

LONDON ELECTRICITY SERVICES LIMITED

Registered Number 2228168

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998



LONDON ELECTRICITY SERVICES LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998**

Contents

Page:

3 - 4	Report of the Directors
5	Statement of Directors' Responsibilities
6	Report of the Auditors
7	Profit and Loss Account
8	Balance Sheet
9 - 14	Notes to the Financial Statements

Directors

Mr A V Towers (Resigned 3 August 1998)
Mr J V Turner (Resigned 31 March 1998)
Mr G L Wingrove (Appointed 3 August 1998)
Mr I R Beament
Mr R Barnes

Secretary

Mr R I Higson (Appointed 2 November 1998)
Mr A Whittaker (Resigned 2 November 1998)

Registered Number

2228168

Auditors

PricewaterhouseCoopers, 1 Embankment Place, London WC2N 6NN

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 1998

The Directors present their report and the audited financial statements for the year ended 31 December 1998.

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 financial statements comparatives cover a nine month period after the company changed its year end last year to 31 December.

The profit for the financial year was £8,288,032 (9 months to 31 December 1997: £5,478,061). 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 Alan Victor Towers (Resigned 3 August 1998)
Mr Gerald Langdon Wingrove (Appointed 3 August 1998)
Mr John Victor Turner (Resigned 31 March 1998)
Mr Ian Roger Beament
Mr Ronald Barnes

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.

YEAR 2000

The company's year 2000 compliance programme is well advanced.

We have implemented a detailed examination across our business initially to identify areas where we are not compliant, then to determine and prioritise the necessary action and finally to implement that action.

Compliance of our critical computer systems is planned to be completed by the end of March 1999, allowing sufficient time for testing.

The operation of our business also depends on the computer systems of our customers and our suppliers. We will be seeking assurances from third parties and we are planning contingency actions in key risk areas.

All expenditure on year 2000 modifications has been made by the Company's parent London Electricity Plc, therefore no significant expenditure has been required by London Electricity Services Ltd to ensure that the systems are year 2000 compliant.

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.

AUDITORS

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers as auditors.

By Order of the Board



R I Higson
Secretary

11 March 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The following statement sets out the responsibilities of the Directors in relation to the financial statements. It should be read in conjunction with the auditors report on page 6.

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;
- 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.

The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors consider that they have met their responsibilities as set out in this statement.

LONDON ELECTRICITY SERVICES LIMITED

AUDITORS REPORT TO THE MEMBERS OF LONDON ELECTRICITY SERVICES LIMITED

We have audited the financial statements on pages 7 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, as described on page 5 of 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 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 the Company's affairs at 31 December 1998 and of its profit for the twelve month period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
11 March 1999

LONDON ELECTRICITY SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

		12 Months 31 December 1998 £	9 Months 31 December 1997 £
	Notes		
Turnover	2	23,335,527	14,634,640
Cost of sales		(2,953,700)	(536,140)
Gross Profit		<u>20,381,827</u>	<u>14,098,500</u>
Operating expenses		(5,227,329)	(3,458,383)
Operating Profit	3	<u>15,154,498</u>	<u>10,640,117</u>
Interest receivable	6	618,082	327,429
Interest payable	7	(6,488,354)	(4,926,079)
Profit on ordinary activities before taxation		<u>9,284,226</u>	<u>6,041,467</u>
Tax on profit on ordinary activities	8	(996,194)	(563,406)
Retained Profit for the period	19	<u><u>8,288,032</u></u>	<u><u>5,478,061</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.

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

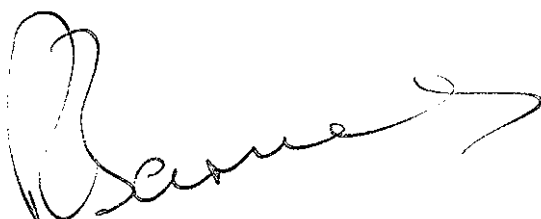
LONDON ELECTRICITY SERVICES LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 1998

	Notes	31 December 1998 £	31 December 1997 £
Fixed Assets			
Intangible Assets	9	1,270,645	-
Tangible assets	10	65,529,737	64,750,854
Investments	11	1,450,004	1,450,004
		<u>68,250,386</u>	<u>66,200,858</u>
Current Assets			
Stocks	12	132,832	227,722
Debtors	13	12,896,749	9,161,254
		<u>13,029,581</u>	<u>9,388,976</u>
Current Liabilities			
Amounts falling due within one year	14	(12,505,935)	(12,003,834)
Net Current Assets / Liabilities		<u>523,646</u>	<u>(2,614,858)</u>
Total assets less current liabilities		<u>68,774,032</u>	<u>63,586,000</u>
Creditors amounts falling due after more than one year	15	(68,900,000)	(72,000,000)
Net Liabilities		<u>(125,968)</u>	<u>(8,414,000)</u>
Capital and Reserves			
Share capital	17	10,100,000	10,100,000
Reserves			
Profit and loss account	18	(10,225,968)	(18,514,000)
Equity shareholders' funds	19	<u>(125,968)</u>	<u>(8,414,000)</u>

The financial statements on pages 7 to 14 were approved by the Board of Directors on 11 March 1999 and signed on its behalf by:



R Barnes
Director

LONDON ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. ACCOUNTING POLICIES

Accounting conventions

The financial statements have been prepared under the historical cost convention and comply 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.

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.

Prior to the financial year ended 31 December 1998 purchased goodwill was written off immediately against reserves.

However, in line with FRS10, goodwill acquired during the year ended 31 December 1998, as detailed in note 9, 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

	12 Months 31 Dec 1998	9 Months 31 Dec 1997
	£	£
Operating profit is stated after charging the following:		
Depreciation	1,899,502	1,401,480
Loss on disposal of tangible fixed assets	10,601	280,127
Auditors' remuneration	8,500	7,500
Lease payments for Land & Buildings	190,242	128,057
Lease payments for vehicles	<u>124,343</u>	<u>94,661</u>

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:

	12 Months 31 Dec 1998	9 Months 31 Dec 1997
	Number	Number
Production	47	40
Administration	<u>4</u>	<u>5</u>
Total	<u>51</u>	<u>45</u>

	12 Months 31 Dec 1998	9 Months 31 Dec 1997
	£	£
Staff costs (for the above persons)		
Wages and salaries	1,603,379	915,831
Social security costs	132,216	74,658
Other pension costs (see note 20)	<u>18,830</u>	<u>14,937</u>
	<u>1,754,425</u>	<u>1,005,426</u>

6. INTEREST RECEIVABLE

	12 Months 31 Dec 1998	9 Months 31 Dec 1997
	£	£
Other interest receivable from London Electricity plc	618,082	327,429

7. INTEREST PAYABLE

	12 Months 31 Dec 1998	9 Months 31 Dec 1997
	£	£
Interest due on loan from London Electricity plc	6,488,354	4,926,079

8. TAXATION ON PROFITS ON ORDINARY ACTIVITIES

	12 Months 31 Dec 1998	9 Months 31 Dec 1997
	£	£
United Kingdom corporation tax at 31% (31 Dec 1997: 31%)	2,150,770	1,154,576
Less: Prior years adjustment	(1,154,576)	(591,170)
	996,194	563,406

For the year ended 31 December 1998 the UK corporation tax charge was reduced by £0.8 million as a result of accelerated capital allowances. At 31 December 1998 there was no liability or potential liability for deferred tax.

9. INTANGIBLE ASSETS

Consideration was paid to BAA plc on 29 April 1998 for compensation for excess capital allowances which has given rise to goodwill.

	31 Dec 1998	31 Dec 1997
	£	£
Consideration paid to BAA for goodwill	1,314,461	-
Less: Amortisation of Goodwill	(43,816)	-
Balance of Goodwill 31 December 1998	1,270,645	-

10. FIXED ASSETS

	Network Assets £	Assets in the course of construction £	Vehicles £	Fixtures and equipment £	Total £
Cost					
As at 1 January 1998	66,560,581	4,059,693	4,900	957,054	71,582,228
Additions	2,485,538	150,390	1,375	51,683	2,688,986
Disposals	(12,093)	-	-	-	(12,093)
At 31 December 1998	69,034,026	4,210,083	6,275	1,008,737	74,259,121
Depreciation					
As at 1 January 1998	6,178,086	-	4,655	648,633	6,831,374
Charge for the period	1,748,866	-	612	150,024	1,899,502
Disposals	(1,492)	-	-	-	(1,492)
At 31 December 1998	7,925,460	-	5,267	798,657	8,729,384
At 31 March 1997	60,382,495	4,059,693	245	308,421	64,750,854
At 31 December 1998	61,108,566	4,210,083	1,008	210,080	65,529,737

11. INVESTMENTS

	31 Dec 1998	31 Dec 1997
	£	£
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

12. STOCKS

	31 Dec 1998	31 Dec 1997
	£	£
Work in progress	<u>132,832</u>	<u>227,722</u>

13. DEBTORS

	31 Dec 1998	31 Dec 1997
	£	£
Amounts falling due within one year		
Trade debtors	357,235	297,555
Amount owed by London Electricity plc	12,242,609	8,765,713
Amounts owed by other group companies	72,736	30,010
Other debtors	4,891	6,009
Prepayments and accrued income	219,278	61,967
	<u>12,896,749</u>	<u>9,161,254</u>

14. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	31 Dec 1998	31 Dec 1997
	£	£
Trade creditors	7,608	31,704
Corporation Tax	2,150,770	226,308
Bank overdraft	49,292	408,394
Other taxation and social security	260,274	295,426
Amounts owed to subsidiary companies	15,271	254,527
Accruals and deferred income	1,295,006	1,059,761
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)	3,100,000	4,100,000
	<u>12,505,935</u>	<u>12,003,834</u>

15. CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 Dec 1998 £	31 Dec 1997 £
Loans from London Electricity plc (see note 16)	<u>68,900,000</u>	<u>72,000,000</u>

16. LOANS FROM LONDON ELECTRICITY PLC

Details of the loans are as follows:

Principal £	Interest	Repayment Date
80,000,000	8.25%	31 March 2008
<u>5,627,714</u>	8.25%	On demand
<u>85,627,714</u>		

The remaining balances to be repaid are as follows:

	31 Dec 1998 £	31 Dec 1997 £
Repayable in less than one year	8,727,714	9,727,714
Repayable in over one year	<u>68,900,000</u>	<u>72,000,000</u>
	<u>77,627,714</u>	<u>81,727,714</u>

17. SHARE CAPITAL

	31 Dec 1998 £	31 Dec 1997 £
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 12 Months 31 Dec 1998 £	Profit and Loss Account 9 Months 31 Dec 1997 £
Balance at 1 January 1998	(18,514,000)	(23,992,061)
Retained profit for the year	<u>8,288,032</u>	<u>5,478,061</u>
Balance at 31 December 1998	<u>(10,225,968)</u>	<u>(18,514,000)</u>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 Dec 1998 £	31 Dec 1997 £
Opening shareholders' funds	(8,414,000)	(13,892,061)
Profit for the period	<u>8,288,032</u>	<u>5,478,061</u>
Closing shareholders' funds	<u>(125,968)</u>	<u>(8,414,000)</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 1995 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. A further formal valuation as at 31 March 1998 is in progress, although the results of this valuation have not yet been finalised.

The pension charged for the period was as follows:

	£
Normal charge for the period	130,082
Less pension surplus credit	<u>(130,082)</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 £18,830 (31 December 1997: £14,937).

21. CAPITAL COMMITMENTS

	31 Dec 1998	31 Dec 1997
	£	£
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>4,734,208</u>	<u>3,053,727</u>

22. FINANCIAL COMMITMENTS

At 31 December 1998 the Company had annual commitments under non-cancellable operating leases as follows:

	31 Dec 1998		31 Dec 1997	
	Land and Buildings	Other	Land and Buildings	Other
	£	£	£	£
Expiring within one year	-	34,091	-	37,389
Expiring between two and five years inclusive	-	81,426	-	99,307
Expiring over five years	196,048	-	195,565	-
	<u>196,048</u>	<u>115,517</u>	<u>195,565</u>	<u>136,696</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 state owned company of France was 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.