

**ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 1998**

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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 year ended 31 March 1998.

### **Principal activities and business review**

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

### **Texas Utilities**

On 19 May 1998 Texas Utilities Company announced that its offer for the Company's 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. No Dividends were paid during the year ended 31 March 1998.

At an Extraordinary General Meeting held on 6 October 1998, the Company declared a dividend to its shareholder totalling £375,575,001 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 year were:

Mr. J.F. Devaney	
Mr. S.L. Connock	(resigned 30.9.97)
Dr. D.J.H. Huber	(appointed 1.9.97)
Mr. E.B. Hyams	
Mr. J.A. Keohane	(appointed 1.10.97)
Mr P.C. Marsh	
Mr. W.G. Watson	(resigned 31.3.98)
Mr. J. Whelan	(appointed 1.7.97)

Mr. D.W. Owens was appointed a Director of the Company on 18 May 1998.

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, the Company's ultimate parent company, 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 £98,810 for charitable purposes (1996/97 £190,238). 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 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.

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

The Company's auditors Price Waterhouse merged with Coopers and Lybrand on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



PA Ellis  
Secretary

16 October 1998

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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants  
and Registered Auditors

1 Embankment Place  
London  
WC2N 6NN

16 October 1998

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 1998**

	Note	1997/98 £m	1997/98 £m	1996/97 £m	1996/97 £m
<b>Turnover</b>	2				
Continuing operations			<b>2,037.0</b>		2,019.6
<b>Cost of sales</b>					
Continuing operations		<b>(1,556.0)</b>		<b>(1,538.4)</b>	
Exceptional contract costs		<b>(154.0)</b>	<b>(1,710.0)</b>	-	<b>(1,538.4)</b>
<b>Gross profit</b>			<b>327.0</b>		481.2
Distribution costs					
Exceptional restructuring and reorganisation costs		<b>(13.0)</b>		<b>(20.0)</b>	
Other		<b>(140.9)</b>	<b>(153.9)</b>	<b>(146.6)</b>	<b>(166.6)</b>
Administrative expenses			<b>(116.5)</b>		<b>(107.1)</b>
<b>Total operating costs</b>			<b>(270.4)</b>		<b>(273.7)</b>
<b>Operating profit</b>	2,3,4,5		<b>56.6</b>		207.5
Income from fixed asset investments	6		<b>61.9</b>		14.2
Net interest	7		<b>(62.5)</b>		<b>(38.2)</b>
<b>Profit on ordinary activities before taxation</b>			<b>56.0</b>		183.5
Taxation	8				
On results		<b>29.6</b>		<b>(34.6)</b>	
Windfall		<b>(111.6)</b>	<b>(82.0)</b>	-	<b>(34.6)</b>
<b>(Loss)/Profit for the financial year</b>			<b>(26.0)</b>		148.9
Dividends	9		-		<b>(539.1)</b>
<b>(Loss) retained</b>	20		<b>(26.0)</b>		<b>(390.2)</b>

**Note of historical cost profits and losses**

Reported profit on ordinary activities before taxation		<b>56.0</b>	183.5
Depreciation charge relating to the revaluation of the distribution system	19	<b>10.2</b>	10.2
Historical cost profit on ordinary activities before taxation		<b>66.2</b>	193.7
Historical cost (loss) retained		<b>(15.8)</b>	<b>(380.0)</b>

There are no recognised gains or losses other than shown in the profit and loss account above.

## BALANCE SHEET - 31 MARCH 1998

	Note	31 March 1998 £m	31 March 1997 £m
<b>Fixed assets</b>			
Tangible assets	10	1,213.9	1,137.8
Investments	11	375.2	375.2
		<u>1,589.1</u>	<u>1,513.0</u>
<b>Current assets</b>			
Stocks	12	4.2	5.8
Debtors - amounts falling due within one year	13	247.1	576.6
Debtors - amounts falling due after more than one year	13	0.2	76.5
Debtors subject to financing		273.2	-
Less: Non-recourse amount		(200.0)	-
		73.2	-
Cash at bank and in hand		13.1	23.5
		<u>337.8</u>	<u>682.4</u>
<b>Creditors</b> (amounts falling due within one year)	14	(357.4)	(652.1)
<b>Net current (liabilities) / assets</b>		<u>(19.6)</u>	<u>30.3</u>
<b>Total assets less current liabilities</b>		<b>1,569.5</b>	<b>1,543.3</b>
<b>Creditors</b> (amounts falling due after more than one year)	14	(746.6)	(695.0)
<b>Provisions for liabilities and charges</b>	15	(67.7)	(67.1)
<b>Net assets</b>		<u><b>755.2</b></u>	<u><b>781.2</b></u>
<b>Capital and reserves</b>			
Called up share capital	17	125.8	125.8
Share premium account	18	5.6	5.6
Other reserves	19	226.5	236.7
Profit and loss account	20	397.3	413.1
<b>Total shareholders' funds - equity</b>	26	<u><b>755.2</b></u>	<u><b>781.2</b></u>

The accounts on pages 4 to 14, were approved by the Board of Directors on 16 October 1998 and were signed on its behalf by:

P C Marsh  
Finance Director

Dr D J H Huber  
Director

## NOTES TO THE ACCOUNTS - 31 MARCH 1998

## 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 27.

## 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. 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 MARCH 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 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 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 MARCH 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	
	1997/98 £m	1996/97 £m	1997/98 £m	1996/97 £m	1997/98 £m	1996/97 £m
By activity:						
Networks	468.8	482.8	196.0	199.6	1,178.8	1,066.7
Power	1,910.4	1,915.9	27.6	27.9	(127.3)	210.6
	2,379.2	2,398.7	223.6	227.5	1,051.5	1,277.3
Inter activity sales	(342.2)	(379.1)	-	-	-	-
Exceptional contracts	-	-	(154.0)	-	-	-
Exceptional restructuring and reorganisation costs	-	-	(13.0)	(20.0)	(53.8)	(56.9)
Unallocated net assets	-	-	-	-	511.7	105.9
Unallocated net borrowings	-	-	-	-	(754.2)	(545.1)
	2,037.0	2,019.6	56.6	207.5	755.2	781.2

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

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 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.

Eastern Electricity Contracting left the Group in January 1998 following a management buyout.

## 3. Operating profit

The operating profit is stated after charging:

	1997/98 £m	1996/97 £m
Employment costs (note 4)	80.6	80.7
Depreciation (net of profits or losses on disposals)	70.0	58.9
Research and development	0.9	1.1
Auditors' remuneration:		
Audit services	0.2	0.2
Non-audit services	0.2	0.3

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

## 4. Employees

The average number of employees, including Directors, during the year was 5,497 (1996/97 5,342).

The aggregate remuneration of employees, including Directors, comprised:

	1997/98 £m	1996/97 £m
Wages and salaries	110.7	112.5
Social security costs	8.3	8.7
Other pension costs (note 22)	5.3	5.7
	124.3	126.9
Less: charged as capital expenditure	(43.7)	(46.2)
Charged to the profit and loss account	80.6	80.7

## NOTES TO THE ACCOUNTS - 31 MARCH 1998

<b>5. Directors' emoluments and interests</b>	1997/98 £000	1996/97 £000
Aggregate emoluments	<u>1,357.0</u>	<u>1,842.0</u>
Retirement benefits are accruing to six Directors under a defined benefit scheme.		
During the period none of the Directors have been awarded shares under a long term incentive scheme.		
The aggregate emoluments of the highest paid Director for 1997/98 were £376,000 (1996/97 £595,000) and his accrued pension at 31 March 1998 was £81,000 (31 March 1997 £47,000). He did not exercise share options or receive an award of shares under a long term incentive scheme during the year.		
<b>6. Income from fixed asset investments</b>	1997/98 £m	1996/97 £m
Dividends from Eastern Generation Ltd	61.0	-
Profit on disposal of the Company's investment in the National Grid's pumped storage business	-	13.4
Other	<u>0.9</u>	<u>0.8</u>
	<u>61.9</u>	<u>14.2</u>
<b>7. Net interest</b>	1997/98 £m	1996/97 £m
Interest payable:		
On bank loans, overdrafts and other loans wholly repayable within five years	-	1.6
On long term loans (repayable in whole or in part after five years)	63.8	46.7
To group undertakings	8.3	11.0
Debt securitisation discount	4.6	-
Other	<u>0.7</u>	<u>1.5</u>
	<u>77.4</u>	<u>60.8</u>
Interest receivable:		
From Group undertakings	(12.6)	(12.6)
Other	<u>(2.3)</u>	<u>(10.0)</u>
	<u>(14.9)</u>	<u>(22.6)</u>
Net interest payable	<u>62.5</u>	<u>38.2</u>
<b>8. Taxation</b>	1997/98 £m	1996/97 £m
Taxation on profit on ordinary activities:		
UK corporation tax at 31% (1996/97 33%)	(21.1)	35.3
Windfall tax	111.6	-
Taxation attributable to associates and investments	-	(0.7)
Prior year items	<u>(8.5)</u>	<u>-</u>
	<u>82.0</u>	<u>34.6</u>
If full provision had been made for deferred tax for the year, the tax charge would have been increased by £3.4m (1996/97 £3.9m), being £2.3m less in respect of capital allowances in excess of depreciation and £5.7m more in respect of other timing differences (note 16).		
<b>9. Dividends</b>	1997/98 £m	1996/97 £m
Dividend to parent company	-	200.0
Dividend in specie	<u>-</u>	<u>339.1</u>
	<u>-</u>	<u>539.1</u>

## NOTES TO THE ACCOUNTS - 31 MARCH 1998

## 10. Tangible fixed assets

	Distribution system £m	Other land & buildings £m	Other £m	Deduct Customers' contributions £m	Total £m
<b>Cost</b>					
At 1 April 1997	1,812.9	88.0	235.6	(359.3)	1,777.2
Additions	144.8	11.8	39.7	(30.5)	165.8
Disposals	(0.3)	(2.2)	(44.8)	-	(47.3)
At 31 March 1998	<u>1,957.4</u>	<u>97.6</u>	<u>230.5</u>	<u>(389.8)</u>	<u>1,895.7</u>
<b>Depreciation</b>					
At 1 April 1997	573.2	16.6	141.7	(92.1)	639.4
Disposals	(0.3)	(2.1)	(25.2)	-	(27.6)
Charge for the year	52.6	1.6	26.1	(10.3)	70.0
At 31 March 1998	<u>625.5</u>	<u>16.1</u>	<u>142.6</u>	<u>(102.4)</u>	<u>681.8</u>
<b>Net book amount</b>					
At 31 March 1998	<u>1,331.9</u>	<u>81.5</u>	<u>87.9</u>	<u>(287.4)</u>	<u>1,213.9</u>
At 31 March 1997	<u>1,239.7</u>	<u>71.4</u>	<u>93.9</u>	<u>(267.2)</u>	<u>1,137.8</u>

- (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 1998 £m	31 March 1997 £m
Cost	1,715.9	1,571.4
Depreciation	<u>(599.9)</u>	<u>(557.8)</u>
Net book amount	<u>1,116.0</u>	<u>1,013.6</u>

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 1998 £m	31 March 1997 £m
Freehold	79.9	70.5
Long leasehold	0.3	0.3
Short leasehold	<u>1.2</u>	<u>0.6</u>
	<u>81.4</u>	<u>71.4</u>

- (iii) Tangible fixed assets include the following:

Assets in the course of construction	92.1	90.0
Land not depreciated	<u>11.9</u>	<u>11.4</u>

- (iv) Shortly before the year end certain assets became subject to finance leases. The cost and net book amount at 31 March 1998 was £5.7m, there being no depreciation in the year.

## NOTES TO THE ACCOUNTS - 31 MARCH 1998

## 11. Fixed asset investments

	31 March 1998 £m	31 March 1997 £m
Shares in subsidiaries		
At 1 April	375.0	356.2
Additions	-	361.8
Disposals	-	(343.0)
At 31 March	375.0	375.0
Other investments	0.2	0.2
	<u>375.2</u>	<u>375.2</u>

The Company's shares in subsidiaries at 31 March 1998 are for its 100% ownership of Eastern Generation Limited, a company registered in England.

## 12. Stocks

	31 March 1998 £m	31 March 1997 £m
Raw materials and consumables	2.4	3.3
Work in progress	1.8	2.5
	<u>4.2</u>	<u>5.8</u>

## 13. Debtors

	31 March 1998 £m	31 March 1997 £m
Amounts falling due within one year:		
Trade debtors	25.3	117.3
Amounts owed by group undertakings	155.2	182.6
Amounts owed by ultimate parent company	-	20.9
Other debtors	18.3	4.4
Advance corporation tax recoverable	22.5	8.0
Prepayments and accrued income	7.2	9.2
Unbilled consumption	18.6	234.2
	<u>247.1</u>	<u>576.6</u>
Amounts falling due after more than one year:		
Advance corporation tax recoverable	-	76.1
Other debtors	0.2	0.4
	<u>0.2</u>	<u>76.5</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 (£100m) is shown in Other creditors (Note 14).

## 14. Creditors

	31 March 1998 £m	31 March 1997 £m
Creditors (amounts falling due within one year):		
Bank loans, overdrafts, short term borrowings (unsecured)	19.2	0.1
Net obligations in respect of finance leases	0.9	-
Payments received on account	5.4	8.9
Trade creditors	170.5	166.8
Amounts owed to group undertakings	-	361.5
Corporation tax	43.3	49.8
Other taxation and social security	4.6	6.4
Other creditors	109.3	4.8
Accruals and deferred income	4.2	53.8
	<u>357.4</u>	<u>652.1</u>
Creditors (amounts falling due after more than one year):		
Bonds (unsecured)	(i) 742.7	545.0
Net obligations in respect of finance leases	3.9	-
Amounts owed to group undertakings	-	150.0
	<u>746.6</u>	<u>695.0</u>

## NOTES TO THE ACCOUNTS - 31 MARCH 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. The fair value of the bonds at 31 March 1998 was £813.4m.
- (ii) At 31 March 1998 the Company had available bilateral credit facilities amounting to £350m. The acquisition of TEG by Texas Utilities resulted in the replacement of this facility with a revolving credit borrowing facility of £250m exclusively for the use of the Company.
- (iii) At 31 March 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.
- (iv) Net obligations in respect of finance leases are repayable as follows:

	31 March 1998 £m	31 March 1997 £m
Amounts falling due after more than one year:		
Amounts due between one and five years	3.7	-
Amounts due after five years	0.2	-
	<u>3.9</u>	<u>-</u>

## 15. Provisions for liabilities and charges

	Restructuring and reorganisation £m	Pensions £m	Other £m	Total £m
Balance at 1 April 1997	56.9	4.0	6.2	67.1
Transferred from/(to) profit and loss account	24.0	5.4	0.9	30.3
Applied during the year	(27.1)	(0.1)	(2.5)	(29.7)
Balance at 31 March 1998	<u>53.8</u>	<u>9.3</u>	<u>4.6</u>	<u>67.7</u>

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 1998 (31 March 1997 £nil). Total potential deferred tax liabilities, for which no provision has been made, computed at the current rate of corporation tax of 31% (1996/97 33%) are as follows:

	31 March 1998 £m	31 March 1997 £m
Capital allowances in excess of depreciation	226.6	228.9
Other timing differences	(15.2)	(20.9)
	<u>211.4</u>	<u>208.0</u>

## 17. Called up share capital

	31 March 1998 £m	31 March 1997 £m
Authorised:		
400 million ordinary shares of 50p each	<u>200.0</u>	<u>200.0</u>
Allotted and fully paid:		
251.5 million ordinary shares of 50p each	<u>125.8</u>	<u>125.8</u>

## NOTES TO THE ACCOUNTS - 31 MARCH 1998

## 18. Share premium account

	31 March 1998 £m	31 March 1997 £m
Balance at 31 March	<u>5.6</u>	<u>5.6</u>

## 19. Other reserves

	Revaluation Reserve £m	Capital Redemption Reserve £m	Total £m
Balance at 1 April 1997	226.1	10.6	236.7
Transferred to profit and loss account (note 20)	(10.2)	-	(10.2)
Balance at 31 March 1998	<u>215.9</u>	<u>10.6</u>	<u>226.5</u>

The revaluation reserve at 31 March 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 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 1997	413.1
Transfer from revaluation reserve (note 19)	10.2
Retained loss for the year	(26.0)
Balance at 31 March 1998	<u>397.3</u>

## 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 £10.7m at 31 March 1998 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

	31 March 1998 £m	31 March 1997 £m
Capital commitments in respect of contracts placed	<u>22.8</u>	<u>11.5</u>

## NOTES TO THE ACCOUNTS - 31 MARCH 1997

## 24. Contingent liabilities

In February 1997 final determinations were made against The National Grid Company plc ("National Grid") and its group trustees by the Pensions Ombudsman on complaints by two pensioners in National Grid's section of the Electricity Supply Pension Scheme (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. These determinations were set aside by the High Court on 10 June 1997 and the arrangements made by National Grid and its trustees in dealing with its section's surplus were confirmed, although leave to appeal to the Court of Appeal has been granted to the two pensioners. This appeal is unlikely to be heard until 1999. 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 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 £90m (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.

## 25. Parent company

The parent company, which is the largest group preparing group accounts, is The Energy Group PLC (TEG). TEG is registered in England and its group accounts may be obtained from the Company Secretary at 117 Piccadilly, London W1V 9FJ.

## 26. Reconciliation of movement in shareholders' funds

	31 March 1998 £m	31 March 1997 £m
Total recognised gains and losses	(26.0)	148.9
Dividends	-	(539.1)
	(26.0)	(390.2)
Opening shareholders' funds	781.2	1,171.4
Closing shareholders' funds	755.2	781.2

## 27. Price regulation

Regulated revenues at 31 March 1998 are £3.7m above the permitted maximum allowable under price regulation in the distribution business (31 March 1997 £2.1m above) and have been provided against. Regulated revenues are overrecovered in the franchise supply business by £2.3m (31 March 1997 underrecovery of £27.6m) and have been provided against.

## 28. 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.