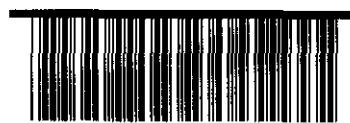


LONDON ELECTRICITY SERVICES LIMITED

Registered Number 2228168

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1999



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LONDON ELECTRICITY SERVICES LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999**

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Directors

Mr I R Beament (Appointed 24 March 1993)
Mr G L Wingrove (Appointed 3 August 1998)
Mr A T Norman (Appointed 31 May 1999)
Mr R Barnes (Resigned 31 May 1999)

Secretary

Mr R I Higson (Appointed 2 November 1998)

Registered Number

2228168

Auditors

Ernst & Young
Becket House, 1 Lambeth Palace Road, London SE1 7EU.

Registered Office

Templar House
81-87 High Holborn
LONDON
WC1V 6NU

LONDON ELECTRICITY SERVICES LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1999

The Directors present their report and the audited financial statements for the year ended 31 December 1999.

PRINCIPAL ACTIVITY

The Company's principal activity is to manage electricity distribution systems. It will continue in this activity for the foreseeable future.

RESULTS AND DIVIDEND

The profit for the financial year was £8,107,050 (for the financial year 1998: £8,288,032). Further information is contained in the financial statements appended to this report.

The Directors recommend that no dividend be paid this year.

FIXED ASSETS

Details of the movements in fixed assets during the year are shown in Note 10 to the financial statements.

DIRECTORS

Directors who held office during the year were as follows:-

Mr Ian Roger Beament (Appointed 24 March 1993)
Mr Gerald Langdon Wingrove (Appointed 3 August 1998)
Mr Angus Tindale Norman (Appointed 31 May 1999)
Mr Ronald Barnes (Resigned 31 May 1999)

The articles do not provide for the rotational retirement of Directors.

DIRECTORS' INTERESTS

None of the Directors have a service contract with the Company. They are all employed by the parent Company, London Electricity plc, and have service contracts with that Company.

There were no contracts of significance during or at the end of the financial year in which a Director of the Company was materially interested.

There are no particulars or arrangements requiring disclosure pursuant to section 232 of the Companies Act 1985.

DIRECTORS' SHAREHOLDINGS

No Director or any connected person has an interest in the shares of the Company.

CREDIT PAYMENT POLICY

The Company's current policy concerning the payment of the majority of its trade creditors and other suppliers is to:

- (a) settle the terms of payment with those creditors/suppliers when agreeing the terms of each transaction;
- (b) ensure that those creditors/suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception.

YEAR 2000

Many computer, digital storage and other systems express dates using only the last two digits of the year and thus require modification or replacement to function correctly for all dates before, during and after the Year 2000 and so avoid adverse safety, financial and operation consequences. This is a complex and pervasive issue. The operation of the company's business depends not only on its computer systems, but also to some degree on the extent to which the company's suppliers and customers are affected by Year 2000 related failures affecting their computer systems and businesses. This exposes the company to further risk in the event of a Year 2000 related failure affecting the company's suppliers and customers.

An extensive project, designed to address the risks associated with the Year 2000 date change on the company's business was undertaken by the company's parent undertaking, London Electricity plc. The programme incorporated not only in-house computer systems, but also included seeking confirmation from suppliers and customers on which the company's business operations depend to some degree.

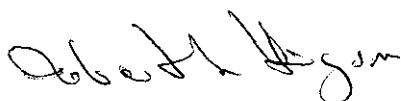
No Year 2000 related problems were experienced over the millenium weekend but, given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems, as yet unidentified, will remain. However, the Directors are confident that it will be able to provide resurces to deal promptly with any significant subsequent failures or issues that may arise.

AUDITORS

On 13 January 2000 PricewaterhouseCoopers resigned as auditors and Ernst & Young were appointed by the Board of Directors.

A resolution for the re-appointment of Ernst & Young as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board



R I Higson
Secretary

12 October 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The following statement sets out the responsibilities of the Directors in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF LONDON ELECTRICITY SERVICES LIMITED

We have audited the financial statements on pages 7 to 14 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 9 to 10.

Respective responsibilities of directors and auditors

As described on page 5 the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

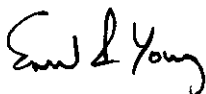
Basis of audit opinion

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 as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditors

London

19 October 2000

LONDON ELECTRICITY SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £	1998 £
Turnover	2	26,768,637	23,335,527
Cost of sales		(5,656,984)	(2,953,700)
Gross Profit		<u>21,111,653</u>	<u>20,381,827</u>
Operating expenses		(5,766,100)	(5,227,329)
Operating Profit	3	<u>15,345,553</u>	<u>15,154,498</u>
Interest receivable	6	550,174	618,082
Interest payable	7	(6,210,897)	(6,488,354)
Profit on ordinary activities before taxation		<u>9,684,830</u>	<u>9,284,226</u>
Tax on profit on ordinary activities	8	(1,577,780)	(996,194)
Retained Profit for the period	19	<u><u>8,107,050</u></u>	<u><u>8,288,032</u></u>

The results of the Company relate entirely to continuing operations.

There are no recognised gains or losses other than the profit for the financial year and therefore no separate statement of total recognised gains and losses has been presented.

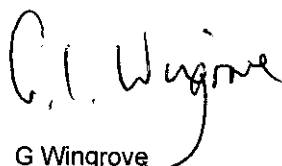
LONDON ELECTRICITY SERVICES LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 1999

	Notes	1999 £	1998 £
Fixed Assets			
Intangible Assets	9	1,204,921	1,270,645
Tangible assets	10	77,282,263	65,529,737
Investments	11	1,450,004	1,450,004
		<u>79,937,188</u>	<u>68,250,386</u>
Current Assets			
Stocks	12	452,656	132,832
Debtors	13	8,963,974	12,896,749
		<u>9,416,630</u>	<u>13,029,581</u>
Current Liabilities			
Amounts falling due within one year	14	(17,172,736)	(12,505,935)
Net Current (Liabilities) / Assets		<u>(7,756,106)</u>	<u>523,646</u>
Total assets less current liabilities		<u>72,181,082</u>	<u>68,774,032</u>
Creditors amounts falling due after more than one year	15	(64,200,000)	(68,900,000)
Net Assets / (Liabilities)		<u><u>7,981,082</u></u>	<u><u>(125,968)</u></u>
Capital and Reserves			
Share capital	17	10,100,000	10,100,000
Reserves			
Profit and loss account	18	(2,118,918)	(10,225,968)
Equity shareholders' funds	19	<u><u>7,981,082</u></u>	<u><u>(125,968)</u></u>

The financial statements on pages 7 to 14 were approved by the Board of Directors on 12 October 2000 and signed on its behalf by:


G Wingrove
Director

1. ACCOUNTING POLICIES

Accounting conventions

The financial statements have been prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards.

The Company is exempt from preparing a cash flow statement under the terms of Financial Reporting Standard 1 as it is a member of a group which produces publicly available financial statements.

The company has not prepared group accounts as it is a wholly owned subsidiary of a parent which publishes publicly available consolidated financial statements.

Turnover

Turnover arises entirely in the United Kingdom from the management of various electricity distribution systems and is stated exclusive of value added tax.

Pensions

Pension costs are charged to the profit and loss account so that they are spread over employees' working lives. Pension costs are assessed in accordance with the advice of qualified actuaries.

Tangible fixed assets

Where the Company acquires an existing distribution system assets are valued at their replacement cost. In other cases the cost of individual tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Where employees participate directly in the construction of assets staff costs are capitalised.

Depreciation is calculated so as to write off the cost of tangible fixed assets over their expected useful economic life. The straight line method is used. Assets are depreciated from the date of commission.

Lives of depreciable assets are as follows:

Operational assets	40 years
Non operational assets	
Fixtures and equipment	5 years
Vehicles	5 years
IT Equipment	3 years

Stocks

Stocks are stated at the lower of cost or net realisable value. The valuation of work in progress is based on the cost of labour and materials.

Goodwill

Goodwill represents the excess of purchase price over the fair value of separable net assets acquired.

Goodwill has been capitalised on the balance sheet and amortised over 20 years. This period of amortisation has been chosen as it is management's best estimate of the useful life of goodwill.

Deferred tax

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 is made for deferred taxation using the liability method only where it is anticipated to crystallise within the foreseeable future.

Leases

Rental costs under operating leases are charged to the profit and loss account in the year in which they are incurred.

2. TURNOVER

Turnover arises entirely in the United Kingdom.

3. OPERATING PROFIT

	1999 £	1998 £
Operating profit is stated after charging the following:		
Depreciation	1,834,121	1,899,502
Amortisation of goodwill	65,724	43,816
Loss on disposal of tangible fixed assets	-	10,601
Auditors' remuneration	8,000	8,500
Lease payments for Land & Buildings	196,577	190,242
Lease payments for vehicles	93,596	124,343

4. DIRECTORS' EMOLUMENTS

All the Directors are employees of London Electricity plc and did not receive any remuneration from the Company during the year.

5. EMPLOYEE INFORMATION

The average weekly number of persons (including executive directors) employed by the Company during the year was:

	1999 Number	1998 Number
Production	67	47
Administration	9	4
Total	<u>76</u>	<u>51</u>

Staff costs (for the above persons)

	1999 £	1998 £
Wages and salaries	2,117,782	1,603,379
Social security costs	181,668	132,216
Other pension costs (see note 20)	28,194	18,830
	<u>2,327,644</u>	<u>1,754,425</u>

6. INTEREST RECEIVABLE

	1999	1998
	£	£
Other interest receivable from London Electricity plc	<u>550,174</u>	<u>618,082</u>

7. INTEREST PAYABLE

	1999	1998
	£	£
Interest due on loan from London Electricity plc	<u>6,210,897</u>	<u>6,488,354</u>

8. TAXATION ON PROFITS ON ORDINARY ACTIVITIES

	1999	1998
	£	£
United Kingdom corporation tax at 30.25% (1998: 31%)	1,577,780	2,150,770
Less: Prior year adjustment	<u>-</u>	<u>(1,154,576)</u>
	<u>1,577,780</u>	<u>996,194</u>

Provision for deferred taxation is not required.

9. INTANGIBLE ASSETS

Goodwill

	£
Cost	
At 1 January 1999	1,314,461
Additions	-
At 31 December 1999	<u>1,314,461</u>

Amortisation

At 1 January 1999	43,816
Charge for the year	65,724
At 31 December 1999	<u>109,540</u>

Net Book Amounts

At 31 December 1999	<u>1,204,921</u>
At 31 December 1998	<u>1,270,645</u>

10. TANGIBLE ASSETS

	Network Assets £	Assets in the course of construction £	Vehicles £	Fixtures and equipment £	Total £
Cost					
As at 1 January 1999	69,034,026	4,210,083	6,275	1,008,737	74,259,121
Additions	7,143,104	6,428,261	-	15,282	13,586,647
Disposals	-	-	-	-	-
At 31 December 1999	<u>76,177,130</u>	<u>10,638,344</u>	<u>6,275</u>	<u>1,024,019</u>	<u>87,845,768</u>
Depreciation					
As at 1 January 1999	7,925,460	-	5,267	798,657	8,729,384
Charge for the period	1,750,892	-	275	82,954	1,834,121
Disposals	-	-	-	-	-
At 31 December 1999	<u>9,676,352</u>	<u>-</u>	<u>5,542</u>	<u>881,611</u>	<u>10,563,505</u>
At 31 December 1999	<u>66,500,778</u>	<u>10,638,344</u>	<u>733</u>	<u>142,408</u>	<u>77,282,263</u>
At 31 December 1998	<u>61,108,566</u>	<u>4,210,083</u>	<u>1,008</u>	<u>210,080</u>	<u>65,529,737</u>

11. INVESTMENTS

	1999	1998
	£	£
Investments in subsidiary companies at cost	<u>1,450,004</u>	<u>1,450,004</u>

Interest in subsidiaries

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares	Principal Activities
London Electricity Contracting Ltd	England & Wales	Ordinary £1 shares	100%	Electrical Contracting
London Electricity Transport Services Ltd	England & Wales	Ordinary £1 shares	100%	Transport Services

On 22nd May 2000, London Electricity Contracting Ltd was sold. See note 25.

12. STOCKS

	1999	1998
	£	£
Work in progress	<u>452,656</u>	<u>132,832</u>

13. DEBTORS

	1999	1998
	£	£
Amounts falling due within one year		
Trade debtors	407,006	357,235
Amount owed by London Electricity plc	7,380,058	12,242,609
Amounts owed by other group companies	39,954	72,736
Other debtors	8,929	4,891
Prepayments and accrued income	<u>1,128,027</u>	<u>219,278</u>
	<u>8,963,974</u>	<u>12,896,749</u>

14. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	1999	1998
	£	£
Trade creditors	390,428	7,608
Corporation Tax	2,965,373	2,150,770
Bank overdraft	551,169	49,292
Other taxation and social security	313,267	260,274
Amounts owed to subsidiary companies	205,447	15,271
Accruals and deferred income	2,419,338	1,295,006
On demand loan from London Electricity plc (see note 16)	5,627,714	5,627,714
Current instalments due on long term loans from London Electricity plc (see note 16)	<u>4,700,000</u>	<u>3,100,000</u>
	<u>17,172,736</u>	<u>12,505,935</u>

15. CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999	1998
	£	£
Loans from London Electricity plc (see note 16)	<u>64,200,000</u>	<u>68,900,000</u>

16. LOANS FROM LONDON ELECTRICITY PLC

The loans from London Electricity plc are to be repaid as follows:

	1999 £	1998 £
Repayable in less than one year	10,327,714	8,727,714
Repayable between two and five years	29,100,000	24,200,000
Repayable in over five years	35,100,000	44,700,000
	<u>74,527,714</u>	<u>77,627,714</u>

Details of loans not wholly repayable within five years are as follows:

8.25% loan repayable in varying annual instalments by March 2008	<u>68,900,000</u>	<u>72,000,000</u>
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17. SHARE CAPITAL

	1999 £	1998 £
Authorised		
15,000,000 Ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>
Allotted, called up and fully paid		
10,100,000 Ordinary shares of £1 each	<u>10,100,000</u>	<u>10,100,000</u>

18. RESERVES

	Profit and Loss Account 1999 £	Profit and Loss Account 1998 £
Balance at 1 January 1999	(10,225,968)	(18,514,000)
Retained profit for the year	8,107,050	8,288,032
Balance at 31 December 1999	<u>(2,118,918)</u>	<u>(10,225,968)</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Opening shareholders' funds	(125,968)	(8,414,000)
Profit for the year	8,107,050	8,288,032
Closing shareholders' funds	<u>7,981,082</u>	<u>(125,968)</u>

20. PENSIONS

Employees are members of the London Electricity Group segment of the Electricity Supply Pension Scheme (ESPS). The ESPS provides pensions and related benefits based on the final pensionable pay of employees. The assets of the scheme are held in a separate trustee administered fund.

The most recent formal actuarial valuation of the scheme was carried out at 31 March 1998 by Bacon and Woodrow, consulting actuaries. Details of the principal assumptions and the results of the valuation are included in the financial statements of London Electricity plc.

The pension charged for the period was as follows:

	£
Normal charge for the period	128,905
Less pension surplus credit	<u>(128,905)</u>
	<u>-</u>

In April 1994 the London Electricity Group set up a defined contribution pension scheme for new employees.

The pension charge for the period relating to that scheme was £28,194 (31 December 1998: £18,830).

21. CAPITAL COMMITMENTS

	1999	1998
	£	£
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>17,291,970</u>	<u>4,734,208</u>

22. FINANCIAL COMMITMENTS

At 31 December 1999 the Company had annual commitments under non-cancellable operating leases as follows:

	1999		1998	
	Land and Buildings	Other	Land and Buildings	Other
	£	£	£	£
Expiring within one year	-	48,351	-	34,091
Expiring between two and five years inclusive	-	71,816	-	81,426
Expiring over five years	196,806	-	196,048	-
	<u>196,806</u>	<u>120,167</u>	<u>196,048</u>	<u>115,517</u>

23. RELATED PARTIES

In accordance with FRS 8 (Related Parties) the company is exempt from disclosing transactions with entities that are part of the group or investees of the group qualifying as related parties, as it is a wholly owned subsidiary of a parent publishing consolidated Financial Statements.

24. PARENT COMPANY

At 31 December 1998 'Electricité de France' (EdF), a french state owned company is regarded by the directors as the company's ultimate parent company. Copies of that company's consolidated accounts may be obtained from Electricité de France, 2 Rue Louis Murat, 75384, Paris Cedex, France.

London Electricity plc holds a 100% interest in London Electricity Services Ltd and is considered to be the immediate parent company.

25. SUBSEQUENT EVENT

Subsequent to the year end the company has agreed to sell its subsidiary, London Electricity Contracting Limited ("LEC"), to Eastern Contracting (Holdings) Limited at a price related to the net assets of LEC as at 24 May 2000.