

**TXU EASTERN HOLDINGS LIMITED**  
**(REGISTERED NO:3505836)**

**Directors' Report and Financial Statements**  
**For the period 5 February 1998 to 31 December 1998**



**Report and Consolidated Accounts  
For the Period Ended 31 December 1998**

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# **TXU EASTERN HOLDINGS LIMITED**

## **Directors' Report For the Period Ended 31 December 1998**

The Directors have pleasure in presenting their Annual Report and the Audited Accounts of the Group for the period from incorporation on 5 February to 31 December 1998.

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

The Company was incorporated under the name Errorfree Limited on 5 February 1998. Its name was changed to TU Finance (No. 1) Limited on 26 February 1998 and to TXU Eastern Holdings Limited on 17 December 1998. On 19 May 1998 the Company's wholly owned subsidiary, TU Acquisitions PLC (renamed TXU Acquisitions Limited), declared its public tender offer for The Energy Group PLC ("TEG") (which is now renamed as Energy Holdings (No. 3) Limited) wholly unconditional.

At 31 December 1998, the Company held, through a series of intermediary holding companies, 90% of a group of companies held by Eastern Group plc and by Energy Holdings (No. 3) Limited.

The Group's principal business operations are electricity networks and energy businesses in the UK. 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 kilometres 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 the fourth largest generator 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 electric and natural gas customers. The Group is also forming business alliances with European power companies in order to position itself to implement its integrated energy business strategy across the rest of Europe, as these markets open to competition.

### **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 period.

# **TXU EASTERN HOLDINGS LIMITED**

## **Directors' Report For the Period Ended 31 December 1998**

### **Directors and their interests**

The Directors who served during the year were:

	<b>Appointed</b>	<b>Resigned</b>
Luciene James Limited	5 February 1998	25 February 1998
The Company Registration Agents Limited	5 February 1998	25 February 1998
H J Gibbs	25 February 1998	
M J McNally	25 February 1998	
E A Nye	25 February 1998	
R A Wooldridge	25 February 1998	

Mr D C Bonham, Mr P G Turberville, Mr P C Marsh and Mr J Whelan were appointed as Directors of the Company on 7 May 1999.

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

### **Research and development**

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

### **Charitable and political contributions**

During the period ended December 1998 the Group donated £125,001 for charitable purposes. No donations were made for political purposes.

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 Eastern Group ("Eastern") 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. Eastern is a member of the Per Cent Club.

### **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.

In the event of a member of staff becoming disabled every effort is made to ensure that their

# **TXU EASTERN HOLDINGS LIMITED**

## **Directors' Report For the Period Ended 31 December 1998**

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 new 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.

### **Significant post balance sheet events**

Significant post balance sheet events are disclosed in note 23 of the financial statements.

### **Millennium compliance**

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

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

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

### **By Order of the Board**

**P A Ellis**  
Secretary



6 August 1999

Registered Office:  
Crown House, 51 Aldwych, London WC2B 4AX  
Registered in England, No. 3505836

# **TXU EASTERN HOLDINGS LIMITED**

## **Directors' Report For the Period Ended 31 December 1998**

### **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 Group and of the Company as at the end of the financial period and of the profit for the financial period. They are responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and 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 Group and to prevent and detect fraud and other irregularities.

The Directors consider that, in preparing the accounts on pages 6 to 38, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed. After making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the group accounts.

PricewaterhouseCoopers  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY  
Telephone +44 (0) 171 939 3000  
Facsimile +44 (0) 171 378 0647  
Direct phone 0171 939 2617  
Direct fax 0171 939 3313

## AUDITORS' REPORT TO THE MEMBERS OF TXU EASTERN HOLDINGS LIMITED

We have audited the financial statements on pages 6 to 38 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 to 15.

### Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the Annual Report, including as described on page 4, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

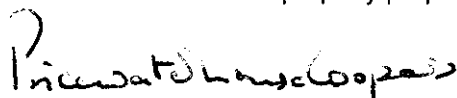
### Basis of audit opinion

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 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 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 of the Group as at 31 December 1998 and of the profit and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICEWATERHOUSECOOPERS  
Chartered Accountants  
and Registered Auditors  
London

6 August 1999

The principal place of business of PricewaterhouseCoopers and its associate partnerships is 1 Embankment Place, London WC2N 6NN where lists of the partners' names are available for inspection.

All partners in the associate partnerships are authorised to conduct business as agents of, and all contracts for services to clients are with, PricewaterhouseCoopers. PricewaterhouseCoopers is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

PricewaterhouseCoopers is a member of PricewaterhouseCoopers International Limited, a company limited by guarantee registered in England and Wales.

# TXU EASTERN HOLDINGS LIMITED

## Consolidated Profit and Loss Account

For the Period From 5 February 1998 to 31 December 1998

	Note	£'m	1998 £'m
<b>Turnover</b>	2		
Continuing operations			2,169.0
<b>Cost of sales</b>			
Continuing operations			(1,470.1)
<b>Gross profit</b>			698.9
<b>Distribution costs</b>			
Exceptional restructuring and reorganisation costs		(12.7)	
Other		(186.9)	(199.6)
Administrative expenses			(249.0)
<b>Total operating costs</b>			(448.6)
<b>Group operating profit</b>			
Continuing operations			250.3
Share of operating profit of associate	12		2.0
<b>Operating profit including associates</b>	2,3,4,5		
Continuing operations			252.3
Income from fixed asset investments	6		18.5
Net interest	7		(145.6)
<b>Profit on ordinary activities before taxation</b>			125.2
Taxation on profit on ordinary activities	8		(0.5)
<b>Profit after taxation</b>			124.7
Minority interests – equity			(11.9)
<b>Profit for the financial period</b>			112.8
Dividends			-
<b>Retained profit</b>	20		112.8

All operating profits in the period result from acquisitions during the period (see note 12).

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



## TXU EASTERN HOLDINGS LIMITED

### Statement of Total Recognised Gains and Losses For the Period from 5 February 1998 to 31 December 1998

	<u>1998</u>
	<u>£'m</u>
Profit for the financial period	112.8
Currency difference on foreign net investment	0.1
<u>Total recognised gains and losses for the period</u>	<u>112.9</u>

# TXU EASTERN HOLDINGS LIMITED

## Balance Sheets at 31 December 1998

	Note	Group 31 December 1998 £'m	Company 31 December 1998 £'m
<b>Fixed assets</b>			
Intangible assets	10	2,995.7	-
Tangible assets	11	1,897.5	-
Investments	12	127.3	2,201.9
		<b>5,020.5</b>	<b>2,201.9</b>
<b>Current assets</b>			
Stocks	13	141.2	-
Debtors – amounts falling due within one year	14	553.2	17.2
Debtors – amounts falling due after more than one year	14(i)	379.8	-
Debtors subject to financing	14(i)	268.7	-
Less: Non-recourse amount		(268.7)	-
		-	-
Investments	12	10.0	-
Short term deposits	15	780.8	30.0
Cash at bank and in hand		84.1	4.3
		<b>1,949.1</b>	<b>51.5</b>
<b>Creditors (amounts falling due after more than one year)</b>	<b>16</b>	<b>(1,469.8)</b>	<b>(4.1)</b>
		<b>479.3</b>	<b>47.4</b>
<b>Net current assets</b>			
<b>Total assets less current liabilities</b>		<b>5,499.8</b>	<b>2,249.3</b>
<b>Creditors (amounts falling due after more than one year)</b>	<b>16</b>	<b>(3,272.6)</b>	<b>(774.0)</b>
<b>Provisions for liabilities and charges</b>	<b>17</b>	<b>(457.3)</b>	<b>-</b>
<b>Net assets</b>		<b>1,769.9</b>	<b>1,475.3</b>
<b>Capital and reserves</b>			
Called up share capital	19	1,467.2	1,467.2
Profit and loss account	20	112.9	8.1
Total shareholders' funds – equity	26	1,580.1	1,475.3
Minority interests – equity		189.8	-
		<b>1,769.9</b>	<b>1,475.3</b>

The accounts were approved by the Board of Directors on 6 August 1999 and signed on its behalf by:

  
HJ Gibbs  
Director

# TXU EASTERN HOLDINGS LIMITED

## Consolidated Cash Flow Statement For the Period from 5 February to 31 December 1998

			1998
	Note	£'m	£'m
<b>Net cash inflow from operating activities</b>	27		346.7
<b>Returns on investments and servicing of finance:</b>			
Interest received		84.8	
Interest paid		(106.7)	
Interest element of finance lease repayments		(6.7)	
Dividends received from fixed asset investments		5.9	
			(22.7)
<b>Tax paid</b>			(50.3)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(254.3)	
Purchase of intangible fixed assets		(123.9)	
Purchase of fixed asset investments		(44.0)	
Receipts from sales of fixed assets		9.2	
Receipts from customers' contributions		19.2	
			(393.8)
			(120.1)
<b>Acquisitions and disposals:</b>			
Disposal of investments (note 11)		60.0	
Purchase of subsidiaries (note 12)		(3,481.4)	
Cash at bank and in hand acquired with subsidiaries		7.1	
			(3,414.3)
<b>Dividends paid</b>			-
			(3,534.4)
<b>Management of liquid resources:</b>			
Sale/(purchase) of current asset investments (net)		(1.9)	
Sale of short term deposits (net)		1,627.9	
			1,626.0
<b>Financing:</b>			
Issue of ordinary shares		1,467.2	
Proceeds from bank loans		2,315.8	
Proceeds from bond issue		14.4	
Repayment of intercompany funding		(200.4)	
Repayment of bank loans		(1,593.3)	
Capital element of finance lease repayments		(11.2)	
			1,992.5
<b>Increase in cash</b>			84.1

# TXU EASTERN HOLDINGS LIMITED

## Consolidated Cash Flow Statement For the Period from 5 February to 31 December 1998

			1998
	Note	£'m	£'m
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/Increase in cash in the period	28		84.1
Cash inflow from increase in debt and lease financing			(525.3)
Cash outflow/(inflow) from increase in liquid resources			(1,626.0)
Change in net debt resulting from cash flows			(2,067.2)
Non-cash movements			(1,005.6)
Assumed on acquisition of subsidiaries			219.2
Exchange adjustments			2.9
<b>Movement in net debt in the period and closing net debt</b>			<b>(2,850.7)</b>

# **TXU EASTERN HOLDINGS LIMITED**

## **Notes To The Consolidated Financial Statements For the Period Ended 31 December 1998**

### **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. 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 and the projected discounted cash flows from the business' activity, are charged to the profit and loss account. 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 ventures. 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 ventures are accounted for when the outcome of the redetermination is known in accordance with the partners.

#### **Turnover**

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

#### **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.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 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 less accumulated depreciation. The charge for depreciation is calculated to write off assets over their estimated useful economic lives, on a straight line basis unless otherwise indicated. 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.

# **TXU EASTERN HOLDINGS LIMITED**

## **Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998**

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 11.

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 Eastern Electricity plc 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.

### **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.

### **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 period in which it is receivable.

### **Stocks**

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

### **Research and development**

Expenditure on research and development, other than for gas fields as described below, is written off to the profit and loss account in the period in which it is incurred.

### **Appraisal and development expenditure of gas fields**

Appraisal expenditures are accounted for under the successful efforts method. General seismic and other costs are expensed as incurred.

# **TXU EASTERN HOLDINGS LIMITED**

## **Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998**

### **Ceiling tests**

The capitalised costs of gas fields under evaluation, under development or in production are assessed each period 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.

### **Abandonment**

Provisions for the estimated cost at current prices of removing production facilities and site restoration at the end of the producing life of a gas field are made field by field on a unit of production basis. The effects of changes in estimates of commercial reserves and real estimated costs are dealt with prospectively. The effects of inflation are dealt with retrospectively.

### **Foreign currencies**

Average rates of exchange during the period 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 period.

### **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 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.



# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### Derivative financial instruments

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 period 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.

### 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.

## 2. Turnover, profit before interest and net assets by segment

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

	Turnover	Profit before interest	Net assets
	1998	1998	1998
	£m	£m	£m
<b>By activity:</b>			
Energy	2,113.4	142.3	942.4
Networks	268.5	137.5	1,259.6
Continuing operations	2,381.9	279.8	2,202.0
Inter activity sales	(212.9)	-	-
Exceptionals – Restructuring	-	(12.7)	(83.1)
Unallocated investment income	-	3.7	-
Unallocated net assets	-	-	2,971.4
Unallocated net borrowings	-	-	(3,320.4)
<b>Continuing operations</b>	<b>2,169.0</b>	<b>270.8</b>	<b>1,769.9</b>

Energy includes the regulated electricity supply business (incorporating competitive market electricity sales), electricity generation, portfolio management and all gas activities. Networks includes the regulated electricity distribution business and telecoms.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

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

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

	Turnover	Profit before interest	Net assets
	1998	1998	1998
	£m	£m	£m
By geographical location and destination:			
United Kingdom	2,152.7	272.4	1,774.1
Eastern Europe	16.3	(1.6)	(4.2)
Acquired operations	2,169.0	270.8	1,769.9

### 3. Operating profit

The operating profit is stated after charging:

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

The audit fee in respect of the parent company was £20,000.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 4. Employees

	Period to 31 December 1998
	£m
Average number of employees including Directors:	
United Kingdom	6,712
Eastern Europe	521
	7,233

The total number of employees at 31 December 1998 was 7,206.

The aggregate remuneration of employees, including Directors, comprised:

	Period to 31 December 1998
	£m
Wages and salaries	104.6
Social security costs	8.9
Other pension costs (note 21)	5.5
	119.0
Less: charged as capital expenditure	(25.1)
Charged to the profit and loss account	93.9

### 5. Directors' emoluments

The Directors of the Company received no remuneration from the Company or Group in respect of their services in the period.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 6. Income from fixed asset investments

	Period to 31 December 1998
	£m
Income from Investment in Barking Power Ltd	4.2
Profit on sale of Eastern Group Telecoms	12.6
Other dividends	1.7
	18.5

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 7. Net Interest

	Period to 31 Dec 1998	Period to 31 Dec 1998
	£m	£m
<b>Interest payable:</b>		
On bank loans, overdrafts and other loans wholly repayable within five years		124.0
On long term loans (repayable in whole or in part after five years)		58.4
On finance leases		4.5
Other		1.1
On loans with ultimate parent company		33.1
Debt securitisation discount		13.8
		<hr/> 234.9
<b>Interest receivable and similar income:</b>		
Interest receivable	(63.8)	
Dividends from current asset investments	(25.5)	(89.3)
		<hr/> 145.6

### 8. Taxation

	Period to 31 Dec 1998
	£
<b>Taxation on profit on ordinary activities:</b>	
UK corporation tax at 31%	(11.0)
Overseas taxation	0.4
Taxation on franked investment income	5.3
Under provisions in respect of prior years	5.8
	<hr/> 0.5

If full provision had been made for deferred tax for the period, the tax charge would have been increased by £10.7m, being £14.2m in respect of capital allowances in excess of depreciation less £3.5m in respect of other timing differences (note 18).

### 9. Dividend

No dividends have been paid or proposed by the Company.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 10. Intangible fixed assets – Group

	Goodwill	Water Rights	Total
Cost	£m	£m	£m
At 5 February 1998	-	-	-
Additions (see Note 12(l))	2,963.1	123.9	3,087.0
At 31 December 1998	2,963.1	123.9	3,087.0
<b>Amortisation</b>			
At 5 February 1998	-	-	-
Charge for the period	91.3	-	91.3
At 31 December 1998	91.3	-	91.3
<b>Net book amount</b>			
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 (see note 12).

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

The Company has no intangible fixed assets.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 11. Tangible fixed assets - Group

	Electricity distribution system	Electricity generating stations	Upstream gas assets	Other land & buildings	Other	Deduct customers contributions	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Cost</b>							
At 5 February 1998	-	-	-	-	-	-	-
Acquisitions	1,322.7	426.4	31.8	97.4	214.7	(290.7)	1,802.3
Exchange adjustments	-	1.7	-	-	-	-	1.7
Additions	102.8	55.8	3.1	7.39	85.3	(19.2)	235.1
Disposals	(0.3)	-	-	(4.5)	(74.9)	-	(79.7)
At 31 December 1998	1,425.2	483.9	34.9	100.2	225.1	(309.9)	1,959.4
<b>Depreciation</b>							
At 5 February 1998	-	-	-	-	-	-	-
Disposals	-	-	-	(0.1)	(1.0)	-	(1.1)
Charge for the period	31.9	8.8	3.9	3.2	21.8	(6.6)	63.0
At 31 December 1998	31.9	8.8	3.9	3.1	20.8	(6.6)	61.9
<b>Net book amount</b>							
At 31 December 1998	1,393.2	475.1	31.0	97.1	204.3	(303.3)	1,897.5

The company has no fixed assets.

- (i) Disposals included the disposal of fixed assets on the sale of Eastern Group Telecoms Limited to NTL Inc., on 22 December 1988. The Group recorded a gain relating to the disposal of £12.6m (note 6). In consideration for the business, the Group received cash of £60 million and an investment in the preferred stock of the purchaser with a carrying value of £22 million. The investment is not traded on any stock exchange and is not convertible into cash until July 2000, but the value has been guaranteed by NTL Inc.
- (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 1998
	£m
Freehold	92.4
Long leasehold	3.1
Short leasehold	1.6
	97.1

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

- (iii) Tangible fixed assets include the following:

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

- (iv) The Group conducts its upstream gas activities through joint ventures, currently all in the North Sea UK sector. Current interests comprise equity interests in the following fields:

	% owned
Johnston	4.6
Schooner	4.8
Welland	11.2

As described in note 23 (v), the group has acquired a further 32.6% stake in the Johnston field since the balance sheet date.

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

	Group 31 December 1998
	£m
<b>Cost:</b>	
At 5 February 1998	-
Acquisitions	115.5
At 31 December 1998	115.5
<b>Depreciation:</b>	
At 5 February 1998	-
Charge for the year	3.3
At 31 December	3.3
<b>Net book amount at 31 December 1998</b>	<b>112.2</b>



# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 12. Investments

#### Fixed asset investments

	Unlisted Investments	Listed Investments	Group Total	Shares in Subsidiaries	Loans to Subsidiaries	Company Total
	£m		£m	£m	£m	£m
At 5 February 1998	-	-	-	-	-	-
Acquisitions	1.1	54.7	55.8	1,510.3	691.6	2,201.9
Additions	32.3	33.7	66.0	-	-	-
Exchange adjustments	0.6	4.9	5.5	-	-	-
At 31 December 1998	34.0	93.3	127.3	1,510.3	691.6	2,201.9

The market value of the Group's listed investments at 31 December 1998 was £75.6m.

#### (i) Acquisition of The Energy Group PLC

On 19 May 1998, TXU Acquisitions Limited's (formerly TU Acquisitions PLC) acquisition of The Energy Group PLC was declared unconditional. This purchase has been accounted for as an acquisition. The adjustments required to the book values of the assets and liabilities of The Energy Group PLC were primarily made up of the valuation of onerous contracts, the valuation of fixed rate debt and other assets and liabilities and the alignment of accounting policies.

In its last financial years to 31 March 1998, The Energy Group PLC made a profit after tax of £158 million. For the period since that date of acquisition, The Energy Group PLC's management accounts show:

	£m
Turnover	555.6
Operating profit	(23.2)
Profit before taxation	75.3
Taxation and minority interests	(2.7)
Profit attributable to shareholders	72.6

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

The fair value of the net assets acquired was as follows:

	Book Value	Adjustments	Fair Value
	£m	£m	£m
Tangible fixed assets	1,808.3	(6.0)	1,802.3
Fixed asset investments	55.8	-	55.8
Net working capital	2,370.0	(72.8)	2,297.2
Cash	7.1	-	7.1
Creditors > 1 years and provisions	(2,306.0)	(371.1)	(2,677.1)
<b>Net assets acquired (100%)</b>	<b>1,935.2</b>	<b>(449.9)</b>	<b>1,485.3</b>
<b>Goodwill</b>			<b>2,963.1</b>
<b>Consideration</b>			<b>4,448.4</b>
<b>Cash</b>			<b>3,481.4</b>
<b>Shares (issued by TXU Corp., funded through the intercompany account)</b>			<b>882.0</b>
<b>Loan notes</b>			<b>85.0</b>
			<b>4,448.4</b>

Fair value adjustments of £449.9 million include:

	£m
Provisions for onerous contracts	(256.8)
Alignment of accounting policy	22.0
Revaluation of debt	(114.3)
Revaluation of other assets and liabilities	(100.8)
	(449.9)

From early March 1998, when the Group started to acquire shares in The Energy Group PLC to 19 May 1998, when The Energy Group PLC became a subsidiary of the Group, The Energy Group PLC was an associate of the Group. Its earning for that period have been accounted for under the equity method (£2m) and are reflected in the profit and loss account.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### (ii) 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 Ltd	Generating station (King's Lynn)	England	100
British Power International Ltd	International energy services	England	100
Eastern Corporate Insurance Ltd	Insurance	Isle of Man	100
Eastern Electricity plc	Electricity supply and distribution	England	100
Eastern Generation Ltd	Investment in generation projects	England	100
Eastern Group plc	Holding company	England	100
Eastern Group Finance Ltd	Project financing	England	100
Eastern Group Insurance Services Ltd	Insurance	Isle of Man	100
Eastern Merchant Generation Ltd	Coal station operations	England	100
Eastern Merchant Properties Ltd	Coal station leasing	England	100
Eastern Natural Gas Ltd	Gas administration	England	100
Eastern Natural Gas (Offshore) Ltd	Upstream gas assets	England	100
Eastern Natural Gas (Retail) Ltd	Gas supply	England	100
Eastern Natural Gas (Trading) Ltd	Gas purchase and wholesaling	England	100
Eastern Overseas Finance Ltd	Investment in overseas projects	England	100
Eastern Power and Energy Trading Ltd	Energy portfolio management	England	100
Eastern Energy Limited	Energy retail	England	100
Energy Group Overseas BV	Finance company	Holland	100
Nedalo (U.K.) Ltd	Sale and maintenance of combined heat and power systems	England	75
Peterborough Power Ltd	Generating station (Peterborough)	England	100
Teplarny Brno a.s	District heating and generation	Czech Republic	84
TXU Acquisitions Ltd	Holding company	England	100
TXU Finance (No 2) Ltd	Holding company	England	90
The Energy Group Ltd	Holding company	England	100

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

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

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### Current asset investments

	Group 31 December 1998
	£m
Unlisted	10.0

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 13. Stocks

	Group 31 December 1998 £'m	Company 31 December 1998 £'m
Raw materials and consumables	138.8	-
Work in progress	2.4	-
	141.2	-

### 14. Debtors

(i)

	Group 31 December 1998 £'m	Company 31 December 1998 £'m
<b>Amounts falling due within one year:</b>		
Trade debtors	337.8	-
Amounts owned by group undertakings	-	15.8
Advance corporation tax recoverable	29.9	-
Other debtors	7.3	1.4
<b>Prepayments and accrued income:</b>		
Operating leases	55.1	-
Other	98.7	-
Unbilled consumption	24.4	-
	553.2	17.2
<b>Amounts falling due after more than one year:</b>		
<b>Prepayments and accrued income:</b>		
Operating leases	218.5	-
Other	161.3	-
	379.8	-

- (ii) 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

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

any member of the Group in any other form. Eastern Electricity is not obliged to support any losses nor does it intend to.

The amount of funding secured on future receivables (£31.3 million) is shown in Other creditors (Note 16).

### 15. Short term deposits

	Group 31 December 1998 £'m	Company 31 December 1998 £'m
Treasury deposits	322.5	30.0
Cash collateral against future operating lease commitments	408.1	-
Other	50.2	-
	780.8	30.0

The cash collateral against future operating lease rental commitments releases to amounts falling due in the year ended 31 March 2002 (Note 16(i)).

### 16. Creditors

	Group 31 December 1998 £'m	Company 31 December 1998 £'m
<b>Creditors (amounts falling due within one year):</b>		
Bank loans, overdrafts, short term borrowings (unsecured)	454.8	-
Net obligations in respect of finance lessees	10.9	-
Payments received on account	41.1	-
Trade creditors	521.3	-
Amounts owned to ultimate parent company	40.3	-
Corporation tax	202.4	-
Other taxation and social security	4.1	-
Other creditors	111.3	-
Accruals and deferred income	83.6	4.1
	1,489.8	4.1

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

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

(i) Bank loans fall due as follows:

	Group 31 December 1998	Company 31 December 1998
	£'m	£'m
Between one and two years	233.5	-
Between two and five years	1,042.4	774.0
	1,275.9	774.0

On 28 October 1996 certain subsidiaries of Eastern 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.

£408 million of this capital sum has been used to cash collateralise existing future obligations to certain banks in respect of the funding of the operating leases of power stations leased from National Power (Note 15).

- (ii) 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 7.425% guaranteed notes due 2017 and US \$300 million 7.55% guaranteed notes due 2027.
- (iii) Net obligations in respect of finance leases are repayable as follows:

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

	Group 31 December 1998 <hr/> £'m
Amounts falling due after more than one year:	
Amounts due between one and five years	44.2
Amounts due after five years	72.7
	<hr/> 116.9

- (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	Maturity	Rate
£238m	2000	7.35%
£190m	2001	7.35%
£800m	2003	6.58%
£250m	2004	8.375%
£200m	2012	8.75%
\$200m	2017	7.425%
£200m	2025	8.5%
\$300m	2027	7.55%

### 17. Provisions for liabilities and charges

	Restructuring and reorganisation	Pensions	Deferred tax (Note 18)	Other	Total
	£'m	£'m	£'m	£'m	£'m
5 February 1998	-	-	-	-	-
On acquisition	51.1	9.3	94.2	385.4	540.0
Transferred from profit and loss account	12.0	5.9	-	8.5	26.4
Applied during the year	(18.1)	-	-	(91.0)	(109.1)
Balance at 31 December 1998	45.0	15.2	94.2	302.9	457.3

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



# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 18. Deferred taxation

The provision for deferred tax in note 17 comprises:

	Group 31 December 1998 <hr/> £'m
Other timing differences	94.2
	<hr/> 94.2

The unprovided amounts of deferred taxation for timing differences computed at the current rate of corporation tax of 31% are as follows:

	Group 31 December 1998 <hr/> £'m
Capital allowances in excess of depreciation	288.2
Other timing differences	(38.6)
	<hr/> 249.6

The company has no provided or unprovided deferred tax balances.

### 19. Called up share capital

	Group 31 December 1998 <hr/> US \$m
Authorised:	
3,000 million ordinary shares of US \$1	3,000.0
	<hr/>
	£
100 deferred shares of £1 each	100
	<hr/>

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

	Group 31 December 1998 <hr/> £'m
<b>Allotted and fully paid:</b>	
5 February 1998 – 2 ordinary shares of £1 each issued at par, on incorporation	-
15 May 1988 – 98 ordinary shares of £1 each issued at par	-
22 May 1998 – 100 ordinary shares of US \$1 each issued at par, whereupon the pre-existing shares of £1 each became deferred shares	-
31 May 1998 – 2,455,705,199 ordinary shares of US \$1 each issued at par	1,467.2
<hr/> 2,455,705,299 ordinary shares of US \$1 each and 100 deferred shares of £1 each	<hr/> 1,467.2

### 20. Profit and loss account

	Group £'m	Company £'m
5 February 1998	-	-
Currency differences on foreign net investment	0.1	-
Retained profit for the period	112.8	8.1
<hr/> Balance at 31 December 1998	<hr/> 112.9	<hr/> 8.1

The Company's profit for the financial period was £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 6 August 1999.

### 21. Pensions

Most of the Group's employees are entitled to join the Electricity Supply Pension Scheme which provides pension and other related benefits 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.

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 2.5% 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.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

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 period was £5.5 million (Company: £Nil) and the pension provision held in the balance sheet of the Group accounts was £15.2 million (Company : £Nil).

### 22. Capital and other commitments

Group 31 December 1998
£'m

#### (i) Capital commitments:

In respect of contracts placed	60.3
--------------------------------	------

#### (ii) Operating leases

The future minimum and rental commitments under non-cancellable operating leases at 31 December 1998 were:

Group 31 December 1998
£'m

Expiring within two to five years	5.4
Expiring after five years	52.9

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 period end.

#### (iii) Electricity contracts

The group has an annual commitment under long-term contracts for differences of approximately 5 TWh falling on a linear basis to approximately 2TWh by 2005 and expiring in 2010.

# **TXU EASTERN HOLDINGS LIMITED**

## **Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998**

### **(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 in to a range of purchase contracts. As at 31 December 1998, the commitments under long term gas purchase contracts amounted to an estimated £1.3 billion covering periods up to 18 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) 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 £1.4 billion at 31 December 1998.

### **(vi) Other**

In December 1998, the Group agreed to purchase various assets in the North Sea from Monument Oil for £20 million. The assets comprise a 20% stake in the Johnston field plus a number of non-producing gas discoveries and prospects. This is subject to approval from the Department of Trade and Industry and consents from other parties participating in the fields.

## **23. Significant post balance sheet events**

- (i) On 13 May 1999, the TXU Eastern Funding Company, a subsidiary company formed after the balance sheet date, issued US \$1.5 billion (£921 million) worth of Senior Notes, which are guaranteed by the Company, in three tranches; US \$350 million (£216 million), 8.15% due 15 May 2002. US \$650 million (£398 million), 8.45% due 15 May 2005 and US \$500 million (£307 million), 6.75% due 15 May 2009. The proceeds of this issuance were used to repay a note payable by the Group to Texas Utilities Company (doing business as TXU Corp.), which arose in conjunction with the acquisition detailed in Note 12 and to reduce borrowings under the bank borrowings and for other corporate purposes. Shortly thereafter, the Company entered into various interest rate and currency swaps that in effect changed the interest rate on the borrowings from fixed to variable based on LIBOR, and fixed the principal amount to be repaid in sterling.
- (ii) On 11 June 1999, TU Finance (No2) Ltd entered into arrangements with Fram Funding Limited, a Jersey incorporated company, to borrow funds up to an aggregate maximum of £275 million through a note issue. £150 million of this facility was drawn.
- (iii) On 6 May 1999, the Group paid £42 million for a 36% interest in Savon Voima Oy (SVO). This agreement includes an option which allows the majority shareholders of SVO to require the Group to purchase the remaining 64% interest in SVO at prices that are based upon a multiple of the original 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 and does not expire.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

- (v) On 18 May 1999, US \$198 million letters of credit issued under the Sterling Credit Agreement/Revolving Credit Facility matured and were not renewed.
- (vi) On 5 July 1999 the Group purchased all of BHP Petroleum's assets in the North Sea for £102 million. The assets comprise a 32% stake in the Johnston Field, an 18% stake in Ravenspurn North field plus a number of non-producing gas discoveries and prospects in a total of seven exploration licences. This purchase is effective 1 July 1988. This brought the total stake held in the Johnston field to 37% at 5 July 1999.

### 24. Contingent liabilities

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

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

- (ii) Financial guarantees

The Energy Group PLC has guaranteed up to US\$110 million (£65 million), at 31 December 1998 of certain liabilities that may be incurred and payable by the purchasers of the businesses sold in the Peabody sale with respect to the Peabody Holding Company Retirement Plan for Salaried Employees, the Powder River Coal Company Retirement Plan and the Peabody Coal UMWA Retirement Plan, subject to certain specified conditions.

The Energy Group PLC entered into various guarantees of obligations of affiliates of its former subsidiary Citizens Power LLC, arising under power purchase agreements and note purchase agreements in connection with various Citizens Power energy restructuring projects, as well as various indemnity agreements in connections with such projects. The Company and The Energy Group PLC continue to be guarantor or the indemnifying party, as the case may be, under these various agreements, in connection with the acquisition, letters of credit were issued under the Sterling Credit Facility in the amount of US\$198 million (£118 million at 31 December 1998) to support certain debt financing associated with these restructuring projects (note 23(iv)).

As a consequence of a restructuring whereby a subsidiary of TXU Acquisitions Limited transferred Eastern Group plc to another wholly-owned subsidiary of TXU Acquisitions Limited, the Company and certain other affiliated United Kingdom subsidiaries of Texas Utilities (doing business as TXU Corp.) may be required to make certain adjustments to the guarantees, which the Directors of the Company do not currently expect to have a material adverse impact on the Company.

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 25. Parent Company

The company's immediate parent undertaking is TXU International Holdings Limited.

The ultimate parent company and ultimate controlling party at 31 December 1998 was Texas Utilities Company (doing business as TXU Corp.) (incorporated in the state of Texas, USA). The ultimate parent company's group accounts are available from Texas Utilities shareholder services, PO Box 225249, Dallas, Texas, 75222-524.

### 26. Reconciliation of movement in shareholders' funds

	Group 31 December 1998	Company 31 December 1998
	£m	£m
Profit attributable to shareholders	112.8	8.1
Dividends	-	-
	112.8	8.1
Other recognised gains and losses for the period	0.1	-
Proceeds on issue of equity share capital	1,467.2	1,427.2
Net increase in shareholders' funds	1,580.1	1,475.3
Opening shareholders' funds	-	-
Closing shareholders' funds	1,580.1	1,475.3

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

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

	Nine Months Ended 31 December 1998
	£m
Operating profit	252.3
Depreciation and amortisation	154.3
Movements in provisions	(82.7)
Increase in stocks	(26.2)
Increase in debtors	(118.6)
Increase in creditors	167.6
Net cash inflow from operating activities	346.7

# TXU EASTERN HOLDINGS LIMITED

## Notes to the Consolidated Financial Statements For the Year Ended 31 December 1998

### 28. Analysis of net debt

	Cash flow	Assumed on acquisition	Non-cash movements	Exchange Differences	At 31 December 1998
	£m	£m	£m	£m	£m
Cash in hand	77.0	7.1	-	-	84.1
Overdraft	72.2	(72.2)	-	-	-
	149.2				
Debt due within one year	(237.5)	(207.8)	(9.0)	-	(454.3)
Debt due within one year	(371.2)	(1,782.5)	(996.6)	2.9	(3,147.4)
Finance leases	11.2	(135.1)	-	-	(123.9)
	(597.5)				
Current asset investments	1.9	8.1	-	-	10.0
Collateralised cash	-	408.1	-	-	408.1
Other short term deposits	(1,627.9)	2,000.6	-	-	372.7
	(1,626.0)				
	(2,074.3)	226.3	(1,005.6)	2.9	(2,850.7)

Non cash movements include the establishment of intercompany borrowings (£882.0m) and loan notes (£85.0m) on the acquisition of The Energy Group PLC.

### 29. Related Party Transactions

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