

Eastern Energy Limited

Registration No. 3181389

EASTERN ENERGY LIMITED

REPORT AND ACCOUNTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 1998



REPORT OF THE DIRECTORS

The Directors submit their Report and Accounts for the nine months ended 31 December 1998.

Principal activities and business review

The Company undertakes the supply of electricity. There are no plans to change the nature of activities in the foreseeable future.

Change of accounting reference date

In order to align the financial year-end of the company with that of its ultimate parent company, TXU Corp., the directors have resolved to change the accounting reference date of the company from 31 March to 31 December and that the accounting period scheduled to have ended on 31 March 1999 shall be treated as having come to an end on 31 December 1998.

Results for the period

The accounts for the nine months ended 31 December 1998 shows a loss of £12,073,249 (year ended 31 March 1998 £4,703,601.) The Directors do not recommend the payment of a dividend and the loss has been taken to reserves.

Texas Utilities

On 19 May 1998 Texas Utilities Company announced that its offer for the Company's ultimate parent company, The Energy Group PLC, had been declared unconditional in all respects.

Millenium Compliance

The Year 2000 issue, which stems from computer programmes written using two digits rather than four to define applicable years, could result in processing faults on the change of the century, producing a wide range of consequences. In August 1996, Eastern Group 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projects are in the correction and testing stages with many of the older information technology systems having already been replaced by systems, which are Year 2000 compliant.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 the majority of business-critical work was completed by mid-1999.

Share capital

Details of movements in both the authorised and issued share capital are given in note 9 to the accounts on page 7.

REPORT OF THE DIRECTORS (Cont'd)

Directors

The Directors who served during the period were:

Mr. J.F. Devaney (Resigned 02.12.98)
Mr. P.C. Marsh

Mr J A Keohane was appointed as a Director of the Company on 1 January 1999, and resigned on 30 September 1999.

There were no reportable interests of the Directors in the shares of Texas Utilities Company (doing business as TXU Corp.) as at 31 December 1998. Advantage has been taken of paragraph 3 (1) of the Companies (Disclosure of Directors' Interests)(Exemptions) Regulations 1985.

Auditors

In order to align the external auditors of TXU Europe Limited and its subsidiaries with those of TXU Corp., and following discussions with the company's existing external auditors PricewaterhouseCoopers ("PwC"), a notice has been received from PwC formally tendering their resignation as the Company's auditors. The letter also contained a statement that there are no circumstances relating to the resignation which should be brought to the attention of the members or creditors of the company.

The Directors of the company have accepted the notice of resignation from PwC and having adopted the Elective Regime resolved that Deloitte & Touche be appointed as the company's auditors.

By order of the Board



P.A. Ellis
Secretary

26 October 1999

Registered Office: Wherstead Park, Wherstead, Ipswich, Suffolk, IP9 2AQ
Registered in England No. 3181389

PROFIT AND LOSS ACCOUNT

For the Period ended 31 December 1998

	Note	Period to 31.12.98	Year to 31.03.98
		£	£
Turnover	1	178,752	50,000
Cost of sales		<u>(194,881)</u>	<u>0</u>
Gross profit		(16,129)	50,000
Distribution costs		(910,515)	(734,084)
Administrative expenses		<u>(11,146,605)</u>	<u>(4,019,517)</u>
Operating loss	2,3	<u>(12,073,249)</u>	<u>(4,703,601)</u>
Loss on ordinary activities before taxation		(12,073,249)	(4,703,601)
Taxation	4	<u>0</u>	<u>0</u>
Loss for the financial period		<u>(12,073,249)</u>	<u>(4,703,601)</u>

There are no recognised gains or losses other than the profit shown above, which is reported on a historical cost basis.

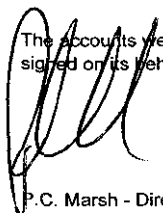
The results for the period relate wholly to continuing operations.

BALANCE SHEET

As at 31 December 1998

	Note	Period to 31.12.98	Year to 31.03.98
		£	£
Fixed assets			
Tangible assets	5	<u>18,832,405</u>	<u>10,005,341</u>
Current assets			
Debtors	6	<u>12,049,001</u>	<u>13,125,871</u>
		12,049,001	13,125,871
Creditors			
Amounts falling due within one year	7	(27,612,222)	(17,834,811)
Cash at bank and in hand		<u>(46,032)</u>	<u>-</u>
Net current (liabilities)		<u>(15,609,253)</u>	<u>(4,708,940)</u>
Net assets		<u>3,223,152</u>	<u>5,296,401</u>
Capital and reserves			
Called up share capital	9	20,000,002	10,000,002
Profit and loss account	10	(16,776,850)	(4,703,601)
Total shareholders' funds	11	<u>3,223,152</u>	<u>5,296,401</u>

The accounts were approved by the Board of Directors on 26 October 1999 and were signed on its behalf by:



P.C. Marsh - Director

NOTES TO THE ACCOUNTS

31 December 1998

1. Accounting policies

The accounts have been prepared under the historical cost accounting convention and accord with applicable accounting standards.

Cash flow statement

The Company, which is a wholly owned subsidiary, has elected to utilise the exemption provided in Financial Reporting Standard 1 (Revised) and not produce a cash flow statement.

Turnover

Turnover relates to activities conducted within the United Kingdom, exclusive of value added tax.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. The charge for depreciation is calculated to write off assets over their estimated useful lives as follows:

Fixtures and Equipment: 5 Years

Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation, using the liability method, is made to the extent that it is probable that the liability will crystallise in the foreseeable future. Deferred taxation assets are only recognised if recovery is reasonably certain.

2. Operating loss

	Period to 31.12.98 £	Year to 31.3.98 £
This is stated after charging :		
Auditors' remuneration	<u>2,000</u>	<u>2,000</u>

3. Directors and employees

Aggregate payroll costs during the period were as follows:

	Period to 31.12.98 £	Year to 31.3.98 £
Wages & salaries	2,346,480	482,053
Social security costs	195,318	41,364
Pension costs	<u>85,611</u>	<u>10,310</u>
	<u>2,627,409</u>	<u>533,727</u>

The average number of people employed by the Company (including Directors) during the period was 142.

No remuneration was paid to the Directors during the period.

NOTES TO THE ACCOUNTS (Cont'd)
31 December 1998

	Period to 31.12.98 £	Year to 31.3.98 £
4. Taxation		
UK corporation tax at 31%	<u>0</u>	<u>0</u>
5. Tangible fixed assets		
Cost		Fixtures and Equipment £
At 1 April 1998		10,005,341
Additions		<u>10,327,866</u>
At 31 December 1998		<u>20,333,207</u>
Depreciation		
At 1 April 1998		0
Charge for the year		<u>(1,500,802)</u>
At 31 December 1998		<u>(1,500,802)</u>
Net book amount		
At 1 April 1998		<u>10,005,341</u>
At 31 December 1998		<u>18,832,405</u>
6. Debtors	Period to 31.12.98 £	Year to 31.3.98 £
Amounts falling due within one year:		
Amounts owed by parent company	3,378,390	10,274,905
Other debtors	1,278,112	104,857
Prepayments and accrued income	<u>7,392,499</u>	<u>2,746,109</u>
	<u>12,049,001</u>	<u>13,125,871</u>
7. Creditors: amounts falling due within one year	Period to 31.12.98 £	Year to 31.3.98 £
Trade creditors	(268,772)	(208,195)
Amounts owed to group undertakings	(23,365,620)	(16,478,873)
Accruals and deferred income	<u>(3,977,830)</u>	<u>(1,147,743)</u>
	<u>(27,612,222)</u>	<u>(17,834,811)</u>

8. Provision for liabilities and charges

Deferred Taxation

At 31 December 1998 no provision for deferred tax is required (31 March 1998 Nil), there is an unprovided liability in respect of an excess of capital allowances over depreciation of £722,000 (31 March 1998 Nil).

NOTES TO THE ACCOUNTS (Cont'd)

31 December 1998

9. Called up share capital

	Period to 31.12.98 £	Year to 31.3.98 £
Authorised:		
20,000,002 ordinary shares of £1 each	<u>20,000,002</u>	<u>20,000,002</u>
Alotted and fully paid:		
20,000,002 ordinary shares of £1 each	<u>20,000,002</u>	<u>2</u>
Alotted and part paid:		
20,000,000 ordinary shares of £1 each (part paid at 50p each)	<u>0</u>	<u>10,000,000</u>

The authorised share capital was increased by ordinary resolution on 24 September 1997 from £100 to £20,000,002 and 20,000,000 shares were allotted to Eastern Group plc for a part payment consideration of 25p each on the 1 October 1997 and a further part payment of 25p each on 4 March 1998.

A final part payment consideration of 50p each was made on 24 June 1998.

10. Profit and loss account

	£
At 1 April 1998	(4,703,601)
Loss for the financial period	<u>(12,073,249)</u>
At 31 December 1998	<u>(16,776,850)</u>

11. Reconciliation of movement in shareholders' funds

	Period to 31.12.98 £	Year to 31.3.98 £
Loss for the financial period	(12,073,249)	(4,703,601)
Issue of shares	<u>10,000,000</u>	<u>10,000,000</u>
Net addition to shareholders' funds	<u>(2,073,249)</u>	<u>5,296,399</u>
Opening shareholders' funds	<u>5,296,401</u>	<u>2</u>
Closing shareholders' funds (all equity)	<u>3,223,152</u>	<u>5,296,401</u>

12. Parent company

The ultimate parent company and the parent undertaking of the largest group for which group accounts are prepared and of which the Company is a member is Texas Utilities Company (incorporated in the State of Texas, USA). The smallest group for which group accounts are prepared and of which the Company is a member is Eastern Group plc. These accounts can be obtained from the Company Secretary at Wherstead Park, Wherstead, Ipswich, Suffolk, IP9 2AQ.

13. Related party transactions

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by UK Company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1998. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking responsible steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT

To the Members of Eastern Energy Limited

We have audited the financial statements on pages 4 to 7 which have been prepared in accordance with the historical cost convention and the accounting policies set out on page 5.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described above 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 information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in 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.

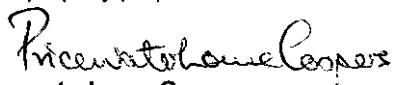
Basis of Opinion

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 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 the Company's affairs at 31 December 1998 and of its loss for the nine month period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
And Registered Auditors

1 Embankment Place
London
WC2N 6NN

26 October 1999