise share options during the year.

6. Income from fixed asset investments

	1996/97 £m	1995/96 £m
Dividends from National Grid	**-**	*175.6*
Profit on disposal of the Company's investment in the National Grid's pumped storage business	**13.4**	*60.4*
Other	**0.8**	*0.7*
	14.2	*236.7*

NOTES TO THE ACCOUNTS - 31 MARCH 1997

7. Net interest

	1996/97 £m	1995/96 £m
Interest payable:		
On bank loans, overdrafts and other loans wholly repayable within five years	**1.6**	*8.6*
On long term loans (repayable in whole or in part after five years)	**46.7**	*42.2*
To group undertakings	**11.0**	-
Other	**1.5**	*2.4*
	60.8	*53.2*
Interest receivable:		
From Group undertakings	**(12.6)**	*(13.8)*
Other	**(10.0)**	*(18.8)*
Gain on investments	-	*(8.6)*
	(22.6)	*(41.2)*
Net interest payable	**38.2**	*12.0*

The gain on investments in 1995/96 includes £3.2m arising from the short term reinvestment of the proceeds of the Company's £350m bond issue. The balance arises from a special investment scheme.

8. Taxation

	1996/97 £m	1995/96 £m
Taxation on profit on ordinary activities:		
UK corporation tax at 33% (1995/96 33%)	**35.3**	-
Taxation attributable to associates and investments	**(0.7)**	*3.7*
Taxation on franked investment income	-	*29.3*
Deferred taxation	-	*10.0*
Prior year items	-	*(5.4)*
	34.6	*37.6*

In 1996/97, the Company received tax losses from Hanson PLC and fellow subsidiaries for which full payment is not to be made.
If full provision had been made for deferred tax for the year, the tax charge would have been increased by £3.9m (1995/96 £15.1m), being £2.1m in respect of capital allowances in excess of depreciation and £1.8m in respect of other timing differences (note 15).

9. Dividends

	1996/97 £m	1995/96 £m
Dividend to parent company	**200.0**	-
Dividend in specie	**339.1**	*416.8*
	539.1	*416.8*

On 21 October 1996 the Company paid a dividend in specie to Eastern Group plc satisfied by the distribution of its holdings in certain subsidiary undertakings.
On 23 April 1996 the Company paid a dividend in specie to Hanson PLC satisfied by the distribution of its holding of ordinary shares in National Grid (210,526,315 ordinary shares at 198p each).

NOTES TO THE ACCOUNTS - 31 MARCH 1997

10. Tangible fixed assets

	Distribution system £m	Other land & buildings £m	Other £m	Deduct Customers' contributions £m	Total £m
Cost					
At 1 April 1996	*1,700.5*	*100.4*	*253.1*	*(327.0)*	*1,727.0*
Additions	117.0	9.6	33.3	(32.3)	127.6
Transfers	-	-	(0.3)	-	(0.3)
Disposals	(4.6)	(22.0)	(50.5)	-	(77.1)
At 31 March 1997	**1,812.9**	**88.0**	**235.6**	**(359.3)**	**1,777.2**
Depreciation					
At 1 April 1996	*529.0*	*19.8*	*167.3*	*(82.6)*	*633.5*
Disposals	(4.6)	(4.9)	(50.7)	-	(60.2)
Charge for the year	48.8	1.7	25.1	(9.5)	66.1
At 31 March 1997	**573.2**	**16.6**	**141.7**	**(92.1)**	**639.4**
Net book amount					
At 31 March 1997	**1,239.7**	**71.4**	**93.9**	**(267.2)**	**1,137.8**
At 31 March 1996	*1,171.5*	*80.6*	*85.8*	*(244.4)*	*1,093.5*

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

	31 March 1997 £m	31 March 1996 £m
Cost	**1,571.4**	*1,459.0*
Depreciation	**(557.8)**	*(523.8)*
Net book amount	**1,013.6**	*935.2*

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 March 1997 £m	31 March 1996 £m
Freehold	**70.5**	*79.9*
Long leasehold	**0.3**	*0.2*
Short leasehold	**0.6**	*0.5*
	71.4	*80.6*

(iii) Tangible fixed assets include the following:

	31 March 1997 £m	31 March 1996 £m
Assets in the course of construction	**90.0**	*119.0*
Land not depreciated	**11.4**	*13.7*

NOTES TO THE ACCOUNTS - 31 MARCH 1997

11. Fixed asset investments

	31 March 1997 £m	31 March 1996 £m
Shares in subsidiaries		
At 1 April	356.2	43.4
Additions	361.8	312.8
Disposals	(343.0)	-
At 31 March	375.0	356.2
Other investments	0.2	0.2
	375.2	356.4

The Company's shares in subsidiaries at 31 March 1997 are for its 100% ownership of Eastern Generation Limited, a company registered in England.

12. Stocks

	31 March 1997 £m	31 March 1996 £m
Raw materials and consumables	3.3	4.3
Work in progress	2.5	4.8
	5.8	9.1

13. Debtors

	31 March 1997 £m	31 March 1996 £m
Amounts falling due within one year:		
Trade debtors	117.3	124.5
Amounts owed by group undertakings	182.6	426.8
Amounts owed by ultimate parent company	20.9	-
Other debtors	4.4	25.0
Advance corporation tax recoverable	8.0	-
Prepayments and accrued income	9.2	13.2
Unbilled consumption	234.2	217.2
	576.6	806.7
Amounts falling due after more than one year:		
Advance corporation tax recoverable	76.1	104.2
Other debtors	0.4	0.4
	76.5	104.6

14. Creditors

		31 March 1997 £m	31 March 1996 £m
Creditors (amounts falling due within one year):			
Bank loans, overdrafts, short term borrowings (unsecured)		0.1	451.1
Payments received on account		8.9	24.1
Trade creditors		166.8	159.0
Amounts owed to group undertakings		361.5	48.0
Corporation tax		49.8	123.0
Other taxation and social security		6.4	4.7
Other creditors		4.8	2.3
Accruals and deferred income		53.8	21.2
		652.1	833.4
Creditors (amounts falling due after more than one year):			
Bonds (unsecured)	(i)	545.0	544.6
Amounts owed to group undertakings		150.0	-
		695.0	544.6

NOTES TO THE ACCOUNTS - 31 MARCH 1997

14. Creditors
(continued)

(i) The Company has in issue £200m 8.5% bonds, due 2025 and £350m 8.375% bonds due 2004. Amounts shown above for bonds are net of issue costs. The fair value of the bonds at 31 March 1997 was £544.1m.

(ii) At 31 March 1997 the Company had available bilateral credit facilities amounting to £350m. Short term unsecured, uncommitted facilities of £376m are also currently available.

(iii) At 31 March 1997 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 and long term fixed rate borrowings of £200m bearing an annual interest rate of 8.5% maturing on 31 March 2025.

15. Provisions for liabilities and charges

	Restructuring and reorganisation £m	Pensions £m	Other £m	Total £m
Balance at 1 April 1996	*50.2*	*1.5*	*21.8*	*73.5*
Transferred from/(to) profit and loss account	27.1	2.5	(8.1)	21.5
Applied during the year	(20.4)	-	(7.5)	(27.9)
Balance at 31 March 1997	**56.9**	**4.0**	**6.2**	**67.1**

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

16. Deferred taxation

No provision for deferred tax is required at 31 March 1997 (31 March 1996 £nil).
Total potential deferred tax liabilities, for which no provision has been made, computed at the current rate of corporation tax of 33% are as follows:

	31 March 1997 £m	31 March 1996 £m
Capital allowances in excess of depreciation	**228.9**	*226.8*
Other timing differences	**(20.9)**	*(22.7)*
	208.0	*204.1*

17. Called up share capital

	31 March 1997 £m	31 March 1996 £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 MARCH 1997

18. Share premium account

	31 March 1997 £m	31 March 1996 £m
Balance at 31 March	5.6	5.6

19. Other reserves

	Revaluation Reserve £m	Capital Redemption Reserve £m	Total £m
Balance at 1 April 1996	236.3	10.6	246.9
Transferred to profit and loss account (note 20)	(10.2)	-	(10.2)
Balance at 31 March 1997	**226.1**	**10.6**	**236.7**

The revaluation reserve at 31 March 1997 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 year. 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 1996	793.1
Transfer from revaluation reserve (note 19)	10.2
Retained loss for the year	(390.2)
Balance at 31 March 1997	**413.1**

21. Financial Instruments

Interest rate swaps are used by Eastern to convert fixed into floating rate debt . The fair value of Eastern's interest rate swap agreements approximates £5.3m at 31 March 1997 and is based on the cancellation value of each swap quoted by the relevant bank counterparty.

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 Eastern Group plc's annual report and accounts.

23. Capital and other commitments

Capital expenditure:

	31 March 1997 £m	31 March 1996 £m
In respect of contracts placed	**11.5**	18.3

24. Significant post balance sheet events

On 14 April 1997, the Company issued £200m 8.75% bonds, due 2012. The proceeds are to be used for general corporate purposes. On 13th June 1997 TEG announced that a recommended cash offer had been received from the US firm PacifiCorp which may lead to a combination of the two companies.

NOTES TO THE ACCOUNTS - 31 MARCH 1997

25. Contingent liabilities

(i) In February 1997 final determinations were made against The National Grid Company plc and the Group Trustees of its section of the Electricity Supply Pension Scheme (ESPS) by the Pensions Ombudsman on complaints by two pensioners in National Grid's section of the ESPS relating to the use of the surplus arising under the actuarial valuation of the National Grid section as at 31 March 1992 to meet certain additional costs arising from the payment of pensions on early retirement pursuant to reorganisation or redundancy and certain additional contributions.
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 resist it, ultimately through the courts. However, if an equivalent 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 £75 million (exclusive of any applicable interest charges).

On 10 June 1997 the High Court allowed The National Grid Company plc's appeal against the final determinations of the Pensions Ombudsman. Leave to appeal to the Court of Appeal has been granted to the two pensioners.

(ii) On 1 May 1997 the Labour Party was elected to government in the UK. It has reaffirmed its intention to impose a one-off "windfall levy" on profits of privatised utilities. It is not possible to predict the amount of any such levy, but, if imposed, such levy could be substantial. Details of the proposal, including the total amount to be raised and the manner in which it will be calculated and implemented have not yet been finalised. However, the Labour Party has indicated that, in determining the precise amount to be raised, it will take account of discussions with the DGES and other parties (including the affected companies) prior to the imposition of the levy.

26. Parent company

The ultimate parent company at 31 March 1997 is The Energy Group PLC (TEG). TEG is registered in England and Wales and its group accounts may be obtained from the Company Secretary at 117, Piccadilly, London WIV 9FJ. The smallest group for which group accounts are prepared and of which the Company is a member is Eastern Group plc. Group accounts for the year ended 31 March 1997 may be obtained from the Company Secretary at Wherstead Park, Wherstead, Ipswich Suffolk IP9 2AQ.

27. Reconciliation of movement in shareholders' funds

	31 March 1997 £m	31 March 1996 £m
Total recognised gains and losses	**148.9**	*752.4*
Dividends	**(539.1)**	*(416.8)*
	(390.2)	*335.6*
New share capital subscribed	**-**	*3.2*
Net addition to shareholders' funds	**(390.2)**	*338.8*
Opening shareholders' funds	**1,171.4**	*832.6*
Closing shareholders' funds	**781.2**	*1,171.4*

28. Price regulation

Regulated revenues at 31 March 1997 are £2.1m above the permitted maximum allowable under price regulation in the distribution business (31 March 1996 £4.2m below) and have been provided against. Regulated revenues are underrecovered in the franchise supply business by £27.6m (31 March 1996 £26.9m). These underrecoveries have been built into published tariffs for 1997/98 and have been accrued.

29. Related party transactions

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