TXU EUROPE LIMITED

(REGISTERED NO: 3505836)

Directors' Report and Financial Statements
For the year ended 31 December 2000

TXU EUROPE LIMITED

Report and Consolidated Accounts
For the Year Ended 31 December 2000

Contents

TXU EUROPE LIMITED

Directors' Report
For the Year Ended 31 December 2000

The Directors have pleasure in presenting their Annual Report and the Audited Financial Statements of TXU Europe Limited for the year ended 31 December 2000.

Principal activities and business review and future prospects

The business and operations of TXU Europe and its subsidiaries consist of two main businesses, energy and networks, as follows:

Energy: the Energy business manages TXU Europe's integrated portfolio of customers, assets and contracts, in the UK and continental Europe. Operations in the UK are conducted through wholly-owned subsidiaries. European activities are conducted through both wholly-owned subsidiaries and joint-venture operations. Through its portfolio management and trading operations, TXU Europe seeks to allocate risk capital so as to maximize returns across European markets. As a consequence, the composition of assets and operations in each market within the portfolio changes from time to time. The Energy business supplies electricity and gas to approximately 5.5 million residential, industrial and commercial customers in the UK, including those arising from the Norweb Energi acquisition (as described on page 19 of the financial statements) and manages a portfolio of generation assets and contracts throughout Europe.

Networks: the Networks business which owns, manages and, through its networks management joint venture, operates an electricity distribution system in the East Anglia region of the UK.

UK energy operations are carried out principally through TXU Europe's subsidiaries, Eastern Electricity plc (which also owns the networks electricity distribution system), Eastern Energy Limited (Eastern Energy), Eastern Natural Gas Retail Limited, TXU Europe Power Ltd (and its subsidiaries) and TXU Europe Energy Trading Ltd. Continental European operations are carried out as follows:

(i) Portfolio trading in central European markets through TXU Europe Energy Trading BV (and its subsidiaries), primarily in Germany, the Netherlands, Switzerland and Spain; and

(ii) Nordic operations through TXU Nordic Energy Oy (a subsidiary in which Pohjolan Voima Oy (PVO), Finland's second largest electricity generator, has a minority interest) which trades energy on Nordic markets, has access to hydro generation at Svartisen and Kobbelv and participates in distribution and retail markets through alliances, especially Savon Voima Oyj (SVO).

European operations were further expanded following the year-end, when Stadtwerke Kiel AG became a subsidiary of the Group, as described on page 20 of the financial statements.

The Directors expect these activities to continue.

Results and dividends

The Group's results are shown in the consolidated profit and loss account on page 5. The Directors do not recommend the payment of a final dividend in respect of the year (1999: nil).

Directors and their interests

The Directors who served during the year were:

H J Gibbs
M J McNally
E A Nye
R A Wooldridge
D C Bonham
P C Marsh
P G Turberville

There were no notifiable interests of the Directors in office in any UK group companies on 31 December 2000 (1999: 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 the Group donated £175,402 for charitable purposes (1999: £199,691). No donations were made for political purposes (1999: 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"), a subsidiary of TXU Europe, 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.

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 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, 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.

Creditor payment policy

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

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

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

Post balance sheet events

Details of post balance sheet events are set out in note 25 to the financial statements.

Directors' Report
For the Year Ended 31 December 2000

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 5 to 31, 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.

By Order of the Board

B J Hutchinson

Secretary

6th August 2001

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& Touche

Auditors' Report to the Members of TXU Europe Limited

We have audited the financial statements on pages 5 to 31 which have been prepared under the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described on page 3 the Company's Directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with United Kingdom law and accounting standards. 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 United Kingdom 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 2000 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

5 September 2001

TXU EUROPE LIMITED

Consolidated Profit and Loss Account
For the Year Ended 31 December 2000

	Note	£'m	Year ended 31 December 2000 £'m	£'m	Year ended 31 December 1999 £'m
Turnover (including share of joint ventures)					
Continuing operations		4,466.1		3,782.6	
Acquisitions		391.2	4,857.3	-	3,782.6
Less: share of turnover of joint ventures (continuing)			(175.5)		(13.2)
Turnover	2		4,681.8		3,769.4
Cost of sales			(3,529.5)		(2,584.3)
Gross profit			1,152.3		1,185.1
Distribution costs					
- Exceptional restructuring and reorganisation costs	2	(16.6)		(5.0)	
- Other		(265.2)	(281.8)	(283.9)	(288.9)
Administrative expenses					
- Exceptional restructuring and reorganisation costs	2	(62.1)		(5.6)	
- Other		(546.0)	(608.1)	(486.0)	(491.6)
Total operating expenses			(889.9)		(780.5)
Continuing operations			243.6		404.6
Acquisitions (after £16.1m (1999:£nil) goodwill amortisation)			18.8	-	-
Group operating profit			262.4		404.6
Share of operating profit in joint ventures and associates	12		9.3		-
Total operating profit: group and share of joint ventures	2,3,4		271.7		404.6
Profit on sale of fixed assets			17.6		8.3
Profit on sale of operations			40.6		-
Income from fixed asset investments	6		8.7		7.2
Net interest (payable)/receivable	7				
- group			(297.3)		(249.5)
- joint ventures			1.0		-
Profit on ordinary activities before taxation			42.3		170.6
Taxation	8		(20.0)		(67.5)
Profit on ordinary activities after taxation			22.3		103.1
Minority interests - equity			5.8		(17.6)
Profit for the financial year			28.1		85.5
Dividends	9		(0.1)		-
Retained profit			28.0		85.5

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Consolidated Statement of Total Recognised Gains & Losses
Reconciliation of Movement in Group Shareholders' Funds
For the Year Ended 31 December 2000

Consolidated Statement of Total Recognised Gains and Losses

	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Profit for the financial year	**28.1**	85.5
Currency difference on foreign net investment	**0.5**	1.0
Total recognised gains and losses	**28.6**	86.5

Reconciliation of Movement in Shareholders' Funds

	Group 31 December 2000 £'m	Company 31 December 2000 £'m	Group 31 December 1999 £'m	Company 31 December 1999 £'m
Profit attributable to shareholders	**28.1**	**(3.7)**	85.5	6.7
Dividends	**(0.1)**	-	-	-
	28.0	**(3.7)**	85.5	6.7
Other recognised gains and losses for the year	**0.5**	-	1.0	-
Proceeds on issue of equity share capital	-	-	-	-
Net increase in shareholders' funds	**28.5**	**(3.7)**	86.5	6.7
Opening shareholders' funds	**1,666.6**	**1,482.0**	1,580.1	1,475.3
Closing shareholders' funds	**1,695.1**	**1,478.3**	1,666.6	1,482.0

TXU EUROPE LIMITED

Balance Sheets at 31 December 2000

	Note	Group 31 December 2000 £'m	Company 31 December 2000 £'m	Group 31 December 1999 £'m	Company 31 December 1999 £'m
Fixed assets					
Intangible assets	*10*	3,507.3	-	2,905.0	-
Tangible assets	*11*	2,217.5	-	2,116.3	-
		5,724.8	-	5,021.3	-
Investments	*12*	538.3	2,911.8	396.7	2,895.1
Interests in joint ventures	*12*				
Share of gross assets		99.6	-	-	-
Share of gross liabilities		(84.1)	-	-	-
		15.5	-	-	-
		6,278.6	2,911.8	5,418.0	2,895.1
Current assets					
Stocks	*14*	72.1	-	122.0	-
Debtors – due within one year	*15(i)*	1,546.4	1,480.1	678.6	584.8
Debtors – due after one year	*15(i)*	909.5	-	617.9	-
Debtors subject to financing	*15(ii)*	164.0	-	223.9	-
Less: Non-recourse amount		(164.0)	-	(223.9)	-
		-	-	-	-
Investments	*12*	10.0	-	10.0	-
Short term deposits	*16*	1,005.9	-	644.0	-
Cash at bank and in hand		2.0	-	54.9	0.1
		3,545.9	1,480.1	2,127.4	584.9
Creditors (amounts falling due within one year)	*17*	(2,790.2)	(1,956.6)	(1,714.0)	(1,029.7)
Net current assets/(liabilities)		755.7	(476.5)	413.4	(444.8)
Total assets less current liabilities		7,034.3	2,435.3	5,831.4	2,450.3
Creditors (amounts falling due after more than one year)	*17*	(4,364.7)	(957.0)	(3,668.8)	(968.3)
Provisions for liabilities and charges	*19*	(737.2)	-	(252.2)	-
Net assets		1,932.4	1,478.3	1,910.4	1,482.0
Capital and reserves					
Called up share capital	*21*	1,467.2	1,467.2	1,467.2	1,467.2
Profit and loss account	*22*	227.9	11.1	199.4	14.8
Total shareholders' funds – equity	*28*	1695.1	1,478.3	1,666.6	1,482.0
Minority interests – equity		237.3	-	243.8	-
		1,932.4	1,478.3	1,910.4	1,482.0

The financial statements on pages 5 to 31 were approved by the Board of Directors on 6th August 2001 and signed on its behalf by:

Paul C. Marsh
Director

TXU EUROPE LIMITED

Consolidated Cash Flow Statement
For the Year Ended 31 December 2000

	Note	£'m	Year ended 31 December 2000 £'m	£'m	Year ended 31 December 1999 £'m
Net cash inflow from operating activities	29		598.4		288.0
Returns on investments and servicing of finance:					
Interest received		73.2		131.2	
Interest paid		(308.0)		(335.7)	
Interest element of finance lease repayments		(5.8)		(8.7)	
Income from fixed asset investments		8.7		15.5	
			(231.9)		(197.7)
Taxation			(27.1)		(31.2)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(299.3)		(418.3)	
Purchase of intangible fixed assets		(1.0)		(26.7)	
Purchase of fixed asset investments		(211.9)		(224.7)	
Receipts from sales of fixed assets		10.1		16.0	
Receipts from customers' contributions		22.4		45.2	
			(479.7)		(608.5)
					(549.4)
Acquisitions and disposals:					
Purchase of associated undertaking		(3.6)		(44.8)	
Purchase of interest in joint venture		(3.7)		(14.1)	
Purchase of subsidiaries		(4.9)		-	
Purchase of business		(314.8)		-	
Loan from joint venture		4.9		-	
Disposal of investments		51.7		-	
Disposal of associate		12.6		-	
Disposal of business		72.0		1.0	
			(185.8)		(57.9)
			(326.1)		(607.3)
Management of liquid resources:					
Sale of Short-term deposits (net)			(361.9)		136.8
Financing:					
				-	
Proceeds from other long term loans		698.8		1,412.9	
Proceeds from bond issue		629.7		1,010.1	
Increase in short term loans		472.5		(681.6)	
Repayment of bank loans		(1,080.3)		(1,373.6)	
Repayment of bonds		(60.5)		-	
Proceeds from sale and leaseback transactions		-		81.5	
Capital element of finance lease repayments		(25.1)		(8.0)	
			635.1		441.3
(Decrease)/increase in cash			(52.9)		(29.2)

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Consolidated Cash Flow Statement
For the Year Ended 31 December 2000

	Note	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Reconciliation of net cash flow to movement in net debt	*30*		
(Decrease)/Increase in cash in the year		**(52.9)**	(29.2)
Cash inflow from increase in debt and lease financing		**(635.1)**	(525.0)
Cash inflow / (outflow) from change in liquid resources		**361.9**	(136.8)
Change in net debt resulting from cash flows		**(326.1)**	(691.0)
Non-cash movements		**(42.7)**	(0.6)
Exchange differences		**(119.1)**	11.5
Movement in net debt in the year		**(487.9)**	(680.1)
Opening net debt		**(3,530.8)**	(2,850.7)
Closing net debt		**(4,018.7)**	(3,530.8)

1. Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention in accordance with applicable accounting standards and, except for the treatment of customers' contributions and traded derivatives which have been recorded at their mark-to-market values, 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."

Where necessary, comparative figures for last year have been restated to conform to the current year's disclosures.

Basis of consolidation

The results of subsidiaries are included in the consolidated financial statements from the date of acquisition. Shares in associated undertakings are accounted for under the equity method. Shares in joint ventures are accounted for under the gross 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.

Turnover

Turnover represents the value of electricity and gas sold and traded 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. Traded positions which have closed during the period or reported at their mark-to-market values are also included within turnover. Such amounts are disclosed in note 18.

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.

Certain intangible fixed assets, perpetual deeds of grant and similar licences, are not amortised since they have an indefinite life. They are subject to review for impairment.

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.

1. Accounting policies (continued)

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 lives on a straight-line basis. The lives of each major class of depreciable asset are as follows:

	Years
Electricity distribution system asset	50
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

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 50 year period. 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.

During the year, the Group changed its method of depreciation for electricity distribution system assets. Previously, depreciation was charged on a "tilted" basis of 3% per annum for the first 20 years, followed by 2% per annum for the remaining 20 years. Depreciation is now charged on a straight line basis over a period of 50 years. The change has been made to better recognise the cost of the assets over the anticipated useful life of the assets, reflecting the age profiles underlying the current assets maintenance strategy. The effect of the change is to reduce the depreciation charge by approximately £20m in the current year and by similar amounts on an ongoing basis.

Interest payable on borrowings related to financing the construction of fixed assets 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 asset. Interest capitalised is written off as part of total cost over the estimated useful life of the asset.

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

The Group uses a range of financial instruments (including derivatives), including interest rate and cross-currency swaps and energy based forward, future, swap and option contracts. Instruments are held for both hedging and trading purposes; trading activity is confined to energy-based contracts.

1. Accounting policies (continued)

Financial instruments held for hedging purposes.

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.

The premium or discount resulting from differences in 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.

Financial instruments held for trading purposes.

Financial instruments utilised in connection with trading activities are accounted for using the mark-to-market method. Financial instruments are carried at fair value on the balance sheet and the resulting gains and losses are included in revenues in the profit and loss account for the year.

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.

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 actuarial valuations, are similarly amortised over the average expected remaining working lives of employees. Differences between the amount funded and the amounts charged to profit and loss account are treated as either provisions or prepayments in the balance sheet.

Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence if the 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:

	Year ended 31 December 2000			Year ended 31 December 1999		
	Turnover £'m	Profit before interest £'m	Net Assets £'m	Turnover £'m	Profit before interest £'m	Net assets £'m
By activity:						
Energy	**4,547.6**	**282.6**	**2,260.0**	3,685.6	323.8	1,766.0
Networks	**530.0**	**232.3**	**1,248.3**	428.3	245.8	1,286.8
Continuing operations	**5,077.6**	**514.9**	**3,508.3**	4,113.9	569.6	3,052.8
Inter activity sales	**(220.3)**	-	-	(331.3)	-	-
Unallocated goodwill amortisation	-	**(148.2)**	**2,575.4**	-	(148.2)	2,723.6
Exceptionals – restructuring	-	**(78.7)**	**(39.8)**	-	(10.6)	(24.9)
Unallocated investment income	-	**6.7**	-	-	9.3	-
Unallocated profit on sale of fixed assets	-	**3.3**	-	-	-	-
Unallocated profit on sale of operations	-	**40.6**	-	-	-	-
Unallocated net assets	-	-	**572.0**	-	-	(181.2)
Unallocated net borrowings	-	-	**(4,655.9)**	-	-	(3,659.9)
Total	**4,857.3**	**338.6**	**1,960.0**	3,782.6	420.1	1,910.4
– **Group**	**4,681.8**	**332.5**	**1,944.6**	3,769.4	420.1	1,910.4
– **Joint ventures**	**175.5**	**6.1**	**15.4**	13.2	-	-

Exceptional restructuring and reorganisation costs include full provision for voluntary retirement and severance and arose primarily as a result of the creation of the 24seven joint venture and the outsourcing of customer services to Vertex.

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 2000 £'m	Profit before interest 2000 £'m	Net assets 2000 £'m	Turnover 1999 £'m	Profit before interest 1999 £'m	Net assets 1999 £'m
By geographical location and destination:						
United Kingdom	**4,559.1**	**306.5**	**1,940.1**	3,712.5	408.3	1,901.2
Rest of Europe	**298.2**	**32.1**	**19.9**	70.1	11.8	9.2
Total	**4,857.3**	**338.6**	**1,960.0**	3,782.6	420.1	1,910.4
– **Group**	**4,681.8**	**332.5**	**1,944.6**	3,769.4	420.1	1,910.4
– **Joint Ventures**	**175.5**	**6.1**	**15.4**	13.2	-	-

The above analysis includes profit before interest from Norweb (see note 13) within energy in the United Kingdom in 2000 of £18.8m.

3. Operating profit

The operating profit is stated after charging:	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Employment costs (note 4)	131.6	137.8
Depreciation (net of profits or losses on disposals):		
Owned assets	115.7	122.8
Finance lease assets	5.6	4.4
Amortisation of intangible assets	168.9	150.9
Research and development	0.1	1.4
Auditors' remuneration:		
Audit services	0.5	0.5
Non-audit services	1.5	0.7
Operating lease rentals – electricity generating stations	81.1	88.5

The audit fee in respect of the parent company was £20,000 (1999: £20,000).

Operating profit for the year to 31 December 1999 includes a charge of £28m in respect of revision of estimates of certain prior period items, within the energy business.

4. Employees

	Year ended 31 December 2000	Year ended 31 December 1999
Average number of employees including Directors:		
United Kingdom	4,231	6,225
Rest of Europe	575	504
	4,806	6,729

The total number of employees at 31 December 2000 was 3,263 (1999: 6,329).

The aggregate remuneration of employees, including Directors, comprised:

	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Wages and salaries	124.2	157.7
Social security costs	11.7	13.7
Other pension costs (note 23)	3.5	7.5
	139.4	178.9
Less: charged as capital expenditure	(7.8)	(41.1)
Charged to the profit and loss account	131.6	137.8

5. Directors' emoluments

The aggregate amount of emoluments paid to directors in respect of qualifying services is £ 1.3m (1999: £0.9m).

Two directors had retirement benefits accruing as at 31 December 2000 under a defined benefits scheme (1999 : 2).

The aggregate emoluments of the highest paid Director for the year ended 31 December 2000 were £799,000 (1999: £366,000) and his accrued pension at 31 December 2000 was £127,000 (1999: £84,000).

6. Income from fixed asset investments

	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Dividends from fixed asset investments	8.7	7.2
Gain on sale of investments	-	8.3
	8.7	15.5

7. Net interest

	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Interest payable and similar charges:		
On bank loans, overdrafts and other loans wholly repayable within five years	201.4	162.3
On long term loans (repayable in whole or in part after five years)	109.1	155.6
On finance leases	6.7	8.6
Other	25.8	22.2
On loans with ultimate parent company	3.6	10.5
Debt securitisation discount	19.5	18.7
Total group interest and similar charges payable	366.1	377.9
Less: amounts capitalised: group	(9.7)	-
Share of joint venture interest payable	0.8	-
Total interest and similar charges payable	357.2	377.9
Interest receivable and similar income:		
Interest receivable	(59.1)	(128.4)
Share of joint venture interest receivable	(1.8)	-
Total interest receivable and similar items	(59.9)	(128.4)
Net interest payable	296.3	249.5

8. Taxation

	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Taxation on profit on ordinary activities:		
United Kingdom		
Corporation tax at 30% (1999:31%)	27.6	67.2
Share of joint ventures	2.9	-
	30.5	67.2
Overseas taxation		
Corporation taxes	(11.4)	0.3
Share of joint ventures	0.9	-
Total (credit) / charge (all current)	20.0	67.5

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 reduced by £51.9m (1999: increase of £2.2m), being a reduction of £18.5m (1999: reduction of £4.1m) in respect of capital allowances in excess of depreciation and £33.4m (1999: £6.3m in respect of other timing differences (note 20).

9. Dividends

	Year ended 31 December 2000 £'m	Year ended 31 December 1999 £'m
Dividends paid to minority interests.	0.1	-

10. Intangible fixed assets – Group

	Goodwill £'m	Water rights £'m	Other £'m	Total £'m
Cost				
At 1 January 2000	2,999.6	147.6	-	3,147.2
Exchange movements	-	(1.4)	-	(1.4)
Additions	771.6	-	1.0	772.6
At 31 December 2000	**3,771.2**	**146.2**	**1.0**	**3,918.4**
Amortisation				
At 1 January 2000	239.5	2.7	-	242.2
Charge for the year	166.2	2.7	-	168.9
At 31 December 2000	**405.7**	**5.4**	-	**411.1**
Net book amount				
At 31 December 2000	**3,365.5**	**140.8**	**1.0**	**3,507.3**
At 31 December 1999	2,760.1	144.9	-	2,905.0

The water rights represent rights to power generated from hydro-electric power.

The goodwill arising during the year relates substantially to Norweb Energi (see note 13) and is being amortised over a period of 20 years. This is the period over which the Directors estimate that the value of the underlying business acquired expected to exceed the fair values of the underlying assets. In addition, TXU Europe acquired Nedalo BV for £4.5m, resulting in £2.9m of goodwill.

Other relates to perpetual deeds of grant and similar licences.

The Company has no intangible fixed assets.

11. Tangible fixed assets - Group

	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 2000	1,581.3	509.0	144.7	100.7	316.0	(355.1)	2,296.6
Exchange adjustments	-	2.3	-	-	-	-	2.3
Additions	136.6	80.5	-	2.6	81.0	(22.4)	278.3
Disposals	(1.1)	(3.7)	(10.3)	(9.8)	(57.8)	1.0	(74.3)
At 31 December 2000	**1,716.8**	**595.5**	**134.4**	**93.5**	**339.2**	**(376.5)**	**2,502.9**
Depreciation							
At 1 January 2000	91.9	22.9	8.1	3.4	72.4	(18.4)	180.3
Exchange adjustments	-	0.3	-	-	-	-	0.3
Disposals	-	-	-	(0.1)	(16.4)	-	(16.5)
Charge for the year	31.4	19.2	23.1	2.6	48.3	(3.3)	121.3
At 31 December 2000	**123.3**	**42.4**	**31.2**	**5.9**	**104.3**	**(21.7)**	**285.4**
Net book amount							
At 31 December 2000	**1,593.5**	**553.1**	**103.2**	**87.6**	**234.9**	**(354.8)**	**2,217.5**
At 31 December 1999	1,489.4	486.1	136.6	97.3	243.6	(336.7)	2,116.3

The company has no tangible fixed assets.

11. Tangible fixed assets - Group (continued)

(i) 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 2000	31 December 1999
	£'m	£'m
Freehold	**84.8**	95.5
Long leasehold	-	0.2
Short leasehold	**2.8**	1.6
	87.6	97.3

(ii) Tangible fixed assets include the following:	31 December 2000	31 December 1999
	£'m	£'m
Assets in the course of construction	**124.6**	72.3
Land not depreciated	**22.2**	22.4

(ii) **Assets held under finance lease agreements are as follows:**	Group 31 December 2000
Cost:	£'m
At 1 January and 31 December 2000	122.1
Acquisitions	-
At 31 December 2000	**122.1**
Depreciation:	
At 1 January 2000	7.7
Charge for the year	5.6
At 31 December 2000	**13.3**
Net book amount	
At 31 December 2000	**108.8**
At 31 December 1999	114.4

12. Investments

Fixed asset investments

	Unlisted Investments	Listed Investments	Associates & Joint Ventures	Group Total	Loans to Subsidiaries	Shares in Subsidiaries	Company Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2000	226.3	108.1	62.3	396.7	1,384.8	1,510.3	2,895.1
Exchange adjustments	2.5	7.4	0.3	10.2	-	-	-
Additions	8.6	203.3	22.3	234.2	16.7	-	16.7
Loans	-	-	(4.9)	(4.9)	-	-	-
Share of Profits retained	-	-	6.5	6.5	-	-	-
Disposals	(27.4)	(41.5)	(20.0)	(88.9)	-	-	-
At 31 December 2000	**210.0**	**277.3**	**66.5**	**553.8**	**1,401.5**	**1,510.3**	**2,911.8**

Market value of the Group's listed investments at 31 December was £272.7m (1999: £69.0m).

12. Investments (continued)

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 Natural Gas Ltd (TXU (UK) Holdings Ltd – from May 2001)	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	100
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 Europe Group plc	Holding company	England	100
TXU Europe Merchant Generation Limited	Coal station operations	England	100
TXU Europe Merchant Properties Limited	Coal station leasing	England	100
TXU Europe Natural Gas (Trading) Ltd	Gas purchase and wholesaling	England	100
TXU Europe Overseas Finance Limited	Investment in overseas projects	England	100
TXU Europe Energy Trading Limited	Energy portfolio management	England	100
TXU Europe Power Limited	Investment in generation projects	England	100
TXU Europe Power Services Ltd	Generating station services	England	100
TXU Europe Upstream 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%.

Name changes

TXU Europe Group's subsidiary, Eastern Power & Energy Trading Limited, was renamed TXU Europe Energy Trading Limited (TXU Europe Energy Trading) in January 2000.

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 2000 £'m	Group 31 December 1999 £'m
Unlisted	**10.0**	10.0

13. Acquisitions and disposals

(i) Norweb Energi

On 3 August 2000, TXU Europe announced its unconditional purchase of United Utilities plc's retail energy supply business, Norweb Energi (a division of Norweb plc) for £310m. Total consideration, including direct costs of the acquisition, was £340m. Financing was provided through existing bank lines and cash balances on hand. The transaction includes the assumption of certain of Norweb Energi's obligations, including its two power purchase agreements, which will be integrated into the Group's energy portfolio. The agreements provide for purchase of power by the Group at prices that are currently above market.

The agreement for the purchase of Norweb Energi includes the eventual transfer of the current Norweb plc Public Electricity Supply (PES) license-area customers (franchise or "in area" customers) and the transfer of Norweb plc's interest in the power purchase agreements to TXU Europe Group. TXU Europe expects contracts with Norweb plc PES customers to be in place under the Utilities Bill in 2001. Meanwhile, Norweb plc's economic interest in the franchise customers and power purchase agreements are effectively passed to Eastern Energy Limited (Eastern Energy, a subsidiary of TXU Europe Group) through an agency agreement. All of Norweb plc's "out-of-area" electricity and all gas customers were transferred to TXU Europe Group on 3 August 2000.

Also on 3 August 2000, TXU Europe announced that Eastern Energy had contracted its customer services functions to Vertex Data Science Limited (Vertex), United Utilities plc's customer services business. Customer services include call centers, billing, credit management and debt collection. Eastern Energy's 1,335 customer services staff transferred to Vertex on 1 September 2000.

The adjustments required to the book values of the assets and liabilities of Norweb Energi to present the net assets of those companies at fair values in accordance with group accounting principles were £487.3m, details of which are set out below. The purchase has been accounted for as an acquisition.

From the date of the acquisition to 31 December 2000, the Norweb Energi figures were £391.2m turnover, £310.1m cost of sales, £7.7m distribution costs, £54.6m administration expenses, £18.8m profit before interest and £6.6m profit after interest. Norweb Energi contributed £60.3m to the Group's net operating cash flows, paid £nil in respect of interest, £nil in respect of taxation and utilised £5.3m for capital expenditure.

In its last financial year to 31 March 2000, Norweb Energi made a profit after tax and minority interest of £35.6m. For the period since then to 30 June 2000 (the date closest to acquisition for which management accounts were prepared):

	£'m
Turnover	210
Operating profit	20
Profit before taxation	21
Taxation and minority interests	(7)
Profit attributable to shareholders and total recognised gains for the period	14

The book values of Norweb Energi, relevant fair value adjustments and resulting goodwill are set out below:

	Book value £'m	Adjustments £'m	Provisional fair value £'m
Fixed assets	7.0	(6.1)	0.9
Debtors	118.6	-	118.6
Creditors	(67.2)	-	(67.2)
Provisions for unfavourable contracts	-	(471.6)	(471.6)
Provisions for other exit costs	-	(9.6)	(9.6)
Net assets acquired	58.4	(487.3)	(428.9)
Goodwill	-	-	768.7
Consideration (including costs of acquisition)	-	-	339.8

Consideration satisfied by	£'m
Cash	314.8
Deferred consideration	25.0

13. Acquisitions and disposals (continued)

The book value of the assets and liabilities acquired have been taken from the management accounts of Norweb Energi, a division of Norweb plc, at 30 June 2000, as adjusted to 3 August 2000, the date of the acquisition. The fair value adjustments contain some provisional amounts, as indicated below, which will be finalised in the 2001 financial statements when the detailed acquisition investigation has been completed.

Fair value adjustments in respect of fixed assets comprise the valuation of certain information technology and other assets in the books of the Norweb Energi, together with the fair value of other assets acquired as part of the acquisition transaction.

Provisions for unfavourable contracts reflects adjustment to bring unfavourable energy purchase contracts assumed as part of the acquisition to appropriate market values at the date of the acquisition.

(ii) Stadtwerke Kiel AG

On 13 July 2000, TXU Europe announced it had agreed to buy 51% of Stadtwerke Kiel AG, a German municipal utility, for approximately £145m. The state parliament of Kiel unanimously approved the sale and approval was received from the European Union regulators. The closing of the acquisition was on 8 January 2001. The city government of Kiel, the state capital, retains the remaining 49% of the utility, which has approximately 250,000 gas and electricity customers, 175 megawatts of power generation and 2.7 billion cubic feet of gas storage capacity.

(iii) Severomoravska energetika a.s. (SME)

In August 2000, the Group disposed of its interest in SME, which had been accounted for under the cost method. The consideration for the sale was £51m, realising a pre-tax gain of approximately £10m.

(iv) Metering business

During the year, the Group disposed of its metering business for £36m in proceeds, realising a pre-tax gain of approximately £29m.

(v) Elbolaget (formerly Lund Eastern Energi)

In December 2000, the Group disposed of its 50% interest in Elbolaget. The consideration for the sale was £13m, resulting in a loss of £9m.

14. Stocks

	Group 31 December 2000 £'m	Group 31 December 1999 £'m
Raw materials and consumables	72.1	117.3
Work in progress	-	4.7
	72.1	122.0

15. Debtors

(i)	Group 31 December 2000 £'m	Company 31 December 2000 £'m	Group 31 December 1999 £'m	Company 31 December 1999 £'m
Amounts falling due within one year:				
Trade debtors	541.2	-	393.4	-
Amounts owed by group undertakings	-	1,479.9	-	550.6
Advance corporation tax recoverable	29.9	-	29.9	-
Other debtors	34.9	-	50.5	34.2
Mark to market assets	589.6	-	-	-
Prepayments and accrued income:				
Operating leases	93.7	-	71.6	-
Other	55.6	0.2	57.3	-
Unbilled consumption	201.5	-	75.9	-
	1,546.4	1,480.1	678.6	584.8

15. Debtors (continued)

(i)	Group 31 December 2000 £'m	Company 31 December 2000 £'m	Group 31 December 1999 £'m	Company 31 December 1999 £'m
Amounts falling due after more than one year:				
Prepayments and accrued income:				
Operating leases	593.8	-	510.5	-
Other	200.2	-	98.3	-
Mark to market assets	114.6	-	-	-
Other	0.9	-	9.1	-
	909.5	-	617.9	-

(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 £5.0m (31 December 1999: £76.0m) is shown in short term borrowings (Note 17).

16. Short term deposits

£351m of the short term deposits represents cash collateral against future operating lease rental commitments which fall to be settled by the Group in the period to 31 December 2006 (note 17(ii)).

17. Creditors

	Group 31 December 2000 £'m	Company 31 December 2000 £'m	Group 31 December 1999 £'m	Company 31 December 1999 £'m
Creditors (amounts falling due within one year):				
Bank loans, overdrafts, short term borrowings (unsecured)	818.2	186.2	661.3	-
Net obligations in respect of finance leases	13.7	-	16.2	-
Payments received on account	10.0	-	10.3	-
Trade creditors	658.6	-	525.3	-
Mark to market liabilities	573.0	-	-	-
Amounts owed to group undertakings	-	1,769.2	-	1,024.7
Amounts owed to ultimate parent company	51.9	0.2	49.0	-
Amounts owed to joint ventures and associates	77.7	-	-	-
Corporation tax	221.5	-	238.7	-
Other taxation and social security	4.8	-	5.5	-
Other creditors	40.7	0.3	92.0	-
Accruals and deferred income	320.1	0.7	115.7	5.0
	2,790.2	1,956.6	1,714.0	1,029.7

17. Creditors (continued)

		Group 31 December 2000 £'m	Company 31 December 2000 £'m	Group 31 December 1999 £'m	Company 31 December 1999 £'m
Creditors (amounts falling due after more than one year):					
Bonds (unsecured)	(i)	2,840.1	-	2,129.3	-
Bank loans (unsecured)	(ii)	1,068.3	957.0	1,180.8	968.3
Net obligations in respect of finances leases	(iii)	172.9	-	185.2	-
Other long term loans		123.4	-	66.9	-
Mark to market liabilities		76.8	-	-	-
Accruals and deferred income		83.2	-	106.6	-
		4,364.7	957.0	3,668.8	968.3

(i) The group has in issue £200m 8.5% bonds due 2025, £200m 8.75% bonds due 2012, £350m 8.375% bonds due 2004, £275m 7.25% bonds due 2030, £301m 7.875% bonds due 2005, US $200m (£134m) 7.425% guaranteed notes due 2017 and US $300m (£201m) 7.55% guaranteed notes due 2027, $350m (£234m) 6.15% exchange senior notes, due 2002, $650m (£435m) 6.45% exchange senior notes due 2005, $500m (£335m) 6.75% exchange senior notes due 2009, NOK 979m (£75m) 7.25% Norwegian Krona bonds due 2029 and NOK 316m (£24m) Norwegian Krona bonds due 2016 at average rates of 6.5%.

(ii) Bank loans fall due as follows:

	Group 31 December 2000 £'m	Company 31 December 2000 £'m	Group 31 December 1999 £'m	Company 31 December 1999 £'m
Between one and two years	5.8	-	214.4	968.3
Between two and five years	998.7	957.0	966.4	-
Over five years	63.8	-	-	-
	1,068.3	957.0	1,180.8	968.3

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 £1,097m. An amount of £190.1m remained outstanding at 31 December 2000 (1999: £420m). This amount was repaid on 19 January 2001 from funds available to the group at that time.

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

	Group 31 December 2000 £'m	Group 31 December 1999 £'m
Amounts falling due after more than one year:		
Amounts due between one and five years	46.4	67.8
Amounts due after five years	126.5	117.4
	172.9	185.2

17. 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	£234m	2002	6.15%
$650m	£435m	2005	6.45%
$500m	£335m	2009	6.75%
£750m		2003	7.46%
£350m		2004	8.375%
£200m		2025	8.5%
£200m		2012	8.75%
£275m		2030	7.25%
£301m		2005	7.875%
$200m	£134m	2017	7.425%
$300m	£201m	2027	7.55%
CzK700m	£12m	2005	10.8%
CzK900m	£16m	2002	7.35%
Nok 979m	£75m	2029	7.25%
Nok 18m	£1m	2016	7.85%
Nok 85m	£6m	2016	5.46%
Nok 98m	£8m	2016	6.45%
Nok 115m	£9m	2016	7.08%
Nok 300m	£23m	2003	6.98%
$150m	£95m		9.75%

18. 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 certain energy-based derivative contracts and the instruments the Group uses to hedge their risks, which are used for both hedging and trading purposes.

The Board, with the Group's Risk Management Committee, reviews and agrees policies managing each of the key risks:

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.

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 and electricity forward agreements, 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.

18. Derivatives and other financial instruments (continued)

In addition to financial instruments entered into for the purpose of hedging as described above, the Group enters into certain energy-based financial instruments (including derivatives) and other contracts for the purposes of trading. Unlike in the instance of contracts entered into for the purposes of hedging (described above), which are accounted for on a settlement basis, contracts entered into for trading purposes are accounted for on a market to market basis, as described in "Accounting Policies" above.

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

i) Interest rate risk profile of financial liabilities

The interest rate risk profile of financial liabilities of the Group at 31 December 2000 was as follows:

Currency	Fixed rate financial liabilities £'m		Floating rate financial liabilities £'m		Total £'m	
	2000	**1999**	**2000**	**1999**	**2000**	**1999**
Sterling	**3,747.4**	1,243.5	**453.7**	1,113.5	**4,201.1**	2357.0
Euro related	-	-	**518.1**	251.6	**518.1**	251.6
US dollar	**123.8**	1,246.5	-	27.8	**123.8**	1274.3
Other	**135.1**	159.0	**58.5**	121.8	**193.6**	280.8
Total	**4,006.3**	2,649.0	**1,030.3**	1,514.7	**5,036.6**	4163.7

Fixed rate financial liabilities

Currency	Weighted average interest rate %		Weighted average period for which rates are fixed Years	
	2000	**1999**	**2000**	**1999**
Sterling	**7.3**	8.1	**9.5**	9.4
Euro related	-	-	-	-
US dollar	**9.5**	6.7	**7.4**	11.0
Other	**7.3**	7.6	**14.2**	12.9
Total	**7.4**	7.5	**9.6**	10.4

The floating rate financial liabilities principally comprise:

- Various currency borrowings under a Sterling Credit Agreement, terminating on 2 March 2003, of approximately £360m equivalent under the revolving credit facility at a weighted average interest rate of 6.0%.
- Finance leases in Sterling with effective rates at 31 December 2000 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 2000 of 5.97%.
- Short-term borrowings collateralized by accounts receivable at an interest rate of 6.02%.
- Short-term facility, expiring 31 May 2001, for 250m euros at an interest rate of 5.78%, as bridge financing for the acquisition of PVO.
- Short-term borrowings under a revolving credit facility of £150m at an interest rate of 6.28%

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.

18. 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 2000 was as follows:

Currency	Other investments £'m		Cash at bank and in hand £'m		Short-term deposits £'m		Total £'m	
	2000	1999	2000	1999	2000	1999	2000	1999
Sterling	**10.0**	10.0	**2.0**	36.3	**986.1**	622.5	**998.1**	668.8
Euro related	-	-	-	3.7	-	-	-	3.7
US dollar	-	-	-	2.0	**14.1**	12.6	**14.1**	14.6
Other	-	-	-	12.9	**5.7**	8.9	**5.7**	21.8
Total	**10.0**	10.0	**2.0**	54.9	**1,005.9**	644.0	**1,017.9**	708.9
Floating rate	**10.0**	10.0	**2.0**	43.6	**655.0**	206.1	**667.0**	259.7
Fixed rate	-	-	-	11.3	**350.9**	437.9	**350.9**	449.2
On which no interest is paid	-	-	-	-	-	-	-	-
Total	**10.0**	10.0	**2.0**	54.9	**1,005.9**	644.0	**1,017.9**	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 2000, as a result of policies described elsewhere in Note 18, 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 2000 was as follows:

	2000 £'m	1999 £'m
In one year or less, or on demand	**831.9**	601.6
In more than one year but not more than two years	**273.9**	235.0
In more than two years but not more than five years	**2,148.1**	1,625.2
In more than five years	**1,782.7**	1,701.9
Total	**5,036.6**	4,163.7

(v) Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed borrowing level available from such facilities at 31 December 2000 in respect of which all conditions precedent had been met at that date are as follows:

	2000 £'m	1999 £'m
Expiring in one year or less	**360.0**	174.0
Expiring in more than one year but not more than two years	-	537.6
Expiring in more than two years	**688.3**	1,019.3
Total	**1,048.3**	1,730.9

18. Derivatives and other financial instruments (continued)

(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 2000.

	Book value £'m		Fair value £'m	
	2000	**1999**	**2000**	**1999**
Primary financial instruments held or used to finance the Group's operations:				
Short-term borrowings	**(832)**	(601)	**(832)**	(601)
Long-term borrowings	**(4,205)**	(3,563)	**(4,219)**	(3,633)
Cash deposits	**13**	55	**13**	55
Short term deposits	**995**	644	**995**	644
Other financial assets	**10**	10	**10**	10
Derivative financial instruments held to manage the interest rate, foreign currency and energy profile of the Group:				
Interest rate swaps	**-**	-	**(66)**	(51)
Currency swaps	**-**	-	**101**	(23)
Energy forward contracts	**(496)**	-	**(588)**	76

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

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 £'m	(Losses) £'m	Net gains/ (losses) £'m
Unrecognised gains and losses on hedges			
Unrecognised gains/(losses) on hedges at 1 January 2000	220.3	(218.7)	1.6
Gains/(losses) arising in previous years, recognised in the year	(24.4)	93.1	68.7
Gains/(losses) arising before 1 January 2000 not recognised in the year	195.9	(125.6)	70.3
Gains/(losses) arising in the year that were not recognised in the year	(22.3)	(104.6)	(126.9)
Unrecognised gains/(losses) at 31 December 2000	173.6	(230.2)	(56.6)
Of which:			
Gains/(losses) expected to be recognised in less than one year	8.2	(61.1)	(52.9)
Gains/(losses) expected to be recognised after more than one year	165.4	(169.1)	(3.7)

(vii) Trading activities

Electricity - During the year net gains of £50m were recognised from trading electricity commodity contracts or other derivatives. At 31 December 2000, the outstanding notional quantity of commodity instruments under contracts held for trading purposes was 29 TWh of electricity for periods to 2015. At 31 December 2000, the fair value of such instruments was £37m.

Gas - During the year net gains of £47m were recognised from trading gas commodity contracts or other derivatives. At 31 December 2000 the outstanding notional contract quantity of gas commodity instruments held for trading purposes was 1,589 million therms for periods to 2006. The fair value of such instruments at 31 December 2000 was £16m.

18. Derivatives and other financial instruments (continued)

Coal – During the year net gains of £3m were recognised from trading coal commodity contracts or other derivatives. At 31 December 2000 the outstanding notional quantity of commodity instruments under contracts held for trading purposes was 3.4 million tons of coal for periods to 2002. The fair value of such instruments at 31 December 2000 was £2m.

19. Provisions for liabilities and charges

	Restructuring and reorganisation	Pensions	Deferred tax (Note 20)	Onerous contracts	Other	Total
	£'m	£'m	£'m	£'m	£'m	£'m
1 January 2000	24.9	18.9	93.9	89.6	24.9	252.2
Charged to profit and loss account	42.5	5.3	-	-	9.9	57.7
Acquisitions	9.6	-	-	471.6	25.0	506.2
Released during the year	(0.4)	-	-	-	(0.8)	(1.2)
Applied during the year	(36.7)	(0.2)	-	(32.5)	(8.3)	(77.7)
Balance at 31 December 2000	**39.9**	**24.0**	**93.9**	**528.7**	**50.7**	**737.2**

As of 31 December 2000, 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.

(i) Restructuring and reorganisation

The restructuring and reorganisation provision arises from the creation of 24seven, the acquisition of Norweb Energi (see note 13) and certain other staff reorganisations. It also reflects amounts payable by the Group to the Electricity Supply Pension Scheme in connection with employees leaving the Group in previous years under voluntary severance and redundancy arrangements. Amounts are payable over a period of 5 years.

(ii) Pensions

The Group applies SSAP 24 "Accounting for pension costs" and the pension provision primarily arises from its application.

(iii) Onerous contracts

The Group holds provisions against various onerous contracts and contracts that have been attributed negative fair value under purchase accounting. These provisions are released to the profit and loss account, in the case of onerous contract provisions, once the presence of the onerous contract has been removed or a remaining contract has ceased to be onerous, or, in the case or purchase accounting provisions, over the life of the contract in a systematic fashion. The provision for onerous contracts relates primarily to provisions resulting from the acquisition of Norweb Energi (see note 13). Releases during the year include amounts released on the exit by the Group from take or pay obligations associated with North Sea gas assets.

(iv) Other provisions

Other includes provisions resulting from the acquisition of Norweb Energi (see note 13), insurance provisions and site restoration provisions.

20. Deferred taxation

The provision for deferred tax in note 19 comprises:

	Group 31 December 2000	Group 31 December 1999
	£'m	£'m
Other timing differences	**93.9**	93.9

20. Deferred taxation (continued)

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 2000 £'m	Group 31 December 1999 £'m
Capital allowances in excess of depreciation and other items	**265.6**	284.1
Other timing differences	**(65.7)**	(32.3)
	199.9	251.8

The Company has no provided or unprovided deferred tax balances.

21. Called up share capital

	Company 31 December 2000 US $m	Company 31 December 1999 US $m
Authorised:		
3,000 million ordinary shares of US $1	**3,000.0**	3,000.0
	£	**£**
Authorised:		
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.

	Company 31 December 2000 £'m	Company 31 December 1999 £'m
Called up, 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

22. Profit and loss account

	Group £'m	Company £'m
Balance at 1 January 2000	**199.4**	14.8
Currency differences on foreign net investment	**0.5**	-
Retained profit for the year	**28.0**	(3.7)
Balance at 31 December 2000	**227.9**	11.1

The Company's loss for the financial year was £3.7m (1999: profit £6.7m). 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 6th August 2001.

23. 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.

23. 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 £1,059.8m.

The total pension cost for the Group for the year was £3.5m (1999: £7.5m) and the pension provision held in the balance sheet of the Group accounts was £24.0m (1999: £18.9m).

24. Capital and other commitments

	Group 31 December 2000 £'m	Group 31 December 1999 £'m
(i) Capital commitments:		
In respect of contracts placed	**125.8**	122.9

(ii) Operating leases

At 31 December 2000 the Group was committed to making the following payments during the next year in respect of operating leases:

	Group 31 December 2000 £'m	Group 31 December 1999 £'m
Expiring within two to five years	**32.6**	32.8
Expiring after five years	**0.7**	-

The above operating lease commitments relate to coal-fired power stations. The Company had no operating lease commitments at the year end.

(iii) Investments

The Group'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 the Norwegian power pool, from which the Group will receive income.

(iv) Electricity purchase contracts

As at 31 December 2000, the Group's commitments made under long term electricity purchase contracts amounted to 142 TWh of electricity for periods to 2010.

(v) Gas "take or pay" contracts

As at 31 December 2000, the commitments under long term gas purchase contracts amounted to an estimated £ 0.6 billion covering periods up to 8 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.

(vi) 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 £318m in 2001, £346m in 2002, £373m in 2003, £389m in 2004, £389m in 2005 and £3.2 billion thereafter. In addition, TXU Europe Group will provide a £300m guarantee (declining over time), representing approximately one year's capacity payment, with the counterparty providing a £170m guarantee.

24. Capital and other commitments

(vii) Coal contracts

In November 1998, the Group agreed two coal purchase agreements with a supplier, supplementing the 12m tons the Group had previously contracted to take from said supplier between 1998 and 2001. The first agreement is for 21m tons in total between 1998 and 2003. The second agreement is for 21m tons in total between 2003 and 2009. Total committed purchases under these contracts were approximately £1.4 billion at 31 December 2000.

(viii) 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 £23m most of which falls due in 2001. Estimated capital expenditure on environment control facilities is £54m in 2001, £36m in 2002 and £9m in 2003. The Group has two other material commitments relating to outsourced operations being contracts with 24seven for the operations of its distribution systems and with Siemens Ltd for the provision of metering services.

25. Significant post balance sheet events

In February 2001, the Group sold its interest in Upstream Gas assets through the sale of TXU Europe Upstream Limited and its subsidiaries, for £138m. In addition the Group transferred its obligations under a gas purchase agreement from the Johnston Field.

As of 31 December 2000, the Group held, through a subsidiary, a 99-year lease over the land, buildings and plant at three power-stations. During the year ended 31 December 2000, the Group reached an agreement to prepay (with effect January 2001), in fixed amounts, future rentals linked to output levels from these stations that previously had been payable over periods to March 2003. In addition, an option was granted to the Group to bring forward the right to purchase freehold land, previously exercisable after 50 years of the lease. As at 31 December 2000, these leases continued to be accounted for as operating leases, according to the Group's accounting policies set out in note 1. Subsequent to the year-end (in January 2001) the Group exercised its option to purchase the freehold land.

In April 2001, the Group sold its interest in listed investments for £325m.

In July 2001, the Group completed the sale of its Rugeley generating station for approximately £200m. Cash received at closing was £67m with the remaining cash proceeds from the sale to be received in January 2002. A letter of credit has been received to cover the remaining cash proceeds.

26. Contingent liabilities

At 31 December 1999 the Group 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 17 (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 (Pension 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). The determination related to the use of the pension fund surplus resulting from the 31 March 1992 actuarial valuation of the National Grid section to meet certain costs arising from the payment of pensions on early retirement upon reorganisation or downsizing. This determination was 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 appealed this decision to the Court of Appeal, and judgement was received which endorsed the Pensions Ombudsman's determination that the corporation was not entitled to unilaterally deal with any surplus. National Grid appealed the decision to the House of Lords and, on 4 April 2001, the appeal was allowed. The House of Lords found that National Grid was entitled to use the surplus funds as they had done. As a result of the decision of the House of Lords, TXU Europe considers the likelihood of a claim of this nature being made against it to be remote.

In August 2000, the Spanish Stock Market Commission announced it was opening an investigation as to whether TXU Europe and Electrabel acted in concert over share purchases of Hidroelectrica del Cantabrico, SA 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 could last until February 2002. TXU Europe is unable to determine what impact there may be, if any, as a result of the investigation. TXU Europe believes there has been no violation of Spanish securities laws and is fully co-operating with the investigation.

27. Transactions and balances with related parties

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. In addition, items that have been eliminated on consolidation have, as permitted by Financial Reporting Standard 8, not been disclosed.

The company has a relationship with 24seven, a joint venture set up by TXU Europe Group plc and London Electricity plc. During the year the Company had related charges of £111.7m and related sales of £17.3m. At 31 December 2000 the Group owed 24seven £77.7m (see note 17).

28. Parent company and controlling party

The ultimate parent company and controlling party, 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.

29. Reconciliation of operating profit to net cash inflow from operating activities

	Year to 31 December 2000 £'m	Year to 31 December 1999 £'m
Operating profit	**262.4**	404.6
Depreciation and amortisation	**290.2**	278.1
Disposals	**46.2**	-
Movements in provisions	**(24.6)**	(205.1)
Decrease/ (increase) in stocks	**53.9**	19.2
Increase in debtors	**(1,035.3)**	(268.0)
Increase in creditors	**1,005.6**	59.2
Net cash inflow from operating activities	**598.4**	288.0

30. Analysis of net debt

	At 1 January 2000 £'m	Cash flow £'m	Non-cash movements £'m	Exchange differences £'m	At 31 December 2000 £'m
Cash at bank and in hand	54.9	(52.9)	-	-	**2.0**
		(52.9)			
Debt due within one year	(661.3)	35.2	(192.1)	-	**(818.2)**
Debt due after one year	(3,377.0)	(695.4)	159.7	(119.1)	**(4,031.8)**
Finance leases	(201.4)	25.1	(10.3)	-	**(186.6)**
		(635.1)			
Current asset investments	10.0	-	-	-	**10.0**
Other short term deposits	644.0	361.9	-	-	**1,005.9**
		361.9			
Total	(3,530.8)	(326.1)	(42.7)	(119.1)	**(4,018.7)**