LEgroup

an EDF company

LONDON ELECTRICITY GROUP PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2002

Registered Number 2366852

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Directors

Michel Crémieux (Chairman)
Vincent de Rivaz (Chief Executive)
Ian R Beament
Gérard Creuzet
Yann Laroche
Anne le Lorier

Secretary

Robert Ian Higson

Auditors

Ernst & Young LLP
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London
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Registered Office

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81-87 High Holborn
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DIRECTORS' REPORT

The directors present their report and audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activities of London Electricity Group plc (the "Group") throughout the year were the licensed distribution of electricity, the supply of electricity and gas to commercial, residential and industrial customers, the provision of services relating to energy, including purchasing for power generation, the generation of electricity and the operation of private distribution networks.

Results and dividends

The profit for the year, before taxation, amounted to £203.1 million (2001:£111.4 million) and after taxation to £151.7 million (2001:£97.8 million restated). Dividends totalled £88.0 million for the year (2001:£60.0 million).

Review of the business and future developments

During 2002, London Electricity Group plc made three significant acquisitions. On 18 January 2002, the Group purchased TXU Europe Group plc's UK distribution network and a further 50% stake in 24seven Utility Services Ltd (which maintains the electricity distribution network in London and East Anglia) so that it is now a wholly owned subsidiary of the LE Group. On 29 July 2002, the Group acquired the SEEBOARD group of companies including the electricity distribution network in the South East of England, its electricity and gas retail business and private asset management interests.

The acquisitions have increased the Group's market share considerably and the Group is now the largest distributor of electricity in the UK. The directors believe that these acquisitions, combined with the Group's existing portfolio of companies, has created a group with the right balance between generation, distribution and retailing in the current energy market.

Details of significant events since the balance sheet date are contained in note 32 to the financial statements.

Distribution

On 18 January 2002, London Electricity Group plc bought TXU Europe Group plc's UK distribution network and its 50 per cent interest in 24seven Utility Services. The acquired distribution business was renamed EPN Distribution Ltd and 24seven Utility Services Ltd became a wholly owned subsidiary.

EPN Distribution Ltd's distribution business is the largest in the UK and consists of the assets and wires that deliver electricity through a 90,000km network in East Anglia.

On 29 July 2002, London Electricity Group plc bought SEEBOARD Power Networks plc (SPN) as part of the acquisition of the SEEBOARD group of companies from American Electric Power Company Inc. SPN owns and maintains the electricity distribution network in the South East of England.

The above two networks together with the London Power Network's (LPN) represent the largest electricity distribution network business in the UK with 21% of the UK regulatory asset base and 7.5 million customer connections.

Retail

Following the acquisition of the SEEBOARD group, London Electricity Group plc is one of the leading energy suppliers in the UK. It has 5.2 million customer accounts, 10% of the UK retail energy market, with three key brands: London Electricity, SEEBOARD and SWEB. Though traditionally operating in the London area, the South East and the South West of England, energy is now sold by these brands to the whole country. The significant number of customer accounts provides a solid base from which to retain and acquire customers in a competitive environment.

DIRECTORS' REPORT Continued

Generation

The Group owns West Burton and Cottam Power coal fired power stations in Nottinghamshire, and Sutton Bridge, the gas fired power station in Lincolnshire. The Group also has equity interests in Medway Power in Kent and Barking Power in Essex. Total generation from these interests represents some 7% of the UK generation market (5.2GW).

The power stations have operated efficiently during the year and represent a good mix between coal and gas generation. The electricity generated also represents an excellent balance with the electricity demand from our domestic and small business customers. The energy procurement function also had a successful year in managing the energy requirements for the Group.

The Group continues to invest in environmental improvements, such as the gas de-sulphurisation at the coal plants, and in wind farm technology.

Directors and their interests

Directors who held office during the year were as follows:

Michel Crémieux (Chairman) (NE)	Appointed 7 May 2003
Vincent de Rivaz (Chief Executive) (E)	Appointed 7 February 2002
Bo Källstrand (Chairman) (NE)	Appointed 7 February 2002, resigned 25 February 2003
Bruno Lescoeur (Chairman & Chief Executive) (E)	Resigned 7 February 2002
Ian R Beament (NE)	
Marc G P Boudier (NE)	Resigned 7 February 2002
Bernard Cottrant (E)	Resigned 28 April 2003
Gérard Creuzet (NE)	Appointed 7 May 2003
Paul A Cuttill (E)	Resigned 7 May 2003
Michel Francony (NE)	Resigned 7 May 2003
Yann Laroche (NE)	Appointed 7 May 2003
Anne le Lorier (NE)	Appointed 7 May 2003
Philippe Roblique (NE)	Resigned 28 April 2003
Gerald L Wingrove (E)	Resigned 30 September 2002

(E) – Executive director
(NE) – Non executive director

No contract or arrangement has been entered into at any time during the period or subsisted at the end of the period in which any director had a material interest which was significant in relation to the Group's business.

None of the directors who held office at the end of the financial period had an interest in the shares of the Company or any other Group company.

DIRECTORS' REPORT Continued

Political and charitable contributions

During the year, the Company made no political contributions (2001:£nil) and various charitable contributions totalling £1,229,593 (2001:£965,990).

Research and development

The Group undertakes a programme of research covering operational efficiency, customer service and environmental impact in conjunction with EA Technology Limited at Capenhurst. ERA Technology and the National Grid Research Laboratories, both at Leatherhead, also carry out research work for the Group whilst product development work for specific Group requirements is addressed in conjunction with a number of suppliers.

Differences between market and balance sheet value of land

Land and buildings (including Network property assets) are carried in the balance sheet at a net book value of £195.3 million. The directors consider the current market value of land and buildings is significantly in excess of this amount.

Creditors payment policy

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

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

The payment policy applies to all payments to creditors or suppliers for revenue and capital supplies of goods and services without exception. At 31 December 2002, the Company had an average of 22 days purchases outstanding in trade creditors.

Employees

The Group is fully committed to ensuring that all current and potential future employees and customers are treated fairly and equally, regardless of their gender, marital status, disability, race, colour, nationality or ethnic origin in accordance with the appropriate legislation and Government guidelines. The Group provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities. In the event of employees becoming disabled during employment, where possible, assistance and retraining is given so that they may attain positions compatible with their ability.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting their employment and on the various factors affecting the performance of the Group.

The Group's policies and procedures relating to Health and Safety at work continued to exceed the requirements of current legislation and are kept under constant review to ensure a safe and healthy working environment for all employees.

DIRECTORS' REPORT Continued

Going concern

The accounts have been prepared on the going concern basis. The directors are satisfied that the Company and Group have adequate resources to continue in operational existence for the foreseeable future.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Group's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board

Robert Ian Higson

Robert Ian Higson
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF 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 the Group and of the profit or loss of the Group 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 Group 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 Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT ON CORPORATE GOVERNANCE

Statement of compliance

The Combined Code introduced a requirement for listed companies that the effectiveness of the system of internal control, including financial, operational, compliance controls, and risk management, is reviewed by the directors. In addition, the Internal Control: Guidance for Directors on the Combined Code (the Turnbull Report) was published in September 1999, to provide guidance to directors in respect of this requirement.

London Electricity Group plc supports the principles set out in the Turnbull Committee Guidelines on risk management. Since London Electricity Group plc is a subsidiary of EDF there is no statutory compliance obligation to comply. However, the Board of directors has decided to adopt the Turnbull Committee Guidelines and is committed to complying with these as best practice on a voluntary basis.

The Group's risk and control framework is being reviewed and will be updated during 2003 to reflect the changes to the Group announced in September 2002 following the acquisition of SEEBOARD. The Group has recently established separate Risk Assurance and Process Assurance functions in the Corporate branch. These report to the Director of Business Performance and to the Director, Technology and Business Performance.

Internal Control

The Board (through the Audit Committee) is responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate, the risk of failure to achieve business objectives.

The key elements of the Group's system of internal control include:

Risk identification and control

The Head of Risk Assurance is responsible for maintaining an oversight of Group risk management, working closely with the branches and other corporate functions to ensure that their risk management activities compliment each other, and enhance the overall Group position. The objectives are to provide assurance that management of risks is effectively managed and embedded in day to day activities, that risk management activity has sufficient visibility and that there is transparency around decision making processes.

The Head of Process Assurance is responsible for defining the Group quality assurance structure and policies and developing a consistent approach to quality within the Group.

The main interfaces are between Internal Audit and Risk Assurance whereby Risk Assurance will be primarily responsible for ensuring the identification of risks and their mitigation and Internal Audit will be responsible for review of the mechanisms that provide assurance.

Specific Risk Management Committees have been established where required and operate to address specific risk areas including energy trading risk and the distribution operations business carried out by 24seven Utility Services Ltd.

REPORT ON CORPORATE GOVERNANCE Continued

Control environment

The Group is committed to the highest standard of business conduct. The Group is appropriately structured according to business areas, which allows for the effective operations to achieve Group objectives. Lines of responsibility and levels of authority are formally documented.

Control activities

Control procedures have been implemented throughout the Group and are designed to ensure complete and accurate accounting for financial transactions and to safeguard the Group's assets. There are control processes to establish budgets, financial and service targets in each business unit/subsidiary against which performance is monitored in detail and agreements under which relationships with partners in joint ventures are controlled. High level reporting is made by business units/subsidiaries and functional heads at corporate level to the Group Executive Committee and the Board. The Group Executive Committee defines authority given to individual officers of the Group. The Committee also approves the operating plan and budget, authorises individual projects within that plan and approves the award of contracts either directly or by delegated authority within agreed limits. Membership of the Committee comprises the Group Chief Executive Officer, Branch Chief Operating Officers and Corporate Directors.

Information and communication

Staff policies are in place to ensure that employees are competent, have appropriate skills and receive information required to effectively perform their roles. The Group's Intranet is widely used to communicate information to staff.

Monitoring and corrective action

Group performance is continually monitored. Branch Chief Operating Officers and Managing Directors report regularly on operating performance.

The Audit Committee is a sub-committee of the Board with advisory responsibility for issues related to Corporate Governance, risk and control. This covers all aspects of risk management and the system of internal control including both financial and operational controls. The scope includes all London Electricity Group companies but ultimate responsibility remains with the Board. Membership includes the Chairman, Chief Executive Officer, the non-executive director and appointed non-executive representatives from EDF.

The Group Internal Audit department reviews the operation of internal controls using a risk-based methodology. The Head of Internal Audit reports to the Director of Business Performance and to the Director, Technology and Business Performance. The Group Internal Audit department reports quarterly to the Group Executive Committee and half yearly to the Audit Committee. Assignments are determined by reference to the risk and control framework and discussions with senior management including members of the Group Executive Committee.

Effectiveness review

The Group is continuously making improvements to the system of internal control. This specific effectiveness review forms part of that system. Following the significant changes in the Group arising from the acquisitions during the year there will be a review of risk management and internal control within the Group. This will

REPORT ON CORPORATE GOVERNANCE Continued

combine the best elements of culture and process from the component parts of the Group. The review will take due account of the criteria established in the Turnbull guidelines.

These criteria are:
- internal control should be truly risk based,
- control characteristics should be a core philosophy across the organisation,
- mechanisms should be in place to give the Board assurance in relation to how key risks are assessed and managed,
- the Board is actively involved in reviewing the effectiveness of the system.

Material weaknesses

Significant weaknesses in internal control are reported to the Group Executive Committee and, if appropriate, to the Audit Committee.

Weaknesses in the processes of new domestic customer acquisition have resulted in regulatory fines being imposed on the Group. Wide-ranging actions have been taken to improve processes in this area. This will be subject to ongoing review during 2003 to determine the effectiveness of the actions taken.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONDON ELECTRICITY GROUP PLC

We have audited the group's financial statements for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Group Shareholders' Funds and the related notes 1 to 35. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 true and 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 group 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 group'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 and of the group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditors
London
Date 7 May 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £m	Restated 2001 £m
Turnover			
Turnover – group and share of joint ventures		**2,870.4**	1,975.2
Less : share of joint ventures turnover		**(35.2)**	(32.5)
Continuing operations - ongoing		**2,108.3**	1,942.7
- acquisitions		**726.9**	-
Group turnover	*2*	**2,835.2**	1,942.7
Cost of sales	*3*	**(1,466.2)**	(1,270.2)
Gross profit		**1,369.0**	672.5
Distribution costs	*3*	**(467.6)**	(152.6)
Administrative expenses	*3*	**(558.2)**	(342.3)
Total operating expenses		**(1,025.8)**	(494.9)
Operating profit			
Continuing operations - ongoing		**123.4**	177.6
- acquisitions		**219.8**	-
Group operating profit		**343.2**	177.6
Share of operating profit in joint ventures		**2.4**	10.0
Share of operating profit/(loss) in associate undertakings		**6.3**	(6.0)
Total operating profit – group and share of joint ventures and associates		**351.9**	181.6
Profit on disposal of fixed assets		**5.9**	22.2
Profit on ordinary activities before investment income, interest and taxation		**357.8**	203.8
Income from other fixed asset investments		**0.4**	1.1
Interest receivable	*7*	**37.1**	4.8
Interest payable	*8*	**(192.2)**	(98.3)
Profit on ordinary activities before taxation		**203.1**	111.4
Tax on profit on ordinary activities	*9*	**(51.4)**	(13.6)
Profit on ordinary activities after taxation		**151.7**	97.8
Minority interests		**(3.6)**	3.4
Profit for the financial year		**148.1**	101.2
Dividends	*10*	**(88.0)**	(60.0)
Retained profit for the financial year	*26*	**60.1**	41.2

Prior year figures have been restated to show the effects of adopting FRS 19 'Deferred tax'.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £m	Restated 2001 £m
Profit for the financial year		**60.1**	41.2
Total recognised gains and losses relating to the year		**60.1**	41.2
Prior year adjustment	*33*	**(122.5)**	
Total recognised gains and losses since last annual report		**(62.4)**	

Prior year figures have been restated to show the effects of adopting FRS 19 'Deferred tax'.

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDER'S FUNDS FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £m	Restated 2001 £m
Profit for the financial year		**148.1**	101.2
Dividends	*10*	**(88.0)**	(60.0)
Retained profit for the year		**60.1**	41.2
New share capital subscribed	*25*	**920.1**	230.0
Net increase in equity shareholder's funds		**980.2**	271.2
Opening equity shareholder's funds		**813.0**	663.4
Prior year adjustment		**-**	(121.6)
Closing equity shareholder's funds		**1,793.2**	813.0

Prior year figures have been restated to show the effects of adopting FRS 19 'Deferred tax'.

BALANCE SHEET
AT 31 DECEMBER 2002

		Group		Company	
			Restated		Restated
		2002	2001	2002	2001
	Note	£m	£m	£m	£m
Fixed assets					
Intangible assets					
Goodwill		1,297.1	430.5		
Negative goodwill		(42.2)	(52.3)		
Total goodwill	11	1,254.9	378.2	-	-
Tangible assets	12	4,789.2	2,293.7	98.1	83.8
Investments in subsidiary undertakings	13	-	-	2,313.3	1,129.1
Investment in joint ventures:					
Share of gross assets		153.8	14.8	-	-
Share of gross liabilities		(151.2)	(4.4)	-	-
Share of net assets	14	2.6	10.4	-	-
Investments in associates	15	57.2	-	8.5	8.5
Other investments	16	7.1	7.4	6.3	6.3
		6,111.0	2,689.7	2,426.2	1,227.7
Current assets					
Stock	17	115.9	55.0	77.7	4.3
Debtors – amounts falling due:					
After more than one year	18	-	42.4	13.0	42.4
Within one year		839.6	434.1	347.0	516.4
Less – securitisation of trade debtors		(190.4)	(100.0)	-	-
Net debtors falling due within one year	18	649.2	334.1	347.0	516.4
Investments: unlisted money market investments		37.1	19.9	-	10.4
Cash at bank and in hand		110.0	25.5	43.6	-
		912.2	476.9	481.3	573.5
Creditors (amounts falling due within one year)	19	(2,352.0)	(1,248.8)	(1,297.4)	(1,195.6)
Net current liabilities		(1,439.8)	(771.9)	(816.1)	(622.1)
Total assets less current liabilities		4,671.2	1,917.8	1,610.1	605.6
Creditors (amounts falling due after more than one year)	20	(2,335.6)	(922.9)	(227.7)	(166.4)
Net liabilities of associates	15	-	(2.2)	-	-
Provision for liabilities and charges	23	(538.2)	(182.7)	(66.6)	(14.6)
Minority interest		(4.2)	3.0	-	-
Net assets		1,793.2	813.0	1,315.8	424.6
Capital and reserves					
Called up share capital	25	1,296.6	376.5	1,296.6	376.5
Share premium account	26	13.9	13.9	13.9	13.9
Capital redemption reserve	26	11.0	11.0	11.0	11.0
Profit and loss account	26	471.7	411.6	(5.7)	23.2
Equity shareholder's funds		1,793.2	813.0	1,315.8	424.6

Prior year figures have been restated to show the effects of adopting FRS 19 'Deferred tax'.

The accounts on pages 11 to 53 were approved by the Board of Directors on 7 May 2003 and were signed on its behalf by:

Vincent de Rivaz
Chief Executive

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

In preparing the financial statements for the current year, the Group has adopted FRS 19 'Deferred taxation'. The impact of the adoption of FRS 19, including restatement of prior year comparatives, is shown in note 33. The Group is following the transitional arrangements of FRS 17 'Retirement benefits'. The required disclosures are shown in note 27. Full adoption of the standard is required by the year ended 31 December 2005.

Consolidation

The Group accounts incorporate the accounts of the company and all subsidiary undertakings after eliminating intercompany transactions for the financial year. No profit and loss account is presented for London Electricity Group plc (the Company) in accordance with the exemptions allowed by Section 230 of the Companies Act 1985.

Acquisition of subsidiary undertakings and other businesses

The results of subsidiary undertakings and other businesses acquired during the period are included in the Group profit and loss account from the date that control passes. In accordance with FRS 6 and 7, on acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of the identifiable assets and liabilities existing at the date of acquisition and reflecting the conditions at that date.

Cash flow statement

The Company is exempt from preparing a cash flow statement under the terms of FRS 1 'Cash flow statements (revised 1996)' as it is a wholly owned subsidiary of a group publishing publicly available consolidated accounts.

Merger accounting

On 1 October 2001, London Power Company plc was transferred into the London Electricity Group. The consideration paid was £11.4 million.

The restructuring has been accounted for in accordance with the principles of merger accounting, although it does not satisfy all the conditions. Schedule 4A to the Companies Act 1985 and FRS 6 'Acquisitions and Mergers' requires acquisition accounting to be adopted where all the conditions are not satisfied. However, in the opinion of the Directors, the restructuring is a group reconstruction rather than an acquisition, since the ultimate shareholder of the London Power Company plc and its subsidiaries remain unchanged and there is no minority involved.

London Electricity Group Holdings plc has an unaltered continuing interest in the business, both before and after the restructuring. Consequently, the Directors consider that to record the restructuring as an acquisition by the Company of the London Power Company plc subsidiaries, to attribute fair values to the assets and liabilities of its subsidiaries and to reflect only the post-restructuring results of its subsidiaries within these accounts would fail to give a true and fair view of the Group's results and financial position.

Accordingly, having regard to the overriding requirement under section 227(6) of the Companies Act 1985 for the accounts to give a true and fair view of the Group's results and financial position, the directors have adopted merger accounting principles in drawing up these accounts. The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

NOTES TO THE FINANCIAL STATEMENTS Continued

The transfer scheme and business restructuring

The Utilities Act 2000 implemented Government proposals to make electricity supply and distribution separately licensed activities. The Act made provision for the Secretary of State to approve statutory transfer schemes under which existing public electricity suppliers such as London Electricity Group plc could divide their assets and liabilities between supply and distribution entities that would hold the relevant licenses.

The transfer schemes were implemented on 1 October 2001 and on that date London Electricity Group plc transferred at net book value all relevant assets and liabilities to London Power Networks (in respect of the distribution business) and London Electricity (in respect of the supply business). This included the following transfers of share capital and reserves and long term debt:

£10 million of share capital was issued in London Power Networks and £340 million of accumulated realised profits were transferred in accordance with paragraph 9(4) of Schedule 7 of the Utilities Act 2000. Eurobonds of £200 million due 2003 and 2005 formerly issued in the name of London Electricity Group plc were transferred to form part of London Power Network's debt and the balance of debt will initially be funded by intra-group debt to be refinanced by London Power Networks in due course.

£10 million of share capital was issued in London Electricity plc and £50 million accumulated realised profits were transferred in accordance with paragraph 9(4) of schedule 7 of the Utilities Act 2000. There was no long-term debt.

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Goodwill which arose on the acquisition of the assets and liabilities of Sutton Bridge power station is being amortised over 40 years. The directors consider that businesses within the UK generation industry commonly have useful lives in excess of the 20 years presumed by FRS 10. The directors expect the business at Sutton Bridge to continue for 40 years. This period of amortisation has been chosen as it is management's best estimate of the useful life of goodwill. Other goodwill is amortised over 20 years. Sutton Bridge goodwill is reviewed every year for impairment and other goodwill is reviewed if events or changes in circumstances indicate that the carrying value may not be recoverable.

Joint ventures

The Group profit and loss account includes the Group's share of turnover, operating profit, interest and taxation of joint ventures. Investments in joint ventures are shown in the Group balance sheet using the gross equity method. The gross equity method records the Group's share of gross assets and liabilities in its joint ventures. These are taken from the latest management accounts of the undertakings concerned.

NOTES TO THE FINANCIAL STATEMENTS Continued

Associated undertakings

The Group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the Group's share of their net assets and liabilities is included in the consolidated balance sheet. These amounts are taken from the latest management accounts of the undertakings concerned.

Tangible fixed assets

The cost of individual tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Cost includes staff costs where employees participate directly in the construction of assets.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation (no allowance is made for residual value), based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

		2002 Years	2001 Years
Generation assets	–	10-30	10-30
Network assets	–	10-60	10-50
Freehold land	–	Not depreciated	Not depreciated
Other buildings			
- freehold	–	Up to 40	Up to 40
- leasehold	–	Lower of lease period or 40	Lower of lease period or 40
Vehicles and mobile plant	–	5-10	5-10
Fixtures and equipment including computer hardware and software	–	3-8	3-8

The directors do not consider that the change of asset lives for network assets has a material effect on the financial statements.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Major systems development software costs are capitalised during the development phase and depreciated from the date of commissioning over a maximum period of 8 years.

Consumers' contributions towards distribution network assets, which include capital grants, are credited to the profit and loss account over the lives of the distribution network assets to which they relate. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 1985 requirements which require fixed assets to be included at their purchase price or production cost and hence the contribution would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view. The value of the contributions is shown in Note 12.

Interest Capitalisation

Interest is capitalised gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

NOTES TO THE FINANCIAL STATEMENTS Continued

Stocks

Stocks are stated at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of labour and materials. The cost elements of progress invoices are deducted in arriving at the amounts stated.

Profit is taken on contracts whilst the contract is in progress, having regard to the proportion of the total contract which has been completed at the balance sheet date. Provision is made for all foreseeable future losses.

Long term contracts

Long term contracts are valued at cost plus attributable profit less any foreseeable losses. Profit is recognised when the outcome of a contract can be assessed with reasonable certainty. The excess of turnover over payments on account is included in debtors. To the extent payments on account exceed turnover and long term contract balances they are included as payments on account within creditors. The amount of expenditure on long term contracts net of amounts transferred to cost of sales and payments on account are separately included within stock.

The contract between SEEBOARD Powerlink and London Underground for the operation, maintenance and upgrade of the electricity supply network for the London Underground railway is being accounted for as a long term contract, with profits being recognised in line with progress on defined segments of the contract.

Fixed asset investments including subsidiary undertaking and joint ventures

Fixed asset investments are shown at cost less any provision for permanent diminution in value.

Current asset investments

Current asset investments are shown at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, this is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses.
- Provision is made for gains on revalued fixed assets only where there is a commitment to dispose of the revalued assets and the attributable gain can neither be rolled over or eliminated by capital losses.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured on a discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Previously deferred tax was provided for in respect of timing differences to the extent that it was probable that a liability would crystallise in the foreseeable future. Comparative figures have been restated as required (note 33).

Research and development

Expenditure on research is written off to the profit and loss account in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS Continued

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts, and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Pensions

The Group operates both defined contribution pension schemes and defined benefit pension schemes. Contributions in respect of the defined contribution pension schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

The costs of providing pensions in respect of defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The pension cost is assessed in accordance with the advice of qualified actuaries.

The Group has included the disclosure requirements of FRS 17 in note 27, together with details of pension and funding arrangements.

Derivatives and other financial instruments

The Group holds or issues financial instruments for three main purposes:
- to finance its operations
- to manage the interest rate and currency risks arising from its sources of finance
- for energy procurement purposes.

The Group finances its operations by a mixture of retained profits, bank borrowings, medium and long term loans and commercial paper. The Group borrowings are both Sterling and Dollar denominated at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest rate basis.

The majority of the Group's sales of electricity and gas are at fixed prices. The Group utilises fixed price contracts such as forward purchase contracts to hedge the risks arising from this exposure.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and commodity price risk. The Group's policy for managing these risks is summarised below and is defined in statements authorised by the Board of Directors and reviewed on an annual basis. Authority for managing risk consistent with this corporate policy may be delegated by the Board to, amongst others, treasury and/or energy purchasing departments.

NOTES TO THE FINANCIAL STATEMENTS Continued

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings and deposits is managed by using fixed rate debt instruments and derivative financial instruments. The Group's policy is to use derivatives to reduce exposure to short term interest rates and not for speculative purposes.

Amounts payable or receivable in respect of swaps are recognised as adjustments to interest expense over the period of the contract. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If the interest rate swaps were to be sold or terminated, any gain or loss would be deferred and amortised over the remaining life of the debt instrument being hedged by the interest rate swaps. If the debt instrument being hedged by the interest rate swaps were to be extinguished, any gain or loss attributable to the swaps would be recognised in the period of the transaction.

Foreign currency risk

The Group's present exposure to foreign currency risk is limited to the hedging of the currency exposure on the service of interest and capital on US dollar denominated debt, and the purchase of energy sources for generation activity. The Group policy is to hedge/fix new currency exposures as they arise. The currency swap agreement fixes the Sterling equivalent which will be required to service the debt.

The foreign exchange rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed, or probable, future transaction, are deferred until the transaction occurs.

Commodity price risk

Due to the vertically integrated nature of the Group the electricity demand from the retail business provides a natural hedge for the electricity procured from the generation business. Any residual exposure to movements in the price of electricity, gas or coal is mitigated by entering into contracts and hedging options on the forward markets. Risk of loss is monitored through establishment of approved counterparties and maximum counterparty limits and minimum credit ratings.

Gains and losses on these contracts and option premia paid are deferred and recognised in the income statement when the hedged transaction occurs.

NOTES TO THE FINANCIAL STATEMENTS Continued

2. Turnover, profit and net assets by business

Class of business	Turnover		Operating profit		Net assets	
	12 months to December 2002 £m	12 months to December 2001 £m	**12 months to December 2002 £m**	12 months to December 2001 £m	**12 months to December 2002 £m**	12 months to December 2001 £m
Distribution						
Continuing	**275.1**	260.8	**129.8**	117.8	**352.2**	427.5
Acquisition	**423.4**	-	**231.1**	-	**540.0**	-
Total distribution	**698.5**	260.8	**360.9**	117.8	**892.2**	427.5
Retail and generation						
Continuing	**2,053.9**	3,032.4	**13.2**	33.1	**302.3**	253.4
Acquisition	**257.9**	-	**(5.0)**	-	**92.9**	-
Total retail and generation	**2,311.8**	3,032.4	**8.2**	33.1	**395.2**	253.4
Private asset management						
Continuing	**29.1**	25.3	**15.6**	11.8	**28.3**	24.5
Acquisition	**44.1**	-	**2.8**	-	**19.6**	-
Total private asset management	**73.2**	25.3	**18.4**	11.8	**47.9**	24.5
Service providers and others						
Continuing	**132.8**	314.6	**(36.1)**	23.3	**188.7**	107.6
Acquisition	**1.5**	-	**(9.1)**	-	**269.2**	-
Total service providers and others	**134.3**	314.6	**(45.2)**	23.3	**457.9**	107.6
	3,217.8	3,633.1	**342.3**	186.0	**1,793.2**	813.0
Less: Inter business transactions	**(382.6)**	(1,690.4)	**0.9**	(8.4)	**-**	-
Total Continuing and Acquired operations	**2,835.2**	1,942.7	**343.2**	177.6	**1,793.2**	813.0
Share of operating profits of joint ventures and associates			**8.7**	4.0		
Profit on sale of fixed assets			**5.9**	22.2		
Net interest and income from investments			**(154.7)**	(92.4)		
Profit on ordinary activities before taxation			**203.1**	111.4		

NOTES TO THE FINANCIAL STATEMENTS Continued

Explanation of terminology used in the profit and loss account

Turnover

Turnover represents the value of electricity and gas sales during the year, including an estimate of the sales value of units and therms supplied to consumers between the date of the last meter reading and the year end, distribution charges to other electricity suppliers within London Electricity Group's areas, rents and the invoice value of other goods sold and services provided, exclusive of Value Added Tax.

Distribution business

Transfer of electricity from the points where it is received in bulk across the distribution systems and its delivery to consumers.

Retail and generation

Retail and generation includes the generation, purchase and supply of electricity customers and purchase and supply of gas to customers.

Private asset management

Operation, maintenance and expansion of private electrical distribution systems.

Service providers and others

This primarily includes the provision of services to the Group, e.g. metering, transport, property and insurance.

Geographical analysis

Turnover arises entirely in the United Kingdom.

3. Operating profit

An analysis of the cost of sales, distribution costs and administration expenses is provided below.

	Ongoing £m	Acquisition £m	Total £m
Cost of sales	1,235.1	231.1	**1,466.2**
Distribution costs	302.2	165.4	**467.6**
Administration expenses	371.1	187.1	**558.2**

Operating profit is stated after charging/(crediting):	**2002 £m**	2001 £m
Staff costs (Note 6)	**299.0**	93.3
Depreciation of owned fixed assets	**180.2**	101.5
Depreciation of assets held under finance leases and hire purchase contracts	**19.7**	19.8
Amortisation of goodwill (Note 11)	**33.1**	19.0
Auditors' remuneration:		
Statutory audit services - Ernst & Young	**0.7**	0.3
- Deloitte & Touche (for SEEBOARD audit)	**0.3**	-
Other services - Ernst & Young	**0.8**	0.7
- Deloitte & Touche	**0.2**	-
Operating lease rentals – plant, machinery & vehicles	**9.5**	0.2
– land and buildings	**9.7**	8.5
Rental income from operating leases	**(4.3)**	(0.3)

NOTES TO THE FINANCIAL STATEMENTS Continued

4. Exceptional items

	2002 £m	2001 £m
Operating exceptionals		
SEEBOARD integration provision	**68.0**	-
	68.0	-

On 29 July 2002, London Electricity Group plc acquired the entire share capital of CSW Investments, the holding company of the SEEBOARD group of companies for £499.9 million. The SEEBOARD integration provision of £68 million relates to the costs of integrating SEEBOARD business activities into the Group. This amount is included within administrative expenses in the consolidated profit and loss account.

5. Directors' emoluments

	2002 £000	2001 £000
Emoluments	**1,275.2**	1,493.2
Company contribution paid to money purchase pension scheme	**12.2**	16.3
	1,287.4	1,509.5

Emoluments payable to the highest paid director were as follows:	2002 £000	2001 £000
Aggregate emoluments	**338.0**	394.8
Company contribution paid to money purchase pension scheme	**12.2**	14.9
	350.2	409.7

Retirement benefits are accruing to one (2001:one) director under money purchase schemes and to no (2001:nil) directors under defined benefit schemes.

6. Staff costs

	2002 £m	2001 £m
Wages and salaries	**253.1**	91.6
Social security costs	**19.8**	7.6
Other pension costs	**27.3**	(4.7)
Less: Capitalised expenditure	**(1.2)**	(1.2)
Charged to profit and loss account	**299.0**	93.3

NOTES TO THE FINANCIAL STATEMENTS Continued

The monthly average number of employees during the year was as follows:

	2002 Number	2001 Number
Distribution	**5,215**	1,901
Retail and generation	**454**	196
Private asset management	**103**	85
Other	**2,545**	1,350
	8,317	3,532

7. Interest receivable and similar income

	2002 £m	2001 £m
Group	**36.6**	4.1
Joint venture	**0.4**	0.6
Associates	**0.1**	0.1
	37.1	4.8

8. Interest payable and similar charges

	2002 £m	2001 £m
Bank loans and overdrafts	**36.5**	39.1
Finance lease	**26.8**	22.7
Unwinding of discount on provisions	**6.0**	6.4
Bonds	**125.5**	25.5
Interest payable and similar charges	**194.8**	93.7
Less: interest capitalised	**(5.9)**	-
Interest payable and similar charges net of interest capitalised	**188.9**	93.7
Share of joint venture's interest	**3.3**	4.6
	192.2	98.3

NOTES TO THE FINANCIAL STATEMENTS Continued

9. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

UK current tax

	2002 £m	2001 £m
UK corporation tax charge on profits of the year	**(18.6)**	(23.0)
Group relief (payable)	**(8.5)**	22.6
Adjustment in respect of previous years	**(4.1)**	-
Group current tax	**(31.2)**	(0.4)
Share of joint venture's tax	**(3.1)**	-
Share of associate's tax	**(1.5)**	-
Total current tax charge (Note (b))	**(35.8)**	(0.4)

UK deferred tax

	2002 £m	2001 £m
Origination and reversal of timing differences	**(55.6)**	(7.3)
Increase/(decrease) in discount	**40.0**	(5.9)
Total deferred tax charge	**(15.6)**	(13.2)
Tax charge on profit on ordinary activities	**(51.4)**	(13.6)

(b) Factors affecting tax charge for the year:

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

	2002 £m	2001 £m
Profit on ordinary activities before tax	**203.1**	111.4
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	**(60.9)**	(33.4)
Effect of:		
Adjustment to prior year tax charge	**(4.1)**	-
Disallowed expenses and non-taxable income	**(14.7)**	(8.9)
Capital allowances in excess of/(lower than) depreciation	**43.4**	13.6
General provisions	**4.5**	1.7
Group relief utilised	**-**	22.6
Utilisation of tax losses	**6.3**	4.0
Amortisation of goodwill	**(10.3)**	-
Current tax charge for the period	**(35.8)**	(0.4)

NOTES TO THE FINANCIAL STATEMENTS Continued

In June 2001, the Inland Revenue issued Tax Bulletin 53. The provisions included in the Bulletin relating to deferred revenue expenditure will affect London Electricity Group from 2005 onwards and will decrease the rate at which corporation tax relief is taken for certain expenditure capitalised in the accounts. The annual current tax charge will increase significantly with a corresponding reduction in the deferred tax charge.

10. Dividends

	2002	2001
	£m	£m
Equity dividends on ordinary shares:		
Interim paid	**9.5**	-
Final paid	**78.5**	60.0
	88.0	60.0

11. Intangible fixed assets

	Positive Goodwill	Negative Goodwill	Total
	£m	£m	£m
Cost			
At 1 January 2002	475.2	-	475.2
Prior year adjustment for FRS 19	(5.5)	(52.3)	(57.8)
As restated	469.7	(52.3)	417.4
Acquisitions (note 34):			
24seven	51.0	-	51.0
SEEBOARD	861.8	-	861.8
West Burton	-	5.4	5.4
Kirkheaton, High Hedley and Northern Offshore	0.4	-	0.4
At 31 December 2002	1,382.9	(46.9)	1,336.0
Amortisation			
At 1 January 2002	(39.2)	-	(39.2)
(Charged)/credited to profit and loss account	(37.8)	4.7	(33.1)
Impairment	(8.8)	-	(8.8)
At 31 December 2002	(85.8)	4.7	(81.1)
Net book amount			
At 31 December 2002	1,297.1	(42.2)	1,254.9
At 31 December 2001 (restated)	430.5	(52.3)	378.2

The goodwill arising on acquisitions is discussed in note 34.

The positive and negative goodwill with the exception of Sutton Bridge goodwill is being amortised over a period of 20 years. Sutton Bridge goodwill is amortised over a period of 40 years and is reviewed annually. All goodwill is amortised on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS Continued

The directors have reviewed the net book amount of goodwill at 31 December 2002 and in their opinion this amount is fully supported by their valuation of the Group's net assets.

12. Tangible fixed assets

Group	Generation Assets	Network assets	Other land and buildings	Vehicles & mobile plant	Fixtures & equipment	Deduct consumers' contributions	**Total tangible assets**
	£m	£m	£m	£m	£m	£m	**£m**
Cost							
At 1 January 2002	1,130.2	1,897.7	86.0	15.6	270.2	(324.6)	3,075.1
Acquisitions	4.0	2,857.4	49.5	6.6	45.2	(655.1)	2,307.6
Additions	68.0	420.1	10.0	8.0	29.4	(135.5)	400.0
Disposals	(0.1)	(1.1)	(12.6)	(2.9)	(3.2)	-	(19.9)
At 31 December 2002	**1,202.1**	**5,174.1**	**132.9**	**27.3**	**341.6**	**(1,115.2)**	**5,762.8**
Depreciation							
At 1 January 2002	39.0	628.4	28.7	10.1	161.1	(85.9)	781.4
Charge for the year	57.5	119.9	1.9	3.3	45.8	(28.5)	199.9
Disposals	(0.1)	(0.2)	(3.0)	(2.5)	(1.9)	-	(7.7)
At 31 December 2002	**96.4**	**748.1**	**27.6**	**10.9**	**205.0**	**(114.4)**	**973.6**
Net book amount							
At 31 December 2002	**1,105.7**	**4,426.0**	**105.3**	**16.4**	**136.6**	**(1,000.8)**	**4,789.2**
At 31 December 2001	1,091.2	1,269.3	57.3	5.5	109.1	(238.7)	2,293.7

The cost of tangible fixed assets includes £5.9m (2001:£nil) of capitalised interest.

NOTES TO THE FINANCIAL STATEMENTS Continued

Company	Land and buildings	Fixtures & equipment	**Total tangible assets**
	£m	£m	**£m**
Cost			
At 1 January 2002	14.8	183.4	198.2
Additions	9.7	19.0	28.7
Disposals	(0.8)	-	(0.8)
At 31 December 2002	**23.7**	**202.4**	**226.1**
Depreciation			
At 1 January 2002	5.2	109.2	114.4
Charge for the year	0.4	13.4	13.8
Disposals	(0.2)	-	(0.2)
At 31 December 2002	**5.4**	**122.6**	**128.0**
Net book amount			
At 31 December 2002	**18.3**	**79.8**	**98.1**
At 31 December 2001	9.6	74.2	83.8

Net book amount of other land and buildings comprises:

	Group		**Company**	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Freehold	**94.6**	32.9	**2.1**	1.1
Long leasehold (over 50 years)	**10.6**	9.4	**16.2**	8.5
Short leasehold (50 years or less)	**0.1**	15.0	**-**	-
	105.3	57.3	**18.3**	9.6

Net book amount of tangible fixed assets includes the following:

	Group		**Company**	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Assets in the course of construction	**144.5**	48.4	**19.5**	18.8
Land not depreciated	**43.1**	17.5	**1.0**	-
Generation assets held under finance lease	**356.2**	375.8	**-**	-

NOTES TO THE FINANCIAL STATEMENTS Continued

13. Investments in subsidiary undertakings

Company

	Shares £m	Loans £m	Total £m
At 1 January 2002	50.9	1,078.2	**1,129.1**
Additions	1,052.1	132.1	**1,184.2**
At 31 December 2002	**1,103.0**	**1,210.3**	**2,313.3**

The principal undertakings at 31 December 2002, which are incorporated in Great Britain and are registered and operate in England and Wales (unless otherwise stated), are as follows:

	Percentage of ordinary shares held	Principal activity
24seven Utility Services Ltd	100%	Maintenance of distribution networks
24seven Contract Services Ltd*	100%	Maintenance of distribution networks
51° Limited*	100%	Telecommunication networks
Cottam Power Ltd*	100%	Provision and supply of electricity generation
CSW Investments*	100%	Holding company
Deltabrand Limited	100%	Holding company
ECS Data Services Ltd*	100%	Meter reading and related services
ECS Metering Services Ltd	100%	Meter operations and related services
EPN Distribution Limited	100%	Contract management for distribution network
High Hedley Hope Wind Ltd*	100%	Renewable power generation
Kirkheaton Wind Limited*	75%	Renewable power generation
Knight Debt Recovery Services Ltd	100%	Debt collection and tracing
London Electricity Enterprises Ltd	100%	Investments in commercial projects
London Electricity plc	100%	Electricity retailing
London Electricity Projects Ltd	100%	Project management
London Electricity Services Ltd	100%	Electricity distribution project
London Electricity Share Group Trustee Ltd	100%	Trustees of employee share and benefits funds
London Electricity Transport Services Ltd	100%	Provision and supply of transport services
London Heat & Power Ltd*	100%	Generation and supply of electricity and heat
London Power Insurance Ltd	100%	Insurance
London Power Networks plc	100%	Contract management for distribution network
London Power Sutton Bridge Ltd*	100%	Investment in power generation company
Longfield Insurance Company Limited* (Isle of Man)	100%	Insurance
Norfolk Offshore Wind Ltd*	80%	Development of generation and supply
Northern Offshore Wind Ltd*	100%	Renewable power generation
SEEBOARD (Generation) Limited*	100%	Holding company
SEEBOARD Asset Management Limited*	100%	Investment company
SEEBOARD Contracting Services Limited*	100%	Electrical contracting
SEEBOARD Energy Gas Limited*	100%	Gas supply
SEEBOARD Energy Limited*	100%	Energy supply

NOTES TO THE FINANCIAL STATEMENTS Continued

SEEBOARD Group plc*	100%	Holding company
SEEBOARD Insurance Company Limited* (Isle of Man)	100%	Insurance
SEEBOARD Metro Holdings Limited*	100%	Investment company
SEEBOARD plc*	100%	Holding company
SEEBOARD Power Networks plc*	100%	Electricity distribution
SEEBOARD Powerlink Holdings Limited*	100%	Investment company
SEEBOARD Powerlink Limited*	80%	Asset management
SEEBOARD Projects Limited*	100%	Investment company
SEEBOARD Trading Limited *	100%	Investment company
South Eastern Services Limited*	100%	Property Management
Sutton Bridge Financing Inc* (Cayman Islands)	100%	Financial activities
Sutton Bridge Holdings Ltd*	100%	Investment in power generation company
Sutton Bridge Investors*	100%	Investment in power generation company
Sutton Bridge Power Ltd*	100%	Provision and supply of electricity generation
The Barkantine Heat & Power Company Ltd*	100%	Generation and supply of electricity and heat
The London Power Company plc	100%	Investment in electricity generation
Virgin HomeEnergy Ltd*	75%	Customer acquisition services
Virgin HomePhone Limited*	75%	Telecoms retailing
West Burton Ltd*	100%	Power generation
West Burton Power Ltd*	100%	Power generation
West Burton Property Ltd*	100%	Power generation

*Held by subsidiary undertakings

14. Investments in joint ventures

	Share of net assets	Loans	Total
	£m	£m	£m
Group			
At 1 January 2002	9.2	1.2	**10.4**
Acquisitions	0.5	-	**0.5**
Share of losses retained by joint ventures	(7.1)	-	**(7.1)**
Loan repayments	-	(1.2)	**(1.2)**
At 31 December 2002	**2.6**	-	**2.6**

The principal joint ventures at 31 December 2002, which are incorporated in Great Britain and are registered and operate in England and Wales, are as follows:

	Percentage of ordinary shares held	Principal activity
Barking Power Limited *	13.475%	Construction and operation of a power station
Thames Valley Power Limited *	50%	Generation and supply
Power Asset Development Company Limited *	50%	Asset Management

*Investment held by subsidiary undertakings

NOTES TO THE FINANCIAL STATEMENTS Continued

London Electricity Group plc has a long-term interest in Barking Power Ltd and shares control under a contractual arrangement. The directors therefore consider Barking Power Ltd to be a joint venture.

The accounting reference date for Barking Power Limited is 31 March.

15. Investments in associates

	Share of net assets/ (liabilities) £m	Goodwill £m	Total £m
Group			
At 1 January 2002	(10.2)	8.0	**(2.2)**
Share of profit retained by associate	4.9	-	**4.9**
Acquisitions	55.0	-	**55.0**
Amortisation of goodwill	-	(0.5)	**(0.5)**
At 31 December 2002	**49.7**	**7.5**	**57.2**

	Shares £m	Total £m
Company		
At 1 January 2002	**8.5**	**8.5**
At 31 December 2002	**8.5**	**8.5**

The associates at 31 December 2002, which are incorporated in Great Britain and are registered and operate in England and Wales (unless otherwise stated), are as follows:

	Description of shares held	Proportion of nominal value of shares held	Principal activity
Paypoint Limited	Ordinary shares	26.9%	Cash collection services
	Preference shares	16.1%	
	Deferred shares	27.9%	
Medway Power Limited	Ordinary shares	37.5%	Generation

The accounting reference date for Paypoint Limited is 31 March, and for Medway Power Limited is 31 December.

Paypoint Limited's preference shares and deferred shares carry no voting rights as at 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS Continued

16. Other investments

Group

	Shares £m	Loans £m	**Total £m**
At 1 January 2002	5.0	2.4	**7.4**
Repayments	-	(0.3)	**(0.3)**
At 31 December 2002	5.0	2.1	7.1

Company

	Shares £m	Loans £m	**Total £m**
At 1 January 2002	5.0	1.3	**6.3**
At 31 December 2002	5.0	1.3	**6.3**

Other investments at 31 December 2002, which are incorporated in Great Britain and are registered and operate in England and Wales, are as follows:

	Percentage of ordinary shares held	Principal activity
London & Continental Railways Limited	11.27%	Rail operator

17. Stocks

	Group		**Company**	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Raw materials and consumables	**93.0**	50.6	**77.7**	4.3
Work in progress	**22.9**	4.4	-	-
	115.9	55.0	77.7	4.3

NOTES TO THE FINANCIAL STATEMENTS Continued

18. Debtors

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade debtors	**317.0**	217.6	**48.1**	27.5
Unbilled consumption	**280.2**	177.7	**-**	-
	597.2	395.3	**48.1**	27.5
Less Securitisation	**(190.4)**	(100.0)	**-**	-
	406.8	295.3	**48.1**	27.5
Other debtors	**38.9**	19.5	**22.5**	46.3
Prepayments and accrued income	**55.7**	16.0	**3.5**	6.4
Amounts owed by parent company	**131.2**	-	**131.2**	-
Amounts owed by other group companies	**8.2**	2.6	**131.7**	436.2
Amounts owed by associates	**8.4**	0.7	**-**	-
Deferred tax asset (see note 23)	**-**	-	**10.0**	-
	649.2	334.1	**347.0**	516.4
Amounts falling due after more than one year:				
Pension scheme prepayment	**-**	42.4	**13.0**	42.4
	-	42.4	**13.0**	42.4
Total debtors	**649.2**	376.5	**360.0**	558.8

In September 2000, London Electricity Group plc (formerly London Electricity plc) entered into a commercial paper securitisation programme involving the sale of billed and unbilled trade debtors to a trust. Interest is charged monthly on trade debtors securitised based on a margin above the sterling equivalent of the US commercial paper rate payable by the issuer of the facility. The amount available under the securitisation is £100 million over a revolving term of 5 years, increasing to £175 million at the option of London Electricity Group plc. Funds based on the amount of trade debtors are advanced to London Electricity Group plc on a monthly basis, with a percentage of collected receivables deferred to cover interest, costs and bad debts. London Electricity Group plc is not obliged to support any losses suffered by the trust as a result of securitisation, nor does it intend to do so. Furthermore, the trust has agreed in writing that it will seek repayment of the funds advanced to London Electricity Group plc, including funding costs, only to the extent that sufficient funds are generated by the assets securitised and that it will not seek recourse in any other form.

SEEBOARD Energy Limited and SEEBOARD Energy Gas Limited have securitised £90.4 million of trade debtors in a similar programme involving the sale of billed and unbilled trade debtors to a trust. Interest is charged on trade debtors securitised at a margin above LIBOR and is payable monthly. SEEBOARD Energy Limited and SEEBOARD Energy Gas Limited are not obliged to support any losses suffered by the trust as a result of the securitisation, nor do they intend to do so.

NOTES TO THE FINANCIAL STATEMENTS Continued

19. Creditors: amounts falling due within one year

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Borrowings (note 21)	**1,157.6**	554.6	**1,038.9**	626.3
Obligations under finance leases and hire purchase contracts (note 22)	**9.7**	15.1	**-**	-
Payments on account on long-term contracts	**163.4**	9.7	**0.8**	0.2
Amounts owing for purchase of energy	**207.9**	148.4	**115.5**	114.9
Trade creditors	**264.8**	110.1	**63.2**	64.4
Amounts owed to parent company	**-**	26.0	**-**	337.9
Corporation tax	**12.9**	62.5	**-**	2.5
Other taxes and social security costs	**10.8**	2.6	**3.8**	2.4
Other creditors	**357.8**	227.3	**60.8**	12.2
Accruals	**114.0**	72.1	**14.4**	14.4
Pension scheme accrual	**53.1**	-	**-**	-
Proposed final dividend	**-**	20.4	**-**	20.4
	2,352.0	1,248.8	**1,297.4**	1,195.6

20. Creditors: amounts falling due after more than one year

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Borrowings (note 21)	**1,954.4**	551.1	**227.7**	166.4
Obligations under finance leases and hire purchase contracts (note 22)	**367.1**	366.9	**-**	-
Other creditors	**14.1**	4.9	**-**	-
	2,335.6	922.9	**227.7**	166.4

NOTES TO THE FINANCIAL STATEMENTS Continued

21. Borrowings

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Short term borrowing	**1,157.6**	554.6	**1,038.9**	626.3
Amounts falling due after more than one year:				
8% Eurobonds repayable 28 March 2003 (i)	-	99.7	-	-
8 5/8 % Eurobonds repayable 26 October 2005 (ii)	**99.6**	99.5	-	-
Sutton Bridge Bonds (iii)	**285.9**	308.4	-	-
6.125% Bonds repayable 27 June 2027 (iv)	**197.7**	-	-	-
3.125% Index Linked Bonds due 27 June 2032 (v)	**148.7**	-	-	-
EPN 8.375% Eurobond 31 March 2004 (vi)	**360.4**	-	-	-
EPN 8.75% Eurobond 30 March 2012 (vi)	**237.1**	-	-	-
EPN 8.5% Eurobond 31 March 2025 (vi)	**268.6**	-	-	-
$ 200m 8.75% Bonds 1 August 2006 (vii)	**138.2**	-	-	-
£ 100m 8.875% Bonds 27 September 2006 (vii)	**110.2**	-	-	-
£ 100m 8.5% Eurobond 3 October 2005 (vii)	**108.0**	-	-	-
Loans due to fellow subsidiary undertakings	-	7.2	-	-
Loans due to subsidiary undertakings	-	-	**227.7**	131.4
Loans: Joint ventures	-	36.3	-	35.0
	1,954.4	551.1	**227.7**	166.4
	3,112.0	1,105.7	**1,266.6**	792.7

(i) The 8% Eurobonds (included in short term borrowings for 2002) were redeemed on 28 March 2003.

(ii) The 8 5/8 % Eurobonds may be redeemed in full together with accrued interest by either the 'Issuer' or 'Bondholders' upon the occurrence of certain events. On 1 October 2001, these bonds were transferred to London Power Networks plc, due to the implementation of the transfer scheme.

(iii) The secured bonds which are guaranteed by Sutton Bridge Power Limited comprise two tranches of twenty five year amortising bonds issued by Sutton Bridge Financing Limited. The first tranche comprises a remaining principal amount of £183.9 million at a fixed interest rate of 8.625%. The second tranche comprises a remaining principal amount of US$145.7 million at a fixed interest rate of 7.97%. Sutton Bridge Financing Limited has entered into currency swap agreements with LE Group plc (who in turn have entered into swap agreements with third parties) in order to convert the principal and interest payment on the US dollar bonds into sterling for periods up to maturity. The effect of these swaps is to convert the US$145.7 million payable to an equivalent long term payable with a principal of £95.5 million and an effective interest rate of 8.14%. The bonds are secured by means of fixed and floating charges over substantially the net assets of Sutton Bridge and at all times rank pari passu and without preference among themselves. Interest is payable on the bonds semi-annually in arrears on 30 June and 31 December of each year.

(iv) The long term 6.125% conventional; and

(v) the 3.125% index linked bonds were issued by London Power Networks plc during the year.

The following bonds formed part of the Group's 2002 acquisitions:

(vi) The EPN Eurobonds were acquired as part of the acquisition of the UK distribution business of TXU Europe Group plc.

NOTES TO THE FINANCIAL STATEMENTS Continued

(vii) These bonds were acquired as part of the acquisition of the CSW Investments group of companies which included SEEBOARD plc.

22. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2002 £m	2001 £m
Amounts payable:		
Within one year	**33.6**	39.1
In two to five years	**136.6**	155.9
In more than five years	**475.3**	544.0
Less: finance charges allocated to future periods	**(268.7)**	(357.0)
	376.8	382.0

	2002 £m	2001 £m
Finance leases and hire purchase contracts are analysed as follows:		
Current obligations (note 19)	**9.7**	15.1
Non-current obligations (note 20)	**367.1**	366.9
	376.8	382.0

23. Provisions for liabilities and charges

Group	At 1 January 2002 £m	Utilised in the period £m	Released in the period £m	Arising during the year £m	Acquisitions £m	Transfers to parent company £m	**At 31 December 2002 £m**
Insurance	5.5	(1.7)	(0.6)	1.7	-	-	**4.9**
Restructuring costs	1.0	(6.3)	(0.6)	68.0	-	-	**62.1**
Dilapidation	1.0	(0.1)	-	-	-	-	**0.9**
Legal disputes	4.9	(0.3)	(0.3)	44.1	5.4	(0.2)	**53.6**
Other costs	2.2	(1.8)	(0.1)	2.5	1.4	-	**4.2**
Deferred tax*	79.3	-	-	15.6	41.4	-	**136.3**
Acquisition provisions							
Power Trading	-	(39.3)	-	-	56.4	-	**17.1**
Medway	-	(16.2)	-	-	200.7	-	**184.5**
Teesside Power	88.8	(14.2)	-	-	-	-	**74.6**
	182.7	(79.9)	(1.6)	131.9	305.3	(0.2)	**538.2**

NOTES TO THE FINANCIAL STATEMENTS Continued

Company	At 1 January 2002 £m	Utilised in the period £m	Released in the period £m	Arising during the year £m	Transfer to debtors £m	Transfers to parent company £m	**At 31 December 2002 £m**
Insurance	2.1	(0.1)	(0.5)	0.4	-	-	**1.9**
Restructuring costs	1.0	(6.3)	(0.6)	68.0	-	-	**62.1**
Dilapidation	1.0	(0.1)	-	-	-	-	**0.9**
Legal costs	0.2	-	-	-	-	(0.2)	**-**
Other costs	1.4	-	-	0.3	-	-	**1.7**
Deferred tax*	8.9	-	-	(18.9)	10.0	-	**-**
	14.6	**(6.5)**	**(1.1)**	**49.8**	**10.0**	**(0.2)**	**66.6**

The insurance provision is based on an assessment of the Group's known liabilities as at 31 December 2002.

The restructuring provision relates to business restructuring following the acquisition of SEEBOARD (note 4).

The provision for dilapidation represents the difference between the projected rental income from various properties and the amounts payable by the company for those properties under currently existing contracts.

The Teesside Power provision arose on the acquisition of the supply business of South Western Electricity. The long term energy contract provisions resulted from the acquisition of SEEBOARD. These provisions represent the difference between the contract price and the estimated market price of energy. The discount rate used in arriving at the provisions was a risk adjusted rate. The amount utilised in the period for these provisions is net of £7.6 million (2001: £8.5 million) relating to the unwinding of the discount and has been included within interest payable.

* The movements in deferred taxation during the current year are as follows:

	Group £m	**Company £m**
At 1 January 2002	**14.6**	**(0.3)**
Prior period adjustment on implementation of FRS 19	**64.7**	**9.2**
At 1 January 2002 (restated)	**79.3**	**8.9**
Acquisitions	**41.4**	**-**
Charge/(credit) for the year (note 9)	**15.6**	**(18.9)**
At 31 December 2002	**136.3**	**(10.0)**

NOTES TO THE FINANCIAL STATEMENTS Continued

Deferred taxation provided in the financial statements is as follows:

Group	2002 £m	Restated 2001 £m
Accelerated capital allowances	**641.3**	240.4
Other timing differences	**(161.6)**	(69.9)
Undiscounted provision for deferred tax	**479.7**	170.5
Discount	**(343.4)**	(91.2)
	136.3	79.3

Company	2002 £m	Restated 2001 £m
Accelerated capital allowances	**(1.3)**	(5.0)
Other timing differences	**(9.9)**	11.3
Undiscounted provision for deferred tax	**(11.2)**	6.3
Discount	**1.2**	2.6
	(10.0)	8.9

NOTES TO THE FINANCIAL STATEMENTS Continued

24. Derivatives and other financial instruments

A discussion of the Group's objectives with regards to derivatives and other financial instruments is included within the Group's accounting policies in note 1. Advantage has been taken of FRS 13, 'Derivatives and other financial instruments', in relation to the exemption from disclosures on current debtors and current liabilities.

Fair values of assets and liabilities

The fair values of financial instruments represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Where market values are not available, fair values have been calculated by discounting cashflows at prevailing rates. Significant differences can arise between the fair value and the carrying amount of financial instruments that are recognised at historical cost amounts.

	Book value 2002 £m	**Fair value 2002 £m**	Book value 2001 £m	Fair value 2001 £m
Long term investments	**7.1**	**7.1**	7.4	7.4
Debtors greater than one year	-	-	42.4	42.4
Current asset investments	**37.1**	**37.1**	19.9	19.9
Cash at bank and in hand	**110.0**	**110.0**	25.5	25.5
Short term borrowing	**(1,157.6)**	**(1,158.6)**	(554.6)	(554.6)
Long term borrowings	**(1,954.4)**	**(2,070.0)**	(551.1)	(566.2)
Interest rate swap	-	**0.2**	-	0.5
Cross currency swaps	-	**(7.1)**	-	-
Forward rate agreement	-	**(2.3)**	-	-

The Group has not included the fair value of the forward purchase contracts of energy, discussed in note 1, as these are all expected to be settled by physical delivery and are therefore outside the scope of FRS 13.

Interest rate profile of financial liabilities

The interest rate profile of financial liabilities as at 31 December 2002 was as follows:

	Total £m	**Floating rate £m**	**Fixed rate £m**
Pound Sterling	(2,879.7)	(1,255.4)	(1,624.3)
US Dollar	(232.3)	-	(232.3)
	(3,112.0)	(1,255.4)	(1,856.6)

Interest rate profile by currency is as follows:

	Pound Sterling	**US Dollar**
Weighted average interest rate %	8.21%	8.42%
Weighted average period (years)	10.6	10.4

NOTES TO THE FINANCIAL STATEMENTS Continued

At 31 December 2002 London Electricity had an interest rate swap on £8.0 million of debt (2001: £8.0 million). The fair value of the interest rate swap outstanding at 31 December 2002 was an asset of £0.2 million (2001:£0.5 million).
The benchmark for determining floating exchange rates is LIBOR.

Maturity of borrowings

The Group's maturity of debt at 31 December 2002 was as follows:

	2002
	£m
In one year or less or on demand	1,157.6
In more than one year but not more than two years	360.4
In more than two years but not more than five years	456.0
In more than five years	1,138.0
	3,112.0

Borrowing facilities

At 31 December 2002 the group had bilateral committed undrawn borrowing facilities of £425.0 million of varying maturity dates.

The maturity of the committed undrawn borrowing facilities is as follows:

	2002
	£m
In less than one year	250.0
In more than one but less than two years	175.0
	425.0

Currency exposure

The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than their functional currencies. Foreign exchange differences on retranslating of such assets and liabilities are taken to the profit and loss account.

Functional currency of Group operation	Net foreign currency monetary (liabilities)	
	US Dollar	Total
	£m	£m
Pound Sterling	(232.3)	(232.3)

NOTES TO THE FINANCIAL STATEMENTS Continued

Aggregated gains and losses on hedges

Gains and losses on instruments used for hedging are not recognised until the transaction that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements are set out below.

	Unrecognised contracts	
	Gains 31 December 2002 £m	Gains 31 December 2001 £m
Gains on hedges at beginning of year	**0.5**	0.5
Gains/(losses) arising in previous years that were recognised in the year	**-**	-
	0.5	0.5
(Losses) arising in the year that were not recognised in the year	**(9.7)**	-
Net (losses)/gains on hedges at end of year	**(9.2)**	0.5

In the table above the carried forward unrecognised net loss at 31 December 2002 of £9.2 million equates to the difference between the fair value and book value of hedging instruments.

25. Share capital

Group and Company

Authorised

	2002 £m	2001 £m
2,228,713,439 ordinary shares of £0.5833 each	**1,300.0**	380.0
300,000,002 ordinary shares of £0.50 each	**150.0**	150.0
	1,450.0	530.0

Allotted, called up and fully paid

	2002 Number	2001 Number	**2002 £m**	2001 £m
Ordinary shares of £0.5833 each	**2,222,739,164**	645,506,179	**1,296.6**	376.5

On 17 January 2002, the share capital of London Electricity Group plc was increased by £420 million by the issue of 720,041,145 ordinary shares of 58 1/3p each.
On 25 July 2002, the share capital of London Electricity Group plc was increased by £500 million by the issue of 857,191,840 ordinary shares of 58 1/3p each.

NOTES TO THE FINANCIAL STATEMENTS Continued

26. Reconciliation of Group shareholder's funds and movement on reserves

	Share capital	Share Premium account	Capital redemption reserve	Profit and loss account	**Total shareholder's funds**
	£m	£m	£m	£m	**£m**
At 1 January 2001	146.5	13.9	11.0	492.0	**663.4**
Prior year adjustment				(121.6)	**(121.6)**
At 1 January 2001 restated	146.5	13.9	11.0	370.4	**541.8**
Retained profit for the year	-	-	-	41.2	**41.2**
Ordinary share issue	230.0	-	-		**230.0**
At 31 December 2001	376.5	13.9	11.0	411.6	**813.0**
Retained profit for the year	-	-	-	60.1	**60.1**
Ordinary share issue	920.1	-	-	-	**920.1**
At 31 December 2002	1,296.6	13.9	11.0	471.7	**1,793.2**

NOTES TO THE FINANCIAL STATEMENTS Continued

27. Pension commitments

(a) Group pension schemes

The principal pension scheme available to employees of London Electricity Group plc was the London Electricity Group of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. Since April 1994, new employees have been offered membership of the London Electricity 1994 Retirement Plan (LERP), a defined contribution scheme. New employees of 24seven have been offered membership of the 24seven Group Personal Pension Plan (24seven GPP), a defined contribution scheme.

The principal pension scheme available to employees of SEEBOARD was the SEEBOARD Group of the ESPS. Since July 1995, new employees have been offered the choice of membership of the SEEBOARD Final Salary Pension Plan and the SEEBOARD Pension Investment Plan. The first of these schemes is a defined benefit scheme and the second is a defined contribution scheme.

The majority of employees of SEEBOARD Powerlink Limited are members of the LRT Pension Fund, a defined benefit scheme.

(b) SSAP 24 – Accounting for pension costs for the ESPS

The latest full actuarial valuations of the London Electricity and SEEBOARD Groups of the ESPS were carried out by Hewitt Bacon & Woodrow, consulting actuaries, as at 31 March 2001. The valuation method adopted was the projected unit method. At 31 March 2001 the market value of assets relating to the London Electricity Group of the ESPS was £1,089 million, which represented 118.0% of the actuarial value of the accrued benefits. The market value of assets relating to the SEEBOARD Group of the ESPS was £791 million, which represented 107.4% of the actuarial value of the accrued benefits. Accrued benefits include all benefits for pensioners and former members as well as benefits based on service to date for active members, allowing for future salary increases.

In order to calculate the pension charge in accordance with the Group's accounting policy, separate actuarial valuations were prepared by Hewitt Bacon & Woodrow as at 31 December 2001 in respect of the London Electricity Group and as at 29 July 2002 in respect of the SEEBOARD Group of the ESPS. These valuations resulted in regular costs of £13 million for the London Electricity Group and £3 million for the SEEBOARD Group. These regular costs were increased due to an accounting deficit of £3 million in the London Electricity Group which is spread over the average remaining service life of employees of 10 years, and early retirement deficiency costs of £4 million, giving total pension costs of £23 million (2001: credit £4.7 million).

The method adopted for the valuations was the projected unit method. The principal assumptions used to assess the long-term ongoing funding target under SSAP24 are set out below.

	29 July 2002 (%pa)	31 December 2001 (%pa)
Discount rate	6.0	5.6
Inflation rate	2.4	2.3
Increase to pensions	2.6	2.3
Increase to deferred benefits	2.6	2.3
Salary increases	3.4	3.3

One-off charges to goodwill of £10 million and £63 million were made during the year reflecting the accounting pension deficits of the pensions arrangements of the businesses purchased from TXU Europe and of

NOTES TO THE FINANCIAL STATEMENTS Continued

SEEBOARD respectively.

(c) SSAP 24 – Accounting for pension costs for the other schemes

Under the other schemes, the charge to profit and loss is the contribution paid by the London Electricity Group plc. The amount paid for the year ended 31 December 2002 was £4.3 million (2001: £2.1 million).

The total charge for pension schemes in the accounts for the year ended 31 December 2002 is £27.3 million (2001 (£4.7 million credit).

(d) FRS 17 – 'Retirement benefits' – transitional disclosures

Further disclosures are required in accordance with the transitional arrangements of FRS17 – 'Retirement Benefits'. The following notes relate to the London Electricity and SEEBOARD groups of ESPS. An updated actuarial valuation was prepared by Hewitt Bacon & Woodrow as at 31 December 2002 for this purpose. All figures relating to the SEEBOARD Group of the ESPS are in respect of the period from 29 July 2002, the date of acquisition of SEEBOARD plc by London Electricity Group plc.

The updated valuation was determined using the projected unit credit method ("PUC method"). Both groups are generally closed to new members so, using the PUC method, the current service cost will increase as the active membership of the scheme approaches retirement.

The following contributions were made to the Group during 2002:

London Electricity Group of ESPS	£m
Company contributions	-
Member contributions	3.0

SEEBOARD Group of ESPS (from 29 July 2002)	
Company contributions	4.0
Member contributions	2.0

NOTES TO THE FINANCIAL STATEMENTS Continued

The major assumptions used were as follows:

	31 December 2002 % p.a.	31 December 2001 % p.a.
Inflation assumption	**2.3**	2.3
Rate of increase in salaries	**3.3**	3.3
Rate of increase of pensions in payment and deferred pensions	**2.3**	2.3
Rate used to discount plan liabilities	**5.5**	5.6
Expected rate of return on equities	**8.0**	7.1
Expected rate of return on bonds	**4.5**	5.1

Analysis of amount that would have been charged to operating profit if FRS 17 had been fully implemented:

	Year ended 31 December 2002 £m		
	London Electricity Group of ESPS	SEEBOARD Group of ESPS(1)	Total
Current service cost	14	3	17
Past service cost	35	-	35
Past service cost met from reserve for future benefit improvements	(35)	-	(35)
Curtailments	2	2	4
Total operating cost	16	5	21

(1) For the period 29 July 2002 to 31 December 2002

Analysis of amount that would have been credited to other finance income if FRS 17 had been fully implemented:

	Year ended 31 December 2002 £m		
	London Electricity Group of ESPS	SEEBOARD Group of ESPS(1)	Total
Expected return on pension plan assets	70	17	87
Interest on pension plan liabilities	(50)	(17)	(67)
Net return	20	-	20

(1) For the period 29 July 2002 to 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS Continued

Reconciliation to balance sheet if FRS 17 had been fully implemented:

London Electricity Group of ESPS	**Value at 31 December 2002 £m**	Value at 31 December 2001 £m
Equities	**629**	744
Bonds	**296**	248
Total market value of assets	**925**	992
Defined benefit obligation (DBO)	**(1,128)**	(895)
(Deficit)/surplus in scheme	**(203)**	97
Reserve for future benefit improvements	**(10)**	(45)
Deferred tax asset/(liability)	**64**	(18)
Net pension (liability)/asset	**(149)**	34

(1) Asset values include estimates of transfer payments due to be received of £15 million at 31 December 2002.
(2) DBOs include estimates of obligations due to be transferred in of £15 million at 31 December 2002.
(3) Deferred tax is assumed to be charged at the rate of 35% at 31 December 2001 and 30% at 31 December 2002.

SEEBOARD Group of ESPS	**Value at 31 December 2002 £m**	Value at 29 July 2002 £m
Equities	**422**	404
Bonds	**198**	230
Total market value of assets	**620**	634
Defined benefit obligation (DBO)	**(736)**	(697)
Deficit in scheme	**(116)**	(63)
Reserve for future benefit improvements	**-**	-
Deferred tax asset	**35**	22
Net pension liability	**(81)**	(41)

(1) Deferred tax is assumed to be charged at the rate of 35% at 29 July 2002 and 30% at 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS Continued

Analysis of movement in surplus during the year that would have arisen if FRS 17 had been fully implemented:

	Year ended 31 December 2002 £m
Surplus in scheme at beginning of year	97
Current service cost	(17)
Contributions	4
Past service costs	(35)
Curtailments	(4)
Other financial income	20
Actuarial loss	(311)
Loss on TXU acquisitions	(10)
Loss on SEEBOARD acquisition	(63)
Deficit in scheme at end of year	(319)

Analysis of amount recognised in Statement of total recognised gains and losses that would have arisen if FRS 17 had been fully implemented:

	Year ended 31 December 2002		
	London Electricity Group of ESPS £m	SEEBOARD Group of ESPS(1) £m	Total £m
Actual return less expected return on pension scheme assets	(226)	(19)	(245)
Experience losses arising on the scheme liabilities	(15)	(9)	(24)
Changes in assumptions underlying the present value of the scheme liabilities	(18)	(24)	(42)
Actuarial loss recognised in STRGL	(259)	(52)	(311)

(1) For the period 29 July 2002 to 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS Continued

History of experience gains and losses that would have arisen if FRS 17 had been fully implemented:

	For year ended 2002 £m		
	London Electricity Group of ESPS	**SEEBOARD Group of ESPS(1)**	**Total**
Difference between expected and actual return on scheme assets:			
Amount (£m)	(226)	(19)	(245)
Percentage of scheme assets	24%	3%	16%
Experience (losses) on scheme liabilities:			
Amount (£m)	(15)	(9)	(24)
Percentage of scheme liabilities	1%	1%	1%
Total amount recognised in STRGL:			
Amount (£m)	(259)	(52)	(311)
Percentage of scheme liabilities	23%	7%	17%

(1) For the period 29 July to 31 December 2002. Percentages are annualised.

NOTES TO THE FINANCIAL STATEMENTS Continued

28. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £304.5 million (2001: £335.6 million).

29. Commitments and contingent liabilities

Under Part II A of the Environmental Protection Act 1990 a retroactive liability may be imposed on landowners for the clean up of land identified by local authorities as contaminated. Land can be identified as contaminated if significant harm is being caused, pollution of controlled waters is occurring and there is a significant possibility of controlled waters being contaminated. If London Electricity Group plc's sites are contaminated, clean up costs may be incurred in the future. However, it is not currently possible to calculate a reliable estimate of clean up costs.

Other than the matters noted above, there were no other material commitments, contingent liabilities or guarantees apart from those given in respect of certain subsidiaries in the ordinary course of business.

30. Other financial commitments

At 31 December 2002, the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2002 £m	Land and buildings 2001 £m
Operating leases which expire:		
Within one year	**1.4**	0.2
In two to five years	**0.6**	0.3
In over five years	**8.3**	7.9
	10.3	8.4

31. Related parties

During the year the Group purchased services from and provided services to its joint venture and associate companies as follows:

	2002 £m	2001 £m
Sales:		
Services supplied	-	50.5
Purchases:		
Services received	**(56.8)**	(58.5)
Tangible fixed assets	-	(64.3)
Amounts outstanding at 31 December	**15.3**	(45.9)

NOTES TO THE FINANCIAL STATEMENTS Continued

32. Post balance sheet events

The Group sold a freehold property, Alpha Place in London, on 21 January 2003 and realised a gain on disposal, before tax, of £19.5 million.

33. Prior year adjustment

Deferred tax

The adoption of FRS 19 'Deferred Tax' has resulted in a change in the method of accounting for deferred tax, from a partial to a full provision basis. This change in accounting policy has been reflected in the accounts as a prior year adjustment in accordance with FRS 3.

The effect on the Group profit and loss account for the years ended 31 December 2002 and 31 December 2001 is shown below.

	2002	2001
	£m	£m
Increase in tax charge as a result of implementation of FRS 19	**9.8**	0.9
Total net profit decrease	**(9.8)**	(0.9)
As previously reported	**-**	42.1
As restated	**-**	41.2

The effect on the Group balance sheet at 31 December 2002 and 31 December 2001 is shown below.

		2002			2001	
	Under previous policy	**FRS 19 adjustment**	**Per accounts**	As previously reported	FRS 19 adjustment	Per accounts (Restated)
	£m	**£m**	**£m**	£m	£m	£m
Net goodwill	**1,271.2**	**(16.3)**	**1,254.9**	436.0	(57.8)	378.2
Debtors due within one year	**839.6**	**-**	**839.6**	434.4	(0.3)	434.1
Provisions for liabilities and charges	**(421.9)**	**(116.3)**	**(538.2)**	(118.3)	(64.4)	(182.7)
Movement in equity shareholder's funds	**-**	**(132.6)**	-	-	(122.5)	-

NOTES TO THE FINANCIAL STATEMENTS Continued

34. Acquisitions

a) Analysis of the acquisition of 24seven Utility Services Limited

On 18 January 2002, London Electricity Group plc acquired the entire issued share capital of 24seven Utility Services Limited, 50% from TXU Europe Group plc and 50% from London Electricity Group Holdings plc for a total of £75.2 million. The acquisition has been accounted for by using the acquisition method of accounting.

Net assets at date of acquisition

	Book value	*Adjustments* Revaluation		Fair value to Group
	£m	£m		£m
Tangible fixed assets	21.0			21.0
Stocks	4.8			4.8
Debtors	190.4			190.4
Cash	0.9			0.9
Creditors due within one year	(184.6)	(5.8)	(a)	(190.4)
Provisions	(2.5)			(2.5)
Net assets	30.0	(5.8)		24.2
Goodwill arising on acquisition				51.0
				75.2
Discharged by:				
Cash				74.9
Costs of acquisition				0.3
				75.2

Adjustments:

(a) Pension deficit net of deferred tax.

NOTES TO THE FINANCIAL STATEMENTS Continued

b) Analysis of the acquisition of EPN Distribution Limited

On 18 January 2002, the Group acquired the entire share capital of EPN Distribution Limited for £470.7m. The acquisition has been accounted for by using the acquisition method of accounting.

Net assets at date of acquisition

		Adjustments				
	Book Value £m	Revaluation £m		Other £m		Fair value to Group £m
Tangible fixed assets	1,345.3	165.4	(a)			1,510.7
Debtors	48.3	(0.1)				48.2
Cash	0.2					0.2
Creditors due within one year	(117.9)	(25.5)	(b)			(143.4)
Provisions	(0.2)	(1.7)				(1.9)
Deferred Tax				(60.7)	(c)	(60.7)
Creditors due more than one year	(745.0)	(137.4)	(d)			(882.4)
Net assets	530.7	0.7		(60.7)		470.7
Goodwill arising on acquisition						-
						470.7
Discharged by:						
Cash						465.7
Costs of acquisition						5.0
						470.7

Adjustments:

(a) Revaluation of network fixed assets to fair values.
(b) Accruals for additional contract costs.
(c) Change in accounting policy for deferred tax to a FRS 19 full provision basis.
(d) Revaluation of bonds to fair value.

EPN Distribution Limited earned a profit after tax of £8.4 million in the period from 1 January 2002 to 17 January 2002 (year ended 31 December 2001 - profit £217.5 million). The summarised profit and loss account for the period from 1 January 2002 to the effective date of acquisition is as follows:

	£m
Turnover	17.9
Operating profit	12.8
Profit before interest and tax	12.8
Profit for the 17 days ended 17 January 2002	8.4

NOTES TO THE FINANCIAL STATEMENTS Continued

c) Analysis of the acquisition of the SEEBOARD Group of Companies

On 29 July 2002, London Electricity Group plc, acquired the entire share capital of CSW Investments which owned SEEBOARD plc for £499.9 million. The acquisition has been accounted for by using the acquisition method of accounting.

Net assets at date of acquisition

		Adjustments				
	Book Value £m	Revaluation £m		Other £m		Fair value to Group £m
Intangible assets	639.6	(639.6)	(a)			-
Tangible fixed assets	806.5	(34.7)	(b)			771.8
Investment in Associates	29.8	25.7	(c)			55.5
Stocks	10.7					10.7
Debtors	111.6	(118.9)	(d)			(7.3)
Investments	14.4					14.4
Cash	60.2					60.2
Creditors due within one year	(295.7)					(295.7)
Provisions	(1.9)	(259.7)	(e)			(261.6)
Deferred tax	(0.4)	121.2	(f)	(86.2)	(g)	34.6
Creditors due more than one year	(710.0)	(31.2)	(h)			(741.2)
Minority interest	(3.3)					(3.3)
Net assets	661.5	(937.2)		(86.2)		(361.9)
Goodwill arising on acquisition						861.8
						499.9
Discharged by:						
Cash						493.9
Costs of acquisition						6.0
						499.9

Adjustments:

(a) Removal of goodwill in CSW from previous acquisition.
(b) Revaluation of fixed assets to fair value.
(c) Revaluation of investments in associates to fair value.
(d) Recognition of pension scheme liability and write down of debtors following assessment of recoverability.
(e) Fair value adjustment on onerous contracts.
(f) Deferred tax arising on fair value adjustments.
(g) Change in accounting policy for deferred tax to a FRS 19 full provision basis.
(h) Revaluation of bonds.

NOTES TO THE FINANCIAL STATEMENTS Continued

The fair values attributable to the assets and liabilities above are provisional and may change on completion of a detailed fair value exercise.

SEEBOARD Group of Companies made a profit of £23.8 million in the period from 1 January 2002 to 28 July 2002 (the year ended 31 December 2001: profit £46.0 million). The summarised profit and loss account for the period from 1 January 2002 to the effective date of acquisition is as follows:

	£m
Turnover	537.5
Profit on ordinary activities before fixed asset disposals and interest	66.0
Profit on fixed asset disposals	6.3
Interest	(32.9)
Profit before tax	39.4
Taxation	(15.6)
Profit for the seven months ended 28 July 2002	23.8

d) Other

On 2 February 2002, London Power Company (LPC), a subsidiary of London Electricity Group plc, acquired three new companies; High Hedley Hope Limited, Kirkheaton Wind Limited and Northern Offshore Wind Limited. The full consideration for each company was paid in cash. Total goodwill arising on these acquisitions amounted to £406,525.

The provisional fair values assigned to West Burton power station at the end of 2001 were reviewed, which resulted in a reduction in net assets of £5.4 million to give net assets of £349.9 million. The adoption of FRS19 for deferred tax resulted in a deferred tax asset of £57.8 million. As a result, goodwill was restated to £(46.9) million (2001: positive goodwill £5.5 million).

35. Parent undertaking and controlling party

At 31 December 2002, London Electricity Group plc's immediate parent company was London Electricity Group Holdings plc.

At 31 December 2002 'Electricité de France' (EDF), a French state owned company is regarded by the directors as the company's ultimate parent company. This is the largest group for which consolidated accounts are prepared. Copies of that company's consolidated accounts may be obtained from Electricité de France, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.