TXU EUROPE LIMITED
(Formerly TXU Eastern Holdings Limited)

(REGISTERED NO:3505836)

Directors' Report and Financial Statements
For the year ended 31 December 1999

Report and Consolidated Accounts
For the Year Ended 31 December 1999

Contents

TXU EUROPE LIMITED
(Formerly TXU Eastern Holdings Limited)

Directors' Report
For the Year Ended 31 December 1999

The Directors have pleasure in presenting their Annual Report and the Audited Financial Statements of the Group for the year ended 31 December 1999. The comparatives are from 5 February 1998, the date of incorporation, to 31 December 1998.

Principal activities and business review

The name of the Company was changed from TXU Eastern Holdings Limited to TXU Europe Limited on 12 August 1999.

The Group's principal business operations are electricity networks and energy businesses in the UK and Continental Europe. The Directors expect these activities to continue. The networks business is the largest distributor of electricity in England and Wales, with over 3 million customers in an authorised service area covering approximately 20,300 square kilometers in the East of England and parts of north London.

The energy businesses incorporate retailing of electricity and gas as well as electric power generation, gas production and energy portfolio management operations. The Group is one of the largest generators of electricity in the UK. It currently owns, operates or has an interest in approximately 9.4% of the total UK generating capacity. The Energy business is also one of the largest retailers of electricity and natural gas in England & Wales, with approximately 4 million electricity and natural gas customers. The Group also has considerable interests and operations in liberalising energy markets in Continental Europe, particularly in the Nordic region but extending from Central Europe to Iberia.

In December 1999, TXU Europe Group and EDF London Investments plc, a subsidiary of Electricite de France, entered into an arrangement for the creation of an equally held joint venture company for the management, operation and maintenance of their subsidiaries' respective electricity networks. On 31 March 2000 final approval was obtained from the Office of Gas and Electricity Markets covering England, Scotland and Wales (OFGEM). The new joint venture has been named "24seven" and began operations on April 7 2000.

Important events that occurred after the year end affecting the Group are given in note 23 on page 39 of the financial statements.

Results and dividends

The Group's results are shown in the consolidated profit and loss account on page 6. The Directors do not recommend the payment of a final dividend in respect of the year (1998: nil).

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Directors' Report
For the Year Ended 31 December 1999

Directors and their interests

The Directors who served during the year were:

	Appointed	Resigned
H J Gibbs	25 February 1998	
M J McNally	25 February 1998	
E A Nye	25 February 1998	
J Whelan	7 May 1999	22 November 1999
R A Wooldridge	25 February 1998	
D C Bonham	7 May 1999	
P C Marsh	7 May 1999	
P G Turberville	7 May 1999	

There were no notifiable interests of the Directors in office on 31 December 1999 (1998: nil). Advantage has been taken of paragraph 3(1)(b) of the Companies (Disclosure of Directors' Interests) (Exemptions) Regulations 1985.

Research and development

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

Charitable and political contributions

During the year ended December 1999 the Group donated £199,691 for charitable purposes (1998: £125,001). No donations were made for political purposes (1998: nil).

The Group also provided support to a wide range of organisations in the areas in which it operates via its community investment programme called "Powerful Friends in the Community". This programme aims to provide lasting and tangible benefits to the community TXU Europe Group plc ("TXU Europe Group") serves by working in partnership with voluntary, charitable and educational organisations. Benefit is provided through sponsorship, gifts in kind, and professional expertise through secondment and advice. TXU Europe Group is a member of the Per Cent Club. Almost all or TXU Europe Limited's operating income is derived from TXU Europe Group and its subsidiaries, and almost all of TXU Europe Limited's consolidated assets are held by TXU Europe Group and its subsidiaries.

Employees

The Group's employment policies are based on equal opportunities 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.

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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.

Millennium compliance

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 by 31 December 1999. The total costs associated with the Group's Year 2000 efforts are currently estimated to be approximately £12m, of which approximately £2m 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.

By Order of the Board

P A Ellis
Secretary

8th August 2000
Registered Office:
The Adelphi, 1-11 John Adam Street, London WC2N 6HT

TXU EUROPE LIMITED
(Formerly TXU Eastern Holdings Limited)

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 Group and of the Company as at the end of the financial year and of the profit or loss of the Group 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 Group and 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 Group and to prevent and detect fraud and other irregularities.

The Directors consider that, in preparing the financial statements on pages 6 to 42, 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 financial statements.

Auditors' Report to the Members of TXU Europe Limited (Formerly TXU Eastern Holdings Limited)

We have audited the financial statements on pages 6 to 42 which have been prepared under the accounting policies set out on pages 11 to 14.

Respective responsibilities of directors and auditors

As described on page 4 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 as 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

DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR

8 August 2000

TXU EUROPE LIMITED
(Formerly TXU Eastern Holdings Limited)

Consolidated Profit and Loss Account
For the Year Ended 31 December 1999

	Note	£'m	Year ended 31 December 1999 £'m	£'m	Period ended 31 December 1998 £'m
Turnover	2				
Continuing operations			**3,769.4**		2,169.0
Cost of sales					
Continuing operations			**(2,584.3)**		(1,470.1)
Gross profit			**1,185.1**		698.9
Distribution costs					
- Exceptional restructuring and reorganisation costs	2	**(5.0)**		(12.7)	
- Other		**(283.9)**	**(288.9)**	(186.9)	(199.6)
Administrative expenses					
- Exceptional restructuring and reorganisation costs	2	**(5.6)**			
- Other		**(486.0)**	**(491.6)**		(249.0)
Total operating costs			**(780.5)**		(448.6)
Group operating profit					
Continuing operations			**404.6**		250.3
Share of operating profit of associates	11		**-**		2.0
Operating profit including associates and joint ventures	2,3,4,5				
Continuing operations			**404.6**		252.3
Income from fixed asset investments	6		**15.5**		18.5
Net interest payable	7		**(249.5)**		(145.6)
***Profit on ordinary activities before* taxation**			**170.6**		125.2
Taxation on profit on ordinary activities	8		**(67.5)**		(0.5)
Profit on ordinary activities after taxation			**103.1**		124.7
Minority interests – equity			**(17.6)**		(11.9)
Profit for the financial year	20		**85.5**		112.8

There is no difference between the profit on ordinary activities before tax and the retained profit for the year stated above and their historical cost equivalents.

TXU EUROPE LIMITED
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Consolidated Statement of Total Recognised Gains and Losses
For the Year Ended 31 December 1999

	Year ended 31 December 1999 £'m	Period ended 31 December 1998 £'m
Profit for the financial year	**85.5**	112.8
Currency difference on foreign net investment	**1.0**	0.1
Total recognised gains and losses for the year	**86.5**	112.9

TXU EUROPE LIMITED
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Balance Sheets at 31 December 1999

	Note	Group 31 December 1999 £'m	Company 31 December 1999 £'m	Group 31 December 1998 £'m	Company 31 December 1998 £'m
Fixed assets					
Intangible assets	*9*	**2,905.0**	-	**2,995.7**	-
Tangible assets	*10*	**2,116.3**	-	**1,897.5**	-
Investments	*11*	**396.7**	2895.1	**127.3**	2,201.9
		5,418.0	2895.1	**5,020.5**	2,201.9
Current assets					
Stocks	*12*	**122.0**	-	**141.2**	-
Debtors – amounts falling due within one year	*13(i)*	**678.6**	584.8	**553.2**	17.2
Debtors – amounts falling due after more than one year	*13(i)*	**519.6**	-	**379.8**	-
Debtors subject to financing	*13(ii)*	**223.9**	-	**268.7**	-
Less: Non-recourse amount		**(223.9)**	-	**(268.7)**	-
		-	-	-	-
Investments	*11*	**10.0**	-	**10.0**	-
Short term deposits	*14*	**644.0**	-	**780.8**	30.0
Cash at bank and in hand		**54.9**	0.1	**84.1**	4.3
		2,029.1	584.9	**1,949.1**	51.5
Creditors (amounts falling due within one year)	*15*	**(1,712.6)**	(1,029.7)	**(1,469.8)**	(4.1)
Net current assets/(liabilities)		**316.5**	(444.8)	**479.3**	47.4
Total assets less current liabilities		**5,734.5**	2450.3	**5,499.8**	2,249.3
Creditors (amounts falling due after more than one year)	*15*	**(3,571.9)**	(968.3)	**(3,272.6)**	(774.0)
Provisions for liabilities and charges	*17*	**(252.2)**	-	**(457.3)**	-
Net assets		**1,910.4**	1,482.0	**1,769.9**	1,475.3
Capital and reserves					
Called up share capital	*19*	**1,467.2**	1,467.2	**1,467.2**	1,467.2
Profit and loss account	*20*	**199.4**	14.8	**112.9**	8.1
Total shareholders' funds – equity	*26*	**1,666.6**	1482.0	**1,580.1**	1,475.3
Minority interests – equity		**243.8**	-	**189.8**	-
		1,910.4	1,482.0	**1,769.9**	1,475.3

The financial statements on pages 6 to 42 were approved by the Board of Directors on 8th August 2000 and signed on its behalf by:

Paul C. Marsh
Director

TXU EUROPE LIMITED
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Consolidated Cash Flow Statement
For the Year Ended 31 December 1999

	Note	£'m	Year ended 31 December 1999 £'m	£'m	Period ended 31 December 1998 £'m
Net cash inflow from operating activities	*27*		***288.0***		*346.7*
Returns on investments and servicing of finance:					
Interest received		**131.2**		84.8	
Interest paid		**(335.7)**		(106.7)	
Interest element of finance lease repayments		**(8.7)**		(6.7)	
Gain on fixed asset investments		**15.5**		5.9	
			(197.7)		(22.7)
Taxation			**(31.2)**		(50.3)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(418.3)**		(254.3)	
Purchase of intangible fixed assets		**(26.7)**		(123.9)	
Purchase of fixed asset investments		**(224.7)**		(44.0)	
Receipts from sales of fixed assets		**16.0**		9.2	
Receipts from customers' contributions		**45.2**		19.2	
			(608.5)		(393.8)
			(549.4)		*(120.1)*
Acquisitions and disposals:					
Purchase of associated undertaking		**(44.8)**		-	
Purchase of interest in joint venture		**(14.1)**		-	
Purchase of subsidiaries		**-**		(3,481.4)	
Disposal of investments		**1.0**		60.0	
Cash at bank and in hand acquired with subsidiaries		**-**		7.1	
			(57.9)		(3,414.3)
			(607.3)		(3,534.4)
Management of liquid resources:					
Net purchase of current asset investments		**-**		(1.9)	
Sale of short term deposits (net)		**136.8**		1,627.9	
			136.8		1,626.0
Financing:					
Issue of ordinary shares		**-**		1,467.2	
Proceeds from other long term loans		**1,412.9**		2,315.8	
Proceeds from bond issue		**1,010.1**		14.4	
Repayment of intercompany funding		**(681.6)**		(200.4)	
Repayment of bank loans		**(1,373.6)**		(1,593.3)	
Proceeds from sale and leaseback *transactions*		**81.5**			
Capital element of finance lease repayments		**(8.0)**		(11.2)	
			441.3		1,992.5
(Decrease)/increase in cash			**(29.2)**		84.1

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Consolidated Cash Flow Statement
For the Year Ended 31 December 1999

	Note	Year ended 31 December 1999 £'m	Period ended 31 December 1998 £'m
Reconciliation of net cash flow to movement in net debt			
(Decrease)/Increase in cash in the year	*28*	**(29.2)**	84.1
Cash inflow from increase in debt and lease financing		**(441.3)**	(525.3)
Cash inflow from decrease in liquid resources		**(136.8)**	(1,626.0)
Change in net debt resulting from cash flows		**(607.3)**	(2,067.2)
Non-cash movements		**(0.6)**	(1,005.6)
Assumed on acquisition of subsidiaries		**-**	219.2
Exchange differences		**11.5**	2.9
Movement in net debt in the year		**(596.4)**	(2,850.7)
Opening net debt		**(2,850.7)**	-
Closing net debt		**(3,447.1)**	(2,850.7)

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Notes To The Consolidated Financial Statements
For the Year Ended 31 December 1999

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance 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."

Basis of consolidation

The results of subsidiaries are included in the Group accounts from the date of acquisition. Shares in associated undertakings and joint ventures are accounted for under the equity method. Goodwill, being the difference between the purchase price and the fair value of the net assets acquired, is capitalised and amortised over an appropriate period, not exceeding 20 years. On subsequent sale or closure such goodwill is taken into account in determining the profit or loss arising. The Group periodically evaluates the carrying amount of goodwill and the projected discounted cash flows from the business' activity. Any impairments in the value of goodwill, being the difference between the carrying amount and the projected discounted cash flows from the business' activity, are charged to the profit and loss account.

Minority interest represents the minority shareholders' proportionate share in the net assets and profits of the Group's subsidiaries.

The Group's upstream gas activities are generally conducted in association with other companies in unincorporated joint arrangements. The financial statements reflect those shares of income and expenditure and assets and liabilities applicable to the Group's interests. The effects of redeterminations of equity interests in joint arrangements are accounted for when the outcome of the redetermination is known in accordance with the relevant agreement with the partners.

Turnover

Turnover represents the value of electricity and gas sold 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, but inclusive of the fossil fuel levy.

Intangible fixed assets (excluding goodwill)

Intangible fixed assets are stated at external purchase cost. The charge for amortisation is calculated to write off assets over their estimated useful economic lives on a straight line basis. The lives of each major class of intangible asset (excluding goodwill) are as follows:

Water rights	55 years

A useful economic life of 55 years is deemed appropriate given that this is the period over which the Group has the rights to the offtake generated from water rights in hydro-electric power plants. Given this period exceeds 20 years an annual impairment review is undertaken on the carrying value of these assets. Any impairment loss identified as a result is taken to the profit and loss account.

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.

Rentals paid on operating leases (both fixed and output variable) in respect of leased coal-fired power stations are charged to the profit and loss account over the expected lives of the stations.

Improvements made to leased power stations are capitalised and amortised over the expected life of the stations.

Tangible fixed assets and depreciation

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

	Years
Electricity distribution system assets:	40
Depreciation is charged at 3% per annum for 20 years followed by 2% per annum for the remaining 20 years	
Electricity generating station assets	30 or, for assets under finance leases, the shorter of 30 years and the lease period
Upstream gas assets	Field by field on a unit of production basis
Other assets:	
Buildings	
- freehold	Up to 60
- leasehold	Lower of lease period or 60 years
Leasehold improvements	Lower of lease period or 30 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 to 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 Eastern Electricity plc (a subsidiary of TXU Europe Limited) on certain property disposals made up to 31 March 2000. A provision for claw back 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.

Interest

Interest payable on borrowings related to financing generating stations is capitalised during the construction period, which is taken to be from the commencement of the construction contract to the date of accepting handover of the operational station. Interest capitalised is written off as part of total cost over the estimated useful life of the asset. Similar policies apply to gas field development interest costs and deferred interest costs associated with assigned rentals.

Foreign currencies

Average rates of exchange during the year are used to translate the profit and loss accounts of overseas subsidiary and associated undertakings. The balance sheets of overseas subsidiary undertakings are translated at rates ruling at the balance sheet date. Differences on translation arising from changes in the sterling value of overseas net assets, together with the differences between profit and loss accounts translated at average rates and at balance sheet rates, are shown as a movement on reserves and in the statement of recognised gains and losses. Exchange gains and losses arising on long term foreign currency borrowings used to finance the group's foreign currency investments are also dealt with in reserves. Other exchange rate differences are dealt with in the profit and loss account for the year.

Financial instruments and derivatives

The Group uses a range of financial and derivative instruments, including interest rate swaps, energy-based futures contracts and foreign exchange contracts and swaps.

Amounts paid or received under interest rate swap agreements are accrued as interest rates change and are recognised over the life of the agreements as adjustments to interest expense. Gains and losses from interest rate swaps and forward rate agreements are accrued over the contract period.

Contracts for differences and other financial instruments utilised in connection with trading activities are accounted for using the mark-to-market method. Under this method, contracts for differences and financial instruments are adjusted to market value on the balance sheet, and the unrealised gains and losses are included in revenues in the profit and loss account for the year.

The difference between the forward rate and the spot rate at inception of a foreign currency contract is amortised to the income statement over the life of the contract.

Instruments accounted for as hedges are designated as a hedge at the inception of contracts. The Group defers the effect of changes in the market value of derivative financial instruments (including contracts for differences and electricity forward agreements) which are used to hedge future transactions to the year when the related transaction is completed. In the event that an overall analysis of the firm commitments being hedged indicates that the Group is in a net loss position a provision is made for these anticipated future losses. The cash flows related to derivative instruments are recorded in the same manner as the cash flows related to the item being hedged.

Investments

Fixed asset investments are stated at cost less provisions for impairment 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 (on a weighted average cost method) and net realisable value. The valuation of work in progress is based on the cost of labour plus appropriate overheads and cost of materials. Progress invoices are deducted in arriving at the amounts stated.

Research and development

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

Ceiling tests

The capitalised costs of gas fields under evaluation, under development or in production are assessed each year on a field by field basis. To the extent that the future net revenues from the remaining commercial reserves, or in the case of prospects under evaluation the estimated potential commercial reserves, are less than the net capitalised costs of the field a charge is made to the profit and loss account if the carrying value is considered by the Directors to be impaired.

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 tax assets are only recognised if recovery is reasonably certain.

Pension costs

The Group operates defined benefit pension schemes in the UK whose assets are held in separate funds administered by trustees. Contributions to pension schemes are charged to the profit and loss account, so as to spread the cost of pensions over employees' anticipated working lives with the Group. Variations in pension cost, which are identified as a result of actual 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 financial statements 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 account heading to which they relate and separately disclosed in the notes to the financial statements.

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Notes to the Consolidated Financial Statements
For the Year Ended 31 December 1999

2 Turnover, profit before interest and net assets by segment

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

	Year ended			Period ended		
	Turnover 1999 £'m	Profit before interest 1999 £'m	Net assets 1999 £'m	Turnover 1998 £'m	Profit before interest 1998 £'m	Net assets 1998 £'m
By activity:						
Energy	3,659.0	347.9	1,721.8	2,113.4	233.6	942.4
Networks	441.7	221.7	1,286.8	268.5	137.5	1,259.6
Continuing operations	4,100.7	569.6	3008.6	2,381.9	371.1	2,202.0
Inter activity sales	(331.3)	-	-	(212.9)	-	-
Goodwill amortisation	-	(148.2)	2,760.1	-	(91.3)	2,871.8
Exceptionals – Restructuring	-	(10.6)	(24.9)	-	(12.7)	(83.1)
Unallocated investment income	-	9.3	-	-	3.7	-
Unallocated net assets	-	-	(181.2)	-	-	99.6
Unallocated net borrowings	-	-	(3,652.2)	-	-	(3,320.4)
Continuing operations	3,769.4	420.1	1,910.4	2,169.0	270.8	1,769.9

Energy includes the electricity retail business, electricity generation, portfolio management and all gas activities. Networks include 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.

	Turnover 1999 £'m	Profit before interest 1999 £'m	Net assets 1999 £'m	Turnover 1998	Profit before interest 1998 £'m	Net assets 1998 £'m
By geographical location and destination:						
United Kingdom	3,712.5	408.3	1,901.2	2,152.7	272.4	1,774.1
Europe	56.9	11.8	9.2	16.3	(1.6)	(4.2)
	3,769.4	420.1	1,910.4	2,169.0	270.8	1,769.9

TXU EUROPE LIMITED
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Notes to the Consolidated Financial Statements
For the Year Ended 31 December 1999

3 Operating profit

The operating profit is stated after charging:

	Year ended 31 December 1999	Period ended 31 December 1998
	£'m	£'m
Employment costs (note 4)	137.8	93.9
Depreciation (net of profits or losses on disposals):		
Owned assets	122.8	59.7
Finance lease assets	4.4	3.3
Amortisation of intangible assets	150.9	91.3
Research and development	1.4	0.5
Auditors' remuneration:		
Audit services	0.5	0.3
Non-audit services	0.7	0.8
Operating lease rentals – electricity generating stations	262.5	164.1

The audit fee in respect of the parent company was £20,000; (1998: £20,000).
Operating profit for the year include a charge of £28 million in respect of revision of estimates of certain prior period items, within the energy business.

4 Employees

	Year ended 31 December 1999	Period ended 31 December 1998
Average number of employees including Directors:		
United Kingdom	6,225	6,712
Europe	504	521
	6,729	7,233

The total number of employees at 31 December 1999 was 6,329 (1998: 7,206).

The aggregate remuneration of employees, including Directors, comprised:

	Year ended 31 December 1999	Period ended 31 December 1998
	£'m	£'m
Wages and salaries	157.7	104.6
Social security costs	13.7	8.9
Other pension costs (note 21)	7.5	5.5
	178.9	119.0
Less: charged as capital expenditure	(41.1)	(25.1)
Charged to the profit and loss account	137.8	93.9

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5 Directors' emoluments

The aggregate amount of emoluments paid to directors in respect of qualifying services are £0.9m (1998: nil).

Two directors had retirement benefits accruing as at 31 December 1999 under a defined benefits scheme (1998 : nil).

The aggregate emoluments of the highest paid Director for the year ended 31 December 1999 were £366,000 and his accrued pension at 31 December 1999 was £84,000.

6 Income from fixed asset investments

	Year ended 31 December 1999 £'m	Period ended 31 December 1998 £'m
Dividends from fixed asset investments	7.2	5.9
Gain on sale of investments	8.3	12.6
	15.5	18.5

7 Net Interest

	£'m	Year ended 31 December 1999 £'m	£'m	Period ended 31 December 1998 £'m
Interest payable and similar charges:				
On bank loans, overdrafts and other loans wholly repayable within five years		162.3		124.0
On long term loans (repayable in whole or in part after five years)		155.6		58.4
On finance leases		8.6		4.5
Other		22.2		1.1
On loans with ultimate parent company		10.5		33.1
Debt securitisation discount		18.7		13.8
		377.9		234.9
Interest receivable and similar income:				
Interest receivable	(128.4)		(63.8)	
Dividends from current asset investments	-		(25.5)	
		(128.4)		(89.3)
		249.5		145.6

8 Taxation

	Year ended 31 December 1999 £'m	Period ended 31 December 1998 £'m
Taxation on profit on ordinary activities:		
UK corporation tax at 30% (1998: 31%)	67.2	(11.0)
Overseas taxation	0.3	0.4
Taxation on franked investment income	-	5.3
Under provisions in respect of prior years	-	5.8
	67.5	0.5

The difference between standard and effective tax rate is primarily due to the non-deductibility of goodwill offset by capital allowances taken ahead of depreciation.

If full provision had been made for deferred tax for the year, the tax charge would have been increased by £2.2m (1998: £10.7m), being a reduction of £4.1m (1998: increase of £14.2m) in respect of capital allowances in excess of depreciation and £6.3m (1998: £3.5m) in respect of other timing differences (note 18).

9 Intangible fixed assets – Group

	Goodwill £'m	Water Rights £'m	Total £'m
Cost			
At 1 January 1999	2,963.1	123.9	3,087.0
Exchange movements	-	(2.9)	(2.9)
Additions	36.5	26.6	63.1
At 31 December 1999	2,999.6	147.6	3,147.2
Amortisation			
At 1 January 1999	91.3	-	91.3
Charge for the year	148.2	2.7	150.9
At 31 December 1999	239.5	2.7	242.2
Net book amount			
At 31 December 1999	2,760.1	144.9	2,905.0
At 31 December 1998	2,871.8	123.9	2,995.7

The goodwill on the acquisition of The Energy Group PLC and its subsidiaries is being amortised on a straight-line basis over 20 years.

The "water rights" represent an investment in Eastern Norge Svartisen and Eastern Norge Kobbelv AS consisting of the offtake generated from water rights in hydro-electric power plants over the next 55 years commencing in December 1998.

The goodwill arising during the year relates to TXU Nordic Energy (see note 11(i)).

The Company has no intangible fixed assets.

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10 Tangible fixed assets - Group

(i)	Electricity distribution system £'m	Electricity generating stations £'m	Upstream gas assets £'m	Other land & buildings £'m	Other £'m	Deduct customers contributions £'m	Total £'m
Cost							
At 1 January 1999	1,425.2	483.9	34.9	100.2	225.1	(309.9)	1,959.4
Exchange adjustments	-	(15.4)	-	-	-	-	(15.4)
Additions	156.1	41.4	109.8	14.3	96.7	(45.2)	373.1
Disposals	-	(0.9)	-	(13.8)	(5.8)	-	(20.5)
At 31 December 1999	1,581.3	509.0	144.7	100.7	316.0	(355.1)	2,296.6
Depreciation							
At 1 January 1999	31.9	8.8	3.9	3.1	20.8	(6.6)	61.9
Exchange adjustments	-	(4.3)	-	-	-	-	(4.3)
Disposals	-	(0.2)	-	(2.7)	(1.6)	-	(4.5)
Charge for the year	60.0	18.6	4.2	3.0	53.2	(11.8)	127.2
At 31 December 1999	91.9	22.9	8.1	3.4	72.4	(18.4)	180.3
Net book amount							
At 31 December 1999	1,489.4	486.1	136.6	97.3	243.6	(336.7)	2,116.3
At 31 December 1998	1,393.3	475.1	31.0	97.1	204.3	(303.3)	1,897.5

The company has no fixed assets.

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

	31 December 1999 £'m	31 December 1998 £'m
Freehold	95.5	92.4
Long leasehold	0.2	3.1
Short leasehold	1.6	1.6
	97.3	97.1

10. Tangible fixed assets (continued)

(iii) Tangible fixed assets include the following:

	31 December 1999	31 December 1998
	£'m	£'m
Assets in the course of construction	72.3	76.3
Land not depreciated	22.4	25.4

(iv) *The Group conducts its upstream gas activities through joint ventures, currently all in the* North Sea UK sector. Interests as at 31 December 1999 comprise equity interests in the following fields:

	% owned
Johnston	37.2
Schooner	4.8
Welland	11.2
Raven Spurn	14.8

As detailed in note 23, TXU Europe Limited's subsidiary Eastern Natural Gas (Offshore) Limited acquired a further 27% stake in the Johnson Gas Field on 7 January 2000 and successfully applied to become the field's operator.

(v) Assets held under finance lease agreements are as follows:

	Group 31 December 1999
Cost:	£'m
At 1 January 1999	115.5
Acquisitions	6.6
At 31 December 1999	122.1
Depreciation:	
At 1 January 1999	3.3
Charge for the year	4.4
At 31 *December* 1999	7.7
Net book amount	
At 31 December 1999	114.4
At 31 December 1998	112.2

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11 Investments

Fixed asset investments

	Unlisted Investments £'m	Listed Investments £'m	Associates & Joint Ventures £'m	Group Total £'m	Loans to Subsidiaries £'m	Shares in Subsidiaries £'m	Company Total £'m
At 1 January 1999	29.9	93.3	4.1	127.3	691.6	1,510.3	2,201.9
Exchange adjustments	(2.7)	(10.8)	(0.7)	(14.2)	-	-	-
Additions	199.1 (i)	25.6	58.9 (ii)	283.6	693.2	-	693.2
Disposals	-	-	-		-	-	-
At 31 December 1999	226.3	108.1	62.3	396.7	1,384.8	1,510.3	2,895.1

Market value of the Group's listed investments at 31 December was £69.0 million (1998: £75.6 million).

During the year to 31 December 1999, the share of result from associates was not material to the Group. The amount relating to the period to 31 December 1998 relates to TXU Europe Limited's investment in The Energy Group PLC between March 1998 and 19 May 1998 when The Energy Group PLC became a subsidiary of the group.

Joint ventures and associates include additions of £40m which relate to the acquisition of Savon Voima Oy (SVO) (See note 11(ii))

(i) Acquisition of TXU Nordic Energy

On 5 November 1999, TXU Europe Group formed a joint venture with certain shareholders of Pohjolan Voima Oy (PVO), Finland's second largest electricity generator. As part of the transaction, TXU Europe Group contributed approximately *€300 million (£190 million)* to the company, TXU Nordic Energy (which is accounted for as a subsidiary). TXU Nordic Energy has purchased Class "C" Shares of PVO, which entitle TXU Nordic Energy to the output from approximately 584 megawatts (MW) of PVO's thermal generating capacity and most of a wholesale trading business owned by the industrial shareholders of PVO. TXU Nordic Energy's interest in the Class "C" shares is equal to approximately 14.7% ownership of PVO and represents, substantially, all of the assets and liabilities of TXU Nordic Energy. The contribution to TXU Nordic Energy described above resulted in goodwill of approximately £36 million, which will be amortised over 20 years. No adjustments to book amounts have been made for fair value purposes on the basis of preliminary estimates.

11 Investments (continued)

(ii) Acquisition of interest in Savon Voima Oy (SVO)

In December 1999, TXU Europe Group completed a previously announced agreement to acquire an approximate 40% interest in Savon Voima Oy (SVO), Finland's seventh largest electricity distributor, for approximately £40 million. The agreement includes an option which allows the majority shareholders of SVO to require TXU Europe Group to purchase the remaining 60% interest in SVO at prices that are based upon a multiple of the original purchase price for the first three years. After three years the purchase price is based upon a calculation which considers SVO's results of operations, as well as cash and cash equivalents and long-term debt balances on hand at the date the option is exercised. The option may be exercised at any time by the majority shareholders and does not expire. TXU Europe Group's share of the net assets of SVO on acquisition of the 40% interest was £40 million, therefore no goodwill arose. No adjustments to book amounts have been made for fair value purposes, on the basis of preliminary estimates.

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11 Investments (continued)

(iii) Principal subsidiaries

The principal subsidiaries included in the consolidated accounts are listed below:

	Activity	Country of registration and operation	Percentage of voting rights and ordinary shares held
Anglian Power Generators Limited	Generating Station (King's Lynn)	England	100
Eastern Corporate Insurance Ltd	Insurance	Isle of Man	100
Eastern Electricity plc	Electricity supply and distribution	England	100
Eastern Energy Limited	Energy retail	England	100
Eastern Group Finance Ltd	Project financing	England	100
Eastern Group Insurance Services Ltd	Insurance	Isle of Man	100
Eastern Natural Gas Ltd	Gas administration	England	100
Eastern Natural Gas (Retail) Ltd	Gas supply	England	100
Eastern Norge Kobbelv A.S	Own off-take rights for power generation	Norway	100
Eastern Norge Svartisen A.S	Own off-take rights for power generation	Norway	100
Nedalo (U.K.) Ltd	Sale and maintenance of combined heat and power systems	England	75
Peterborough Power Ltd	Generating station (Peterborough)	England	100
Teplarney Brno a.s	District heating and generation	Czech Republic	84
TXU Acquisitions Ltd	Holding company	England	100
TXU Europe Group plc	Holding company	England	100
TXU Europe Merchant Generation Limited (Formerly Eastern Merchant Generation Ltd)	Coal station operations	England	100
TXU Europe Merchant Properties Limited (Formerly Eastern Merchant Properties Ltd)	Coal station leasing	England	100
TXU Europe Natural Gas (Trading) Ltd (Formerly Eastern Natural Gas (Trading) Ltd)	Gas purchase and wholesaling	England	100
TXU Europe Overseas Finance Limited (Formerly Eastern Overseas Finance Limited)	Investment in overseas Projects	England	100
TXU Europe Power and Energy Trading Limited (Formerly Eastern Power and Energy Trading Limited)	Energy portfolio management	England	100
TXU Europe Power Limited	Investment in generation projects	England	100
TXU Europe Upstream Ltd (formerly Eastern Natural Gas (Offshore) Ltd)	Upstream gas assets	England	100
TXU Finance (No 2) Ltd	Holding company	England	90
TXU Nordic Energy Oy	Energy portfolio management	Finland	81

The company's investment in subsidiaries are all held through TXU Finance (No 2) Limited, of which the Company owns 90%.

11 Investments (continued)

Name changes

On November 9, 1999, name changes were announced for certain subsidiaries of TXU Europe Limited to reflect the increasing importance of European investments. Eastern Group plc was renamed TXU Europe Group plc and its subsidiary, Eastern Generation Limited, was renamed TXU Europe Power Limited. TXU Europe Group's subsidiary, Eastern Power & Energy Trading Limited, was renamed TXU Europe Energy Trading Limited (TXU Europe Energy Trading) in January 2000. TXU Europe Group's retail and networks businesses will continue operating under the Eastern brand name.

(iv) A full list of all subsidiary undertakings will be annexed to the Company's next annual return to the Registrar of Companies.

Current asset investments

	Group 31 December 1999 £'m	Group 31 December 1998 £'m
Unlisted	**10.0**	10.0

12 Stocks

	Group 31 December 1999 £'m	Group 31 December 1998 £'m
Raw materials and consumables	**117.3**	138.8
Work in progress	**4.7**	2.4
	122.0	141.2

13 Debtors

(i)

	Group 31 December 1999 £'m	Company 31 December 1999 £'m	Group 31 December 1998 £'m	Company 31 December 1998 £'m
Amounts falling due within one year:				
Trade debtors	393.4	-	337.8	-
Amounts owed by group undertakings	-	550.6	-	15.8
Advance corporation tax recoverable	29.9	-	29.9	-
Other debtors	50.5	34.2	7.3	1.4
Prepayments and accrued income:				
Operating leases	71.6	-	55.1	-
Other	57.3	-	98.7	-
Unbilled consumption	75.9	-	24.4	-
	678.6	584.8	553.2	17.2
Amounts falling due after more than one year:				
Prepayments and accrued income:				
Operating leases	510.5	-	379.8	-
Other	9.1	-	-	-
	519.6	-	379.8	-

(ii) Eastern Electricity plc 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 of £76.0 million (31 December 1998: £31.3 million) is shown in payments received on account (Note 15).

14 Short term deposits

£408 million of the short term deposits represents cash collateral against future operating lease rental commitments which fall to be settled by the Group in the year ended 31 December 2001 (note 15(ii)).

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15 Creditors

		Group 31 December 1999 £'m	Company 31 December 1999 £'m	Group 31 December 1998 £'m	Company 31 December 1998 £'m
Creditors (amounts falling due within one year):					
Bank loans, overdrafts, short term borrowings (unsecured)		585.3	-	454.8	-
Net obligations in respect of finance leases		16.2	-	10.9	-
Payments received on account		86.3	-	41.1	-
Trade creditors		525.3	-	521.3	-
Amounts owed to group undertakings		-	1,024.7	-	-
Amounts owned to ultimate parent company		49.0	-	40.3	-
Corporation tax		238.7	-	202.4	-
Other taxation and social security		5.5	-	4.1	-
Other creditors		92.0	-	111.3	-
Accruals and deferred income		114.3	5.0	83.6	4.1
		1,712.6	1,029.7	1,469.8	4.1

		Group 31 December 1999 £'m	Company 31 December 1999 £'m	Group 31 December 1998 £'m	Company 31 December 1998 £'m
Creditors (amounts falling due after more than one year):					
Bonds (unsecured)	(i)	2,121.6	-	1,122.4	-
Bank loans (unsecured)	(ii)	1,180.8	968.3	1,275.9	774.0
Net obligations in respect of finances leases	(iii)	185.2	-	116.9	-
Other long term loans		66.9	-	63.9	-
Amounts owed to ultimate parent company		-	-	681.6	-
Accruals and deferred income		17.4	-	11.9	-
		3,571.9	968.3	3,272.6	774.0

15 Creditors (continued)

(i) The group has in issue £200 million 8.5% bonds, due 2025, £200 million 8.75% bonds due 2012, £350 million 8.375% bonds due 2004, US $200 million (£124 million) 7.425% guaranteed notes due 2017 and US $300 million (£185 million) 7.55% guaranteed notes due 2027, $350 million *(£216 million) 6.15% exchange senior notes, due 2002, $650 million (£402 million)* 6.45% exchange senior notes due 2005, $500 million (£309 million) 6.75% exchange senior notes due 2009 and NOK 979 million (£75 million) 7.25% Norwegian Krona bonds due 2029.

(ii) Bank loans fall due as follows:

	Group 31 December 1999 £'m	Company 31 December 1999 £'m	**Group 31 December 1998 £'m**	Company 31 December 1998 £'m
Between one and two years	**214.4**	968.3	**233.5**	-
Between two and five years	**966.4**	-	**1,042.4**	774.0
	1,180.8	968.3	**1,275.9**	774.0

On 28 October 1996 certain subsidiaries of TXU Europe Group plc entered into an agreement with commercial banks whereby future intra group rental payments receivable were assigned to these banks in return for a capital sum of £1,097 million.

Market value of long term debt is £4,026 million based on current rates for similar financial instruments offered to TXU Europe Limited.

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

	Group 31 December 1999 £'m	**Group 31 December 1998 £'m**
Amounts falling due after more than one year:		
Amounts due between one and five years	67.8	44.2
Amounts due after five years	117.4	72.7
	185.2	116.9

15 Creditors (continued)

(iv) The interest rates attaching to principal long-term fixed rate borrowings (after allowing for the effect of interest rate swaps) are as follows:

Amount	Sterling Equivalent	Maturity	Rate
$350m	£216m	2002	6.15%
$650m	£402m	2005	6.45%
$500m	£309m	2009	6.75%
£350m		2004	8.375%
£200m		2012	8.75%
$200m	£124m	2017	7.425%
£200m		2025	8.5%
$300m	£185m	2027	7.55%
NOK979m	£75m	2029	7.25%
NOK38m	£3m	2016	6.05%
NOK39m	£3m	2016	6.07%
NOK46m	£4m	2016	6.45%
NOK227m	£17m	2016	8.15%

16 Derivatives and other financial instruments

The Group's principal financial instruments, other than derivatives, comprise 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 Group has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations.

The Group is exposed to a number of different market risks including changes in gas and electricity prices, interest rates and foreign currency rates. The Group has developed a control framework of policies and procedures to monitor and manage the exposures arising from volatility in these markets.

The Group enters into derivative transactions, principally interest rate swaps, energy-based futures contracts and foreign exchange contracts, for the purpose of managing the interest rate and foreign currency risks and its exposure to fluctuations in electricity and gas prices. Derivative instruments are used for hedging purposes, apart from energy-based futures contracts, which are used for trading purposes.

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

Interest rate risk:

The Group borrows in appropriate currencies at both fixed and floating rates of interest and uses interest rate swaps to generate an appropriate interest profile and to manage the Group's exposure to interest fluctuations.

16 Derivatives and other financial instruments (continued)

Foreign currency risk:

The Group enters into foreign exchange forward purchase contracts, options and swaps, as a hedge against commitments denominated in foreign currencies. The Group mitigates the effect of foreign currency exposure by arranging to match assets owned in foreign countries with borrowings in that same currency.

Liquidity risk:

The Group 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.

Energy prices and credit risk:

The Group enters into financial instruments, principally contracts for differences (CFDs) and electricity forward agreements (EFAs), to hedge against its exposure to fluctuations in electricity pool prices and gas prices. These financial instruments are exposed to minimal credit risk from non-performance by counter parties.

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.

i) Interest rate risk profile of financial liabilities

The interest rate risk profile of financial liabilities of the Group at 31 December 1999 was 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	1,243.5	1,113.5	-	2,357.0
Euro related	-	251.6	-	251.6
US dollar	1,238.8	27.8	-	1,266.6
Other	159.0	121.8	-	280.8
Total	2,641.3	1,514.7	-	4,156.0

16 Derivatives and other financial instruments (continued)

Currency	Fixed rate financial liabilities: Weighted average interest rate %	Fixed rate financial liabilities: Weighted average period for which rates are fixed Years	Financial liabilities on which no interest is paid: Weighted average period until maturity Years
Sterling	8.12	9.4	-
Euro related	-	-	-
US dollar	6.7	11.0	-
Other	7.6	12.9	-
Total	7.5	10.4	-

The floating rate financial liabilities principally comprise:

- Various currency borrowings under a Sterling Credit Agreement, terminating on 2 March 2003: (£750 million term loan at a rate of 6.55%, £75 million and approximately £237 million equivalent of other currency borrowings under the revolving credit facility at a weighted average interest rate of 6.61% and 5.15%, respectively.
- Finance leases in Sterling with effective rates at 31 December 1999 ranging from 5.2% to 8.5% based on LIBOR.
- Project finance facility in Sterling to finance the building of a combined heat and power plant in the UK bearing rates of LIBOR plus 85 points.
- Other borrowings with effective rate at 31 December 1999 of 7.35% based on PRIBOR plus 30 basis points.
- Short-term borrowings collateralized by accounts receivable at an interest rate of 5.63%.
- Short-term facility, expiring 3 June 2000, for 306 million euros at an interest rate of 4%, as bridge financing for the acquisition of PVO.

The amounts shown in the tables above take into account various interest rate and currency swaps used to manage the interest rate profile of financial liabilities.

16 Derivatives and other financial instruments (continued)

ii) Interest rate risk of financial assets

The interest rate risk of financial assets of the Group at 31 December 1999 was as follows:

Currency	Other investments £'m	Cash at bank and in hand £'m	Short-term deposits £'m	Total £'m
Sterling	10.0	36.3	622.5	668.8
Euro related	-	3.7	-	3.7
US dollar	-	2.0	12.6	14.6
Other	-	12.9	8.9	21.8
Total	10.0	54.9	644.0	708.9
Floating rate	10.0	43.6	206.1	259.7
Fixed rate	-	11.3	437.9	449.2
On which no interest is paid	-	-	-	-
Total	10.0	54.9	644.0	708.9

Floating rate financial assets include cash deposits placed on the money market.

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

iii) Currency exposures

At 31 December 1999, as a result of policies described elsewhere in Note 16, the Group does not have any significant exposure on monetary assets and liabilities.

iv) Maturity of financial liabilities

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

	1999 £'m
In one year or less, or on demand	601.6
In more than one year but not more than two years	235.0
In more than two years but not more than five years	1,620.1
In more than five years	1,699.3
Total	4,156.0

16 Derivatives and other financial instruments (continued)

v) Borrowing facilities

The Group 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	174.0
Expiring in more than one year but not more than two years	537.6
Expiring in more than two years	1,019.3
Total	1,730.9

vi) 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 Group's financial assets and (financial liabilities) at 31 December 1999.

	Book value 1999 £'m	Fair value 1999 £'m
Primary financial instruments held or used to finance the Group's operations:		
Short-term borrowings	(601)	(601)
Long-term borrowings	(3,555)	(3,626)
Cash deposits	55	55
Short term deposits	644	644
Other financial assets	10	10
Derivative financial instruments held to manage the interest rate, foreign currency and energy profile of the Group:		
Interest rate swaps	-	(51)
Currency swaps	-	(23)
Energy forward contracts	-	76

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

16 Derivatives and other financial instruments (continued)

Quoted market values have been used to determine the fair value of all swaps, forward foreign currency contracts and all listed debt issued and held. The fair values of energy forward contracts have been calculated by discounting the expected future cash flows at prevailing interest rates at the year end.

vii) Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	Gains	(Losses)	Net gains/ (losses)
	£'m	£'m	£'m
Unrecognised gains and losses on hedges			
Unrecognised gains/(losses) on hedges at 1 January 1999	207.0	(145.0)	62.0
Gains/(losses) arising in previous years, recognised in the year	17.7	(8.5)	9.2
Gains/(losses) arising before 1 January 1999 not recognised in the year	189.3	(136.5)	52.8
Gains/(losses) arising in the year that were not recognised in the year	31.0	(82.2)	(51.2)
Unrecognised gains/(losses) at 31 December 1999	220.3	(218.7)	1.6
Of which:			
Gains/(losses) expected to be recognised in less than one year	18.8	(54.8)	(36.0)
Gains/(losses) expected to be recognised after more than one year	201.5	(163.9)	37.6

viii) Electricity forward contracts

Electricity forward contracts are primarily used by the Group to hedge its exposure to future fluctuations in electricity Pool prices. Almost all electricity generated in England and Wales must be sold to the wholesale electricity trading market in the UK (Pool), and electricity suppliers must likewise generally buy electricity from the Pool for resale to their customers.

The contracts bought and sold are CFDs and EFAs that fix the price of electricity for an agreed quantity and duration by reference to an agreed strike price. EFAs are similar in nature to CFDs. except that they tend to last for shorter time periods and are based on standard industry terms rather than being individually negotiated. Long-term CFDs are in place to hedge a portion of the electricity to be purchased through to 2009. The impact of changes in the market value of these contracts, which serve as hedges, is deferred until the related transaction is completed.

The fair value of outstanding CFDs, EFAs and other contracts used for hedging purposes, at 31 December 1999. was £76 million, calculated as the difference between the expected value of the CFDs, EFAs and other contracts and the current market value, based on an estimate of forward prices for the term of the CFD, EFA and other contracts.

At 31 December the outstanding notional quantity of all electricity commodity instruments under contracts held for non-trading purposes was 142 TWh of electricity for periods to 2010.

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16 Derivatives and other financial instruments (continued)

The market for the CFDs and EFAs has not been liquid to date and there is no readily identifiable market through which the majority of CFDs and EFAs could be realised through an exchange. No easily definable forward price curve exists for the duration and shape of the CFDs and EFAs that would be agreed generally.

ix) Trading in electricity forward contracts

In 1999, the Group began offering price risk management services to customers through a variety of financial and other instruments including CFDs, EFAs, contractual agreements and other forward contracts. During the year net gains of £23 million were recognised from trading electricity commodity contracts or other derivatives. At 31 December 1999, the outstanding notional quantity of commodity instruments under contracts held for trading purposes was 118 TWh of electricity for periods to 2015. At 31 December 1999, the fair value of such instruments was £10 million.

x) Gas forward contracts

In the gas retail business, the Group sells fixed price contracts to customers and supplies the customer through a portfolio of gas purchase contracts and other wholesale contracts. The overall net exposure of the Group to the gas spot market is managed by using gas swaps and futures. At 31 December 1999, there were no gas swaps in place. During the year net gains of £0.1 million were recognised from trading gas commodity contracts or other derivitives. At 31 December 1999 the outstanding notional contract quantity of gas commodity instruments held for trading purposes was 1.344 million therms for periods to 2003.The fair value of such instruments at 31 December 1999 was £5 million.

17 Provisions for liabilities and charges

	Restructuring and reorganisation	Pensions	Deferred tax (Note 18)	Other	Total
	£'m	£'m	£'m	£'m	£'m
1 January 1999	**45.0**	**15.2**	**94.2**	**302.9**	**457.3**
Additions during the year	10.7	4.4	-	-	15.1
Released during the year	-	-	-	(8.2)	(8.2)
Applied during the year	(30.8)	(1.4)	-	(179.8)	(212.0)
Balance at 31 December 1999	**24.9**	**18.2**	**94.2**	**114.9**	**252.2**

As of 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 onerous contracts, insurance claims and holiday pay.

18 Deferred taxation

The provision for deferred tax in note 17 comprises:

	Group 31 December 1999 £'m	Group 31 December 1998 £'m
Other timing differences	94.2	94.2
	94.2	94.2

The unprovided amounts of deferred taxation for timing differences computed at the current rate of corporation tax of 30% are as follows:

	Group 31 December 1999 £'m	Group 31 December 1998 £'m
Capital allowances in excess of depreciation and other items	284.1	288.2
Other timing differences	(32.3)	(38.6)
	251.8	249.6

The company has no provided or unprovided deferred tax balances.

19 Called up share capital

	Group 31 December 1999	Group 31 December 1998
	US $m	US $m
Authorised:		
3,000 million ordinary shares of US $1	3,000.0	3,000.0
	£	£
Allotted and fully paid:		
100 deferred shares of £1 each	100	100

The deferred shares have no rights to vote or receive dividends. Upon liquidation, holders of deferred shares are entitled to receive £1 per share only after holders of ordinary shares are paid £100m per share.

	Group 31 December 1999	Group 31 December 1998
	£'m	£'m
Allotted and fully paid:		
2,455,705,299 ordinary shares of US $1 each and 100 deferred shares of £1 each	1,467.2	1,467.2

20 Profit and loss account

	Group	Company
	£'m	£'m
Balance at 1 January 1999	**112.9**	8.1
Currency differences on foreign net investment	**1.0**	-
Retained profit for the year	**85.5**	6.7
Balance at 31 December 1999	**199.4**	14.8

The Company's profit for the financial year was £6.7 million (1998: £8.1 million). As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. The Company's profit and loss account was approved by the Board of Directors on 8th August 2000.

21 Pensions

Most of the Group's employees are entitled to join the Electricity Supply Pension Scheme which provides pension and other related benefits, of a defined benefit nature, based on final pensionable pay to employees throughout the Electricity Supply Industry. The assets of the Scheme are held in a separate trustee administered fund.

21 Pensions (continued)

The latest full actuarial valuation of the Group's share of the Scheme was carried out by Bacon & Woodrow, consulting actuaries, as at 31 March 1998. The projected unit method was used for the valuation and the principal actuarial assumptions adopted were that the investment return would exceed salary increases (exclusive of merit awards) by 3.5% per annum and exceed future pension increases by 4% per annum. The actuarial value placed on the assets of the Group's section of the Scheme represented 108.5% of the actuarial value of the accrued benefits. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on services completed to date for active members, allowing for future salary rises.

The total market value of the assets of the Group's section of the Scheme at 31 March 1998 was £1,059.8 million.

The total pension cost for the Group for the year was £7.5m (1998: £5.5 million and the pension provision held in the balance sheet of the Group accounts was £18.2m (1998: £15.2 million).

22 Capital and other commitments

	Group 31 December 1999 £'m	Group 31 December 1998 £'m
(i) Capital commitments:		
In respect of contracts placed	122.9	60.3

(ii) Operating leases

The future minimum and rental commitments under non-cancellable operating leases, primarily relating to power stations, at 31 December 1999 were:

	Group 31 December 1999 £'m	Group 31 December 1998 £'m
Expiring within two to five years	-	5.4
Expiring after five years	55.1	52.9

22 Capital and other commitments (continued)

The above operating lease commitments relate to the coal-fired power stations. Additional payments of approximately £6 per megawatt hour (indexed) linked to output levels from these stations are payable for between the first five and seven years of their operation by the Group.

The Company had no operating lease commitments at the year end.

(iii) Investments

TXU Europe Limited's investment in Svartisen (the offtake generated by water rights in hydro electric power plants in Norway) requires coverage of approximately 31.2% of the costs incurred in relation to the operation of the power plant, as well as a portion of the maintenance costs, property tax, and feeding costs (defined as fixed charges such as connection and capacity charges and volume related charges such as an energy charge) for 55 years, beginning in 1998. The electricity generated from the hydro electric plants will be sold into Norwegian power pool, from which TXU Europe Limited will receive income.

(iv) Gas "take or pay" contracts

There are various types of contracts for the purchase of gas. Almost all include "take or pay" obligations, under which the buyer agrees to pay for a minimum quantity of gas in a year. In order to help meet the expected needs of its wholesale and retail customers, the Group has entered into a range of purchase contracts. As at 31 December 1999, the commitments under long term gas purchase contracts amounted to an estimated £1.1 billion covering periods up to 15 years forward. Management does not consider it likely, on the basis of the Group's current expectations of demand from its customers as compared with its take-or-pay obligations under such purchase contracts, that any material payments will become due from the Group for gas not taken.

(v) Capacity payments and guarantee

TXU Europe Energy Trading has several contracts requiring the payment of annual capacity fees. Under the terms of these contracts, TXU Europe Energy Trading will pay (subject to contract terms) an annual capacity fee of £215 million in 2000, £229 million in 2001, £232 million in 2002, £248 million in 2003, £248 million in 2004 and £1,491 million thereafter. In addition, TXU Europe Group will provide a £200 million guarantee (declining over time), representing approximately one year's capacity payment, with the counterparty providing a £20 million guarantee.

(vi) Coal contracts

In November 1998, the Group agreed two coal purchase agreements with a supplier, supplementing the 12 million tons the Group had previously contracted to take from said supplier between 1998 and 2001. The first agreement is for 25 million tons in total between 1998 and 2003. The second agreement is for 21 million tons in total between 2003 and 2009. Total committed purchases under these contracts were approximately £1.3 billion at 31 December 1999.

22 Capital and other commitments (continued)

(vii) Other

TXU Europe Group received government consent to build a 215 megawatt (MW) combined heat and power plant for which there is a commitment of £117 million most of which falls due in 2001. Estimated capital expenditure on environment control facilities is £43 million in 2000, £50 million in 2001 £40 million in 2002 and £35 million in 2003.

23 Significant post balance sheet events

In December 1999, TXU Europe Group and EDF London Investments plc, a subsidiary of Electricite de France, entered into an arrangement for the creation of an equally held joint venture company for the management, operation and maintenance of their subsidiaries' respective electricity distribution networks. On 31 March, 2000, final approval was received from the Office of Gas and Electricity Markets covering England, Scotland and Wales (OFGEM). The new joint venture has been named "24seven" and began operations on 7 April 2000.

On 7 January 2000, TXU Europe Limited announced that its subsidiary, Eastern Natural Gas (Offshore) Limited, had raised its stake in the Johnson Gas Field in the North Sea to 64.2% and had successfully applied to become the field's operator. Gas is extracted from the Johnson Gas Field through a sub-sea template linked by pipeline to surface installations in the Ravenspurn North field. TXU Europe Group will be responsible for the operation and maintenance of the template and field. The Johnson Gas Field has estimated recoverable reserves of 198 billion cubic feet of natural gas with average daily production of 62 million cubic feet.

On 1 March 2000, TXU Europe Power acquired Nedalo BV for £4.5 million, including the remaining 25% of Nedalo (UK) Limited it did not already own. Nedalo BV is a leading manufacturer of small scale combined heat and power plant, with sales across Europe and in the USA, and has approximately 28% of this market.

On 13 March 2000, TXU Europe (Espana) S.L., a subsidiary of TXU Europe Limited, announced its intentions to make a cash offer to acquire all of the shares of Hidroelectrica del Cantabrico SA (Hidrocantabrico) that TXU Europe Limited did not then own. On 28 March 2000, TXU Europe Limited announced that it would not make an offer after a competing bid was made. On 31 March 2000, TXU Europe Limited exercised warrants for 1.8 million shares increasing its ownership stake to 6.6%. Operating results for the quarter ended 31 March 2000 include approximately £6 million of costs incurred in connection with the offer for Hidrocantabrico. Since 31 March 2000, TXU Europe Limited has acquired additional shares in Hidrocantabrico and currently indirectly holds approximately 19% of the outstanding shares.

On August 3, 2000, the Spanish Stock Market Commission (CNMV) announced it was opening an investigation as to whether TXU Europe and Electrabel acted in concert over share purchases in order to avoid making a formal takeover bid. If the two utilities are found to be in violation of Spanish securities law, they could face a substantial fine and other restrictions. The investigation is expected to last several months. TXU Europe is unable to determine what impact there may be, if any, as a result of the investigation. In the meantime, the two companies' voting rights in Hidrocantabrico have been suspended. TXU Europe does not believe there has been any wrongdoing and is fully cooperating with the investigation. TXU Europe has also indicated that it would support a full offer for Hidrocantabrico by a third party which has the support of Hidrocantabrico's Board Of Directors.

23 Significant post balance sheet events (continued)

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

In June 2000, agreement was reached on the sale during 2000 of TXU Europe Group's shareholding in Severomoravska Energetika in the Czech Republic.

In July 2000, a subsidiary of TXU Europe Limited entered into an agreement to purchase 51% of the share capital of Stadtwerke Kiel AG, for DM 450 million (£ 144 million).

On August 3, 2000, TXU Europe also announced its purchase of United Utilities retail energy supply business, Norweb Energi (Norweb), for £310 million. TXU Europe's supply business, Eastern Energy, has 2.7 million electricity and 0.7 million gas customers. Combined with Norweb's 1.8 million electricity and 0.4 million gas customers, this will create the UK's second largest energy retailer with 5.6 million accounts. The deal also includes Norweb's power purchase agreements, which will be integrated into TXU Europe's energy portfolio.

Also on August 3, 2000, TXU Europe announced it had contracted its customer services operation to Vertex, United Utilities' customer services business, in a deal worth up to £350 million over seven years. Customer services include the call centres, billing, credit management and debt collection. Eastern Energy's 1,250 customer services staff will transfer across to Vertex on September 1, 2000 as part of a commitment to develop a long-term partnership.

24 Contingent liabilities

At 31 December 1999 the Company had provided guarantees in respect of commercial obligations incurred by its energy trading and gas subsidiaries. It had also guaranteed the finance lease obligations of Peterborough Power Ltd (the lessee) to make lease rental payments to Lloyds TSB Leasing (the lessor).

Certain subsidiaries of the Group have entered into an agreement with commercial banks whereby five years of future intra group rental payments receivable by one subsidiary from another have been assigned in return for a capital sum (note 15 (ii)). The payment of the assigned rentals, or in certain circumstances, their capital value on resale, by such commercial banks, is subject to certain guarantees and indemnities provided by the Company and certain of its subsidiaries.

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.

24 Contingent liabilities (continued)

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. National Grid has made an appeal to the House of Lords and the case is not likely to be heard until the fourth quarter of 2000. 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, TXU Europe Group 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).

In November 1998, five complaints were filed in the High Court of Justice in London, Queens Bench Division, Commercial Court against subsidiaries by five of their former sales agencies. The agencies claimed a total £104 million arising from the summary termination for the claimed fundamental breach of their respective contracts in April 1998. The five agencies claimed damages for failure to give reasonable notice and for compensation under the UK Commercial Agents Regulations 1994. In June 2000, an out of court settlement was reached between TXU Europe's subsidiaries and the complainants. This settlement is fully covered by provisions existing at 31 December 1999.

25 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 immediate parent company is TXU International Holdings Limited. These accounts can be obtained from the Company Secretary at Wherstead Park, Wherstead, Ipswich, Suffolk IP9 2AQ.

26 Reconciliation of movement in shareholders' funds

	Group 31 December 1999 £'m	Company 31 December 1999 £'m	Group 31 December 1998 £'m	Company 31 December 1998 £'m
Profit attributable to shareholders	**85.5**	6.7	**112.8**	8.1
Other recognised gains and losses for the year	**1.0**	-	**0.1**	-
Proceeds on issue of equity share capital	-	-	**1,467.2**	1,467.2
Net increase in shareholders' funds	**86.5**	6.7	**1,580.1**	1,475.3
Opening shareholders' funds	**1,580.1**	1,475.3	-	-
Closing shareholders' funds	**1,666.6**	1,482.0	**1,580.1**	1,475.3

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27 Reconciliation of operating profit to net cash inflow from operating activities

	Year to 31 Dec 1999 £'m	Period to 31 Dec 1998 £'m
Operating profit	404.6	252.3
Depreciation and amortisation	278.1	154.3
Movements in provisions	(205.1)	(82.7)
Decrease/ (increase) in stocks	19.2	(26.2)
Increase in debtors	(268.0)	(118.6)
Increase in creditors	59.2	167.6
Net cash inflow from operating activities	288.0	346.7

28 Analysis of net debt

	At 1 January 1999 £'m	Cash flow £'m	Non-cash movements £'m	Exchange Differences £'m	At 31 December 1999 £'m
Cash at bank and in hand	84.1	(29.2)	-	-	54.9
		(29.2)			
Debt due within one year	(454.8)	98.1	(232.2)	3.6	(585.3)
Debt due after one year	(2,462.2)	(1,147.4)	232.4	7.9	(3,369.3)
Amounts owed to the parent company	(681.6)	681.6			-
Finance leases	(127.8)	(73.6)	-	-	(201.4)
		(441.3)			
Current asset investments	10.0	-	-	-	10.0
Other short term deposits	780.8	(136.8)	-	-	644.0
		(136.8)			
Total	(2,851.5)	(607.3)	0.2	11.5	(3,447.1)

29 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 TXU Corp. Group are not disclosed.