

LONDON ELECTRICITY SERVICES LIMITED

Registered Number 2228168

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2001



LONDON ELECTRICITY SERVICES LIMITED

**ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

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Directors

Mr K Morton
Mr P Cuttill
Mr A MacAskill

Secretary

Mr R I Higson

Registered Number

2228168

Auditors

Ernst & Young LLP
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 2001

The Directors present their report and the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITY AND FUTURE DEVELOPMENTS

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

On 28 December 2001 the investment in London Electricity Transport Services Ltd was transferred from London Electricity Services Ltd to London Electricity Group plc.

RESULTS AND DIVIDEND

The profit for the financial year was £3,000,842 (2000: £12,557,358). Further information is contained in the financial statements appended to this report.

The Directors recommend that no dividend should be paid this year.

FIXED ASSETS

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

DIRECTORS

Directors who held office during the year were as follows:

Mr Gerald L Wingrove (Resigned 30 September 2002)
Mr Angus T Norman (Resigned 1 January 2001)
Mr Kevin Morton (Appointed 1 January 2001)
Mr Paul Cuttill (Appointed 4 January 2001)
Mr Andrew MacAskill (Appointed 6 July 2001)

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

DIRECTORS' INTERESTS

One of the Directors has a service contract with the Company. The remaining directors are all employed by the parent Company, London Electricity Group 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.

The creditor days number for the financial year 2001 was 8 days.

LONDON ELECTRICITY SERVICES LIMITED

AUDITORS

On 28 June 2001, Ernst & Young transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. Ernst & Young LLP will be re-appointed as the Company's auditor in accordance with the elective resolution passed by the company under section 386 under Companies Act 1985.

By Order of the Board



R I Higson
Secretary

25 OCT 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 accounts 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.

LONDON ELECTRICITY SERVICES LIMITED

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF LONDON ELECTRICITY SERVICES LIMITED**

We have audited the company's financial statements for the year ended 31 December 2001 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a fair view and are properly prepared in accordance with the Companies Act 1985. 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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 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 accounts give a true and fair view of the state of affairs of the company as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



25 OCT 2002

Ernst & Young LLP
Registered Auditors
London

LONDON ELECTRICITY SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2001

	Notes	2001 £	Restated 2000 £
Turnover	2	25,341,873	23,771,323
Cost of sales		-	(2,047,946)
Gross profit		<u>25,341,873</u>	<u>21,723,377</u>
Operating expenses		(13,583,728)	(7,215,994)
Operating profit	3	<u>11,758,145</u>	<u>14,507,383</u>
Profit on disposal of fixed assets		-	663,000
Profit on ordinary activities before investment income, interest and taxation		<u>11,758,145</u>	<u>15,170,383</u>
Income from fixed asset investment		-	5,613,040
Interest receivable	6	9,396	262,367
Interest payable	7	(6,093,699)	(5,839,530)
Profit on ordinary activities before taxation		<u>5,673,842</u>	<u>15,206,260</u>
Tax on profit on ordinary activities	8	(2,673,000)	(2,648,902)
Retained profit for the year	19	<u><u>3,000,842</u></u>	<u><u>12,557,358</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 2001

	Notes	2001 £	2000 £
Fixed assets			
Intangible assets	9	1,073,473	1,139,197
Tangible assets	10	116,622,619	90,726,717
Investments	11	-	1,250,002
		<u>117,696,092</u>	<u>93,115,916</u>
Current assets			
Stocks	12	2,306,666	1,758,282
Debtors	13	4,541,592	8,788,755
		<u>6,848,258</u>	<u>10,547,037</u>
Current liabilities			
Amounts falling due within one year	14	(44,278,214)	(24,324,513)
Net current liabilities		<u>(37,429,956)</u>	<u>(13,777,476)</u>
Total assets less current liabilities		<u>80,266,136</u>	<u>79,338,440</u>
Creditors amounts falling due after more than one year	15	(52,600,000)	(58,800,000)
Provision for other liabilities and charges	17	(4,126,854)	-
Net assets		<u>23,539,282</u>	<u>20,538,440</u>
Capital and reserves			
Share capital	18	10,100,000	10,100,000
Reserves			
Profit and loss account	19	13,439,282	10,438,440
Equity shareholders' funds	20	<u>23,539,282</u>	<u>20,538,440</u>

The accounts on pages 6 to 13 were approved by the Board of Directors on and signed on its behalf by:

25 OCT 2002


Paul Cuttill
Director

LONDON ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

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 (FRS1 Revised) as it is a member of a group which produces publicly available accounts.

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

Accounting standards

The company has adopted Financial Reporting Standard No 18 (FRS 18) with effect for 1 January 2001 and has made the transitional disclosures required by the Financial Reporting Standard No 17 "Retirement Benefits" FRS 17. Adoption of FRS 18 has not had any effect on the results for the year or required any restatement of prior year comparatives.

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

Following the adoption of FRS15, the major components of network assets have been treated separately for depreciation purposes. Each class has been depreciated over its particular useful economic life rather than over the life of network as a whole.

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:	
Network assets excluding cable	30 years
Cable	50 years
Operational buildings leasehold	shorter of lease term or 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.

LONDON ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

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.

Fundamental accounting concept

The accounts have been prepared under the going concern concept because London Electricity Group Holdings plc, the parent company, has agreed to continue to support the company financially and not to recall amounts advanced to the company until the claims of all creditors have been met.

2. TURNOVER

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

3. OPERATING PROFIT

	2001 £	Restated 2000 £
Operating profit is stated after charging the following:		
Depreciation	3,242,105	2,054,365
Amortisation of goodwill	65,724	65,724
Auditors' remuneration	5,000	5,000
Lease payments for land & buildings	183,800	198,209
Lease payments for vehicles	178,871	136,788
Provisions in relation to warranty and indemnity claims on sale of LEC	4,126,854	-
Provision for debtors owed by LEC	1,373,146	-

4. DIRECTORS' EMOLUMENTS

Emoluments payable to the highest paid director are as follows:

	2001 £	2000 £
Aggregate emoluments	46,330	-

Other Directors are employees of London Electricity Group 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:

	2001 Number	2000 Number
Production	64	72
Administration	9	9
Total	73	81

	2001 £	2000 £
Staff costs (for the above persons)		
Wages and salaries	2,462,710	2,704,790
Social security costs	221,274	410,409
Other pension costs (see note 21)	185,099	58,743
	2,869,083	3,173,942

LONDON ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

6. INTEREST RECEIVABLE

	2001	2000
	£	£
Other interest receivable from London Electricity Group plc	<u>9,396</u>	<u>262,367</u>

7. INTEREST PAYABLE

	2001	2000
	£	£
Interest due on loan from London Electricity Group plc	<u>6,093,699</u>	<u>5,839,530</u>

8. TAXATION ON PROFITS ON ORDINARY ACTIVITIES

	2001	2000
	£	£
United Kingdom corporation tax at 30% (2000: 30%)	<u>2,673,000</u>	<u>2,648,902</u>

Provision for deferred taxation is not required.

9. INTANGIBLE ASSETS

Goodwill

	£
Cost	
At 1 January 2001	1,314,461
Additions	-
At 31 December 2001	<u>1,314,461</u>

Amortisation

	£
At 1 January 2001	175,264
Charge for the year	65,724
At 31 December 2001	<u>240,988</u>

Net Book Amounts

	£
At 31 December 2001	<u>1,073,473</u>
At 31 December 2000	<u>1,139,197</u>

10. TANGIBLE ASSETS

	Assets in the Network assets £	course of construction £	Vehicles £	Fixtures and equipment £	Total £
Cost					
As at 1 January 2001	77,179,655	25,098,719	6,275	1,059,938	103,344,587
Additions	3,627,580	25,575,520	-	48,105	29,251,205
Transfer to other group companies	(113,198)	-	-	-	(113,198)
Re-categorisation	(173,166)	730,076	-	(556,910)	-
Disposals	-	-	-	-	-
At 31 December 2001	<u>80,520,871</u>	<u>51,404,315</u>	<u>6,275</u>	<u>551,133</u>	<u>132,482,594</u>
Depreciation					
As at 1 January 2001	11,676,197	-	5,817	935,856	12,617,870
Charge for the period	3,211,630	-	458	30,017	3,242,105
Re-categorisation	472,915	-	-	(472,915)	-
Disposals	-	-	-	-	-
At 31 December 2001	<u>15,360,742</u>	<u>-</u>	<u>6,275</u>	<u>492,958</u>	<u>15,859,975</u>
At 31 December 2001	<u>65,160,129</u>	<u>51,404,315</u>	<u>-</u>	<u>58,175</u>	<u>116,622,619</u>
At 31 December 2000	<u>65,503,458</u>	<u>25,098,719</u>	<u>458</u>	<u>124,082</u>	<u>90,726,717</u>

LONDON ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

11. INVESTMENTS

On 28 December 2001 the investment in London Electricity Transport Services Ltd was transferred from London Electricity Services Ltd to London Electricity Group plc.

	2001	2000
	£	£
Investments in subsidiary companies at cost	-	1,250,002

12. STOCKS

	2001	2000
	£	£
Work in progress	2,306,666	1,758,282

13. DEBTORS

	2001	2000
	£	£
Amounts falling due within one year		
Trade debtors	2,560,403	969,033
Amount owed by London Electricity Group plc	1,250,002	621,772
Dividend retentions	-	713,043
Amounts owed by other group companies	124,865	2,074,750
Other taxation and social security	-	273,060
Other debtors	540,359	3,718,052
Prepayments and accrued income	65,963	419,045
	<u>4,541,592</u>	<u>8,788,755</u>

14. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	2001	2000
	£	£
Trade creditors	807,941	717,988
Corporation taxation	1,325,750	4,335,714
Bank overdraft	23,679,132	4,255,978
Other taxation and social security	185,250	-
Amounts owed to London Electricity Group plc	2,045,746	-
Amounts owed to other group companies	30,658	730,076
Accruals and deferred income	4,376,023	3,257,043
On demand loan from London Electricity Group plc (see note 16)	5,627,714	5,627,714
Current instalments due on long term loans from London Electricity Group plc (see note 16)	6,200,000	5,400,000
	<u>44,278,214</u>	<u>24,324,513</u>

15. CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001	2000
	£	£
Loans from London Electricity Group plc (see note 16)	52,600,000	58,800,000
	<u>52,600,000</u>	<u>58,800,000</u>

LONDON ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

16. LOANS FROM LONDON ELECTRICITY GROUP PLC

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

	2001 £	2000 £
Repayable in one year or less, or on demand	11,827,714	11,027,714
Repayable in more than one year, but not more than two years	7,900,000	6,200,000
Repayable in more than two years, but not more than five years	38,100,000	36,100,000
Repayable in more than five years	6,600,000	16,500,000
	<u>64,427,714</u>	<u>69,827,714</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>58,800,000</u>	<u>64,200,000</u>
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17. PROVISION FOR OTHER LIABILITIES AND CHARGES

The provision of £4,126,854 is the current estimate of the potential liabilities which may crystallise within London Electricity Services Ltd as a result of the sale of London Electricity Contracting Ltd in May 2000.

	2001	2000
At 1 January 2001	-	-
Amounts incurred	4,126,854	-
At 31 December 2001	<u>4,126,854</u>	<u>-</u>

18. SHARE CAPITAL

	2001 £	2000 £
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>

19. RESERVES

	Profit and Loss Account 2001 £	Profit and Loss Account 2000 £
Balance at 1 January 2000	10,438,440	(2,118,918)
Retained profit for the year	3,000,842	12,557,358
Balance at 31 December 2000	<u>13,439,282</u>	<u>10,438,440</u>

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £	2000 £
Opening shareholders' funds	20,538,440	7,981,082
Profit for the year	3,000,842	12,557,358
Closing shareholders' funds	<u>23,539,282</u>	<u>20,538,440</u>

21. 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 Group plc.

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 the schemes was £185,099 (31 December 2000: £58,743).

LONDON ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

22. DEFERRED TAXATION

Potential deferred taxation not provided:

	2001 £	2000 £
Accelerated capital allowances	<u>14,400,000</u>	<u>13,500,000</u>

Total potential deferred taxation is computed at a corporation tax rate of 30%.

23. CAPITAL COMMITMENTS

	2001 £	2000 £
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>75,820,000</u>	<u>48,607,588</u>

24. FINANCIAL COMMITMENTS

At 31 December 2001 the Company had annual commitments under non-cancellable operating leases as follows:

	2001 Land and Buildings £	Other £	2000 Land and Buildings £	Other £
Expiring within one year	-	14,004	-	64,732
Expiring between two and five years inclusive	170,996	161,976	-	86,028
Expiring over five years	<u>46,454</u>	<u>4,128</u>	<u>201,409</u>	<u>-</u>
	<u>217,450</u>	<u>180,108</u>	<u>201,409</u>	<u>150,760</u>

25. 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 accounts.

26. PARENT COMPANY

At 31 December 2001 '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, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France. London Electricity Group plc holds a 100% interest in London Electricity Services Ltd and is considered to be the immediate parent company.