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LONDON ELECTRICITY GROUP PLC **(FORMERLY LONDON ELECTRICITY PLC)**

REPORT & ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2001

Registered Company number: 2366852



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LONDON ELECTRICITY GROUP PLC

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2001

| | Pages |
|--|--------------|
| Directors' Report | 2 - 6 |
| Auditors' Report | 7 |
| Consolidated Profit and Loss Account | 8 |
| Reconciliation of Movements in Group Shareholders' Funds | 9 |
| Balance Sheet | 10 |
| Statement of Accounting Policies | 11 - 14 |
| Notes to the Accounts | 15 - 32 |

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31 December 2001.

Principal Activities

The principal activities of 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.

Business Review & Future Developments

During 2001 London Electricity Group plc continued its strategy of growing the business, to become one of the major groups in the UK energy industry. In 2002 London Electricity Group plc will provide telecom services.

The Transfer Scheme and Business Restructuring

In 2001, the regulator Ofgem issued conditions requiring the legal separation of electricity supply and distribution licenses. This resulted in London Electricity Group plc transferring existing rights and obligations to new companies in the Group so that distribution and supply could be separately licensed. The resulting Transfer Scheme proposed by London Electricity Group plc was effective from 1 October 2001. London Power Networks, became the legal entity responsible for the distribution network and holder of the distribution licence.

On 1 October 2001 the supply business was transferred out of the company to the London Energy Company Ltd (LENCO) with LENCO becoming the formal holder of the supply licence. From that date LENCO was renamed London Electricity plc.

On 1 October 2001 the Group carried out further restructuring in addition to that required by the Transfer Scheme. On this date the London Power Company plc was transferred into London Electricity Group plc, formerly London Electricity plc, from London Electricity Group Holdings plc, formerly London Electricity Group plc.

Generation

On 28 December 2001 London Electricity Group plc acquired the 2,000MW, coal-fired West Burton power station, near Retford, Nottinghamshire, for £366 million less an adjustment for flue gas desulphurisation costs (FGD). London Electricity Group plc will assume responsibility for the completion of the installation of a FGD plant at the site. The transaction also includes a long-term contract with TXU Europe Group plc for the supply of coal for the station.

London Electricity Group plc has also announced interests in renewable generation. In April 2001, it was selected by the Crown Estate for a preliminary lease to develop an offshore windfarm. The London Power Company plc, and its partners in Norfolk Offshore Wind Ltd, plan to construct a 30 turbine windfarm, 7km off the North Norfolk coast near Cromer.

The project will be capable of producing up to 100MW of electricity, enough to supply the annual requirements of 45,000 homes. On-site construction would begin in 2004 subject to planning approvals and consents.

The London Power Company plc also owns Sutton Bridge Power Station in Lincolnshire and Cottam Power station in Nottinghamshire. It has a stake in Barking Power in Essex and manages and develops combined heat and power operations at Heathrow Airport, Imperial College in London and Barkantine Estate on the Isle of Dogs.

On 7 February 2002 London Power Company confirmed that it had purchased Northern Electric's wind power portfolio for £3.5 million. It has also agreed to invest £3 million in a marine technology company, Marine Current Turbines Ltd to carry out research into the possibility of installing underwater turbines to harness the power of high tidal stream currents.

Distribution

London Power Networks delivered a strong performance in 2001. This was despite the full year effect of distribution price controls introduced in April 2000.

On 18 January 2002, London Electricity Group plc bought TXU Europe Group plc's UK distribution business and its 50 per cent interest in 24seven Utility Services Ltd for £560 million and the assumption of £750 million of debt. The acquired distribution business was renamed EPN Distribution Ltd.

EPN's distribution business is one of the largest in the UK and consists of the assets and wires that deliver electricity through a 90,000km network in East Anglia and south-east England. 24seven Utility Services Ltd - a Joint Venture between TXU Europe Group plc and London Electricity Group plc established in April 2000 operates and maintains the two distribution networks.

Energy Purchasing

With the introduction of the new electricity trading arrangements (NETA) implemented on 27 March 2001 energy sales and purchasing is based on bilateral trading occurring between generators, suppliers, traders and customers. To operate in this new environment London Electricity Group plc established a 24-hour centre responsible for buying energy for its customers and selling electricity from London Electricity Group's power stations. Its objective is to maximise the opportunities for the Group and minimise risk.

Retail

London Electricity plc is one of the top five energy suppliers in the UK with 3 million customers. Though traditionally operating in the London area and the South West of England, London Electricity plc now sells energy throughout the whole country under three distinctive brands, London Electricity, SWEB and Virgin Energy.

On 29 June 2001 London Electricity Group increased its 25% shareholding in Virgin Energy to 75%. Virgin Energy is the direct sales, energy retail business established last year.

Enron Exposure

London Electricity Group plc has submitted a claim in the order of £200 million to Enron's administrators. This relates to the termination of a long-term contract with Enron to supply gas from 2001 until 2014. Our claim also takes into account monies owing to London Electricity Group plc and London Power Networks. The claim is principally against Enron Gas & Petrochemical Trading Ltd and is guaranteed by Enron Capital Trade Resources Ltd and Enron Corporation, under a cross netting agreement. This claim has not been reflected in the accounts.

Results and Dividends

The profit on ordinary activities of the Group before taxation amounted to £111.4 million (2000: £126.0 million) and after taxation to £98.7 million (2000: £115.0 million). Dividends totalled £60 million for the year (2000: £86 million).

Directors

The directors of the Company who held office during the year ended 31 December 2001 or who are directors at the date of signing this report are as follows:

| | Appointed | Resigned |
|---|----------------------|-------------------|
| Bruno Lescoeur (Chairman and Chief Executive) | (E) | 7 February 2002 |
| Ian R Beament | (NE) | |
| Bernard Cottrant | (E) | |
| Paul Cuttill | (E) | |
| Michel Francony | (NE) | |
| Marc Riutort | (NE) | 8 March 2001 |
| Richard Tavera | (NE) | 13 September 2001 |
| Gerald L Wingrove | (E) | |
| Martin Wenban | (E) | 6 February 2001 |
| Marc G P Boudier | (NE) 8 March 2001 | 7 February 2002 |
| Philippe Roblique | (NE) 6 December 2001 | |
| Bo Kallstrand (Chairman) | (NE) 7 February 2002 | |
| Vincent de Rivaz (Chief Executive) | (E) 7 February 2002 | |

(E) - Executive director

(NE) - Non executive director

On 4 January 2001 Ian R Beament became a non executive director.

Directors' Interests

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 have any interests in the share capital or share options of the company or any of its subsidiary companies.

Research & 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 London Electricity Group plc requirements is addressed in conjunction with a number of suppliers.

Contributions for Political and Charitable Purposes

The Group supports a number of community projects either in cash or in kind. The value of these contributions amounted to £965,990 (2000: £644,335).

The Group made no political donations during the year (2000: nil).

Differences between Market and Balance Sheet Value of Land

Land & buildings (including Network property assets) are carried in the accounts at a net book value of £118.1 million. The directors consider the market value of land & buildings is significantly in excess of this amount.

Credit Payment Policy

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

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

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception. Wherever possible, subsidiaries follow the same policy. The number of days represented by trade creditors falling due for payment within one year at the year end is 31 days.

Employees

It is the policy of the Group that there shall be equal opportunities in the area of employment without discrimination on grounds of ethnic or racial origin, nationality, religion, sex or marital status in accordance with the appropriate legislation and Government guidelines.

The Group gives full consideration to the possibility of employing disabled persons wherever suitable opportunities exist. Employees who become disabled are given every opportunity and assistance to continue in their employment or to be trained for suitable positions.

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.

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

On 28 June 2001 Ernst & Young, the Group's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. 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 Higson
Company Secretary

3 April 2002

Statement of Directors' responsibilities in respect of the accounts

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

In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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 accounts 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

London Electricity Group plc is committed to complying with the Turnbull Committee Guidelines for internal risk management purposes and has taken a number of actions to achieve a fully compliant position. As London Electricity Group plc is a subsidiary of EDF there is no statutory compliance obligation. However the Board has decided to adopt the Turnbull Committee Guidelines as best practice on a voluntary basis.

Internal Control

The Board of Directors recognise that it 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 Combined Code introduced a requirement for listed companies that the effectiveness of the system of internal control, including financial, operational, compliance and risk management, is reviewed by the Directors. In addition, *"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.

The key ongoing processes and features of this control system include:

The process to identify and evaluate major business risks

Following initial work in 1995 a risk and control framework has been developed. The framework was updated in 1999 and was subject to a major update during 2001, to reflect the changes to Directors' responsibilities announced on 15 December 2000 and to address changes to the portfolio of subsidiary companies and joint ventures during the past 12 months. Risk Management Committees have been established to address specific risk areas including energy trading risk within the Retail business and in 24seven Utility Services Ltd (which recently became a subsidiary of the London Electricity Group Holdings plc) for risk within the distribution business. There are control processes to establish budget, 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 Executive Committee and the Board.

A Corporate Governance Policy for the Group has been developed and reviewed by the Audit Committee for distribution early in 2002. This document has been developed to outline the requirements for Turnbull compliance and the structures, policies, processes and procedures by which this is achieved. Principal operating subsidiaries have developed similar Corporate Governance Policies within their business areas that are consistent with Group policy. The implementation of a self-assessment model across the Group is planned during 2002. The Group Risk Manual is also being updated to include reference to the Corporate Governance Policy and will include reference to the control self-assessment process being introduced during 2002.

The control environment and control activities

Detailed processes and procedures exist to achieve control at activity level. Financial controls operate at various levels from Group budget through specific project and contract approval, to purchase order and requisition authorisation. The Board defines authority given to individual officers of the Group, 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. Formal procedures impose internal controls within each business/subsidiary by such means as separation of duties, transaction authorisation and exception reporting.

The information and communication system

Some corporate policies and procedures addressing risk, are available to all staff via the Company intranet. The risk and control framework and other procedural documentation are available in hard copy form and are in the course of revision to reflect the most recent changes in corporate structure and executive responsibilities. Plans are in place to extend induction and activity training provided in specific parts of the business to include all parts of the Group, strengthening knowledge of procedures and emphasising the need for compliance. Each business/subsidiary has reporting structures by which management monitor performance against agreed performance objectives. Risk Management Committees, referred to above, perform a role in identifying, communicating and monitoring risk. Key performance indicators are established in each business/subsidiary and reported widely.

The monitoring system

In addition to the management information referred to above, the Executive Audit Committee receives reports from the Internal Audit Department on reviews of controls which are carried out under a rolling half yearly activity plan. These reports identify potential control improvements with an action plan for implementation.

Effectiveness review

A specific review of the effectiveness of the Group's system of internal control against the requirements outlined in the Turnbull Report was undertaken in 2000 to assist the Board with its assessment of the effectiveness of the overall system of internal control, to identify areas for improvement and to compare risk and control processes against those of similar and leading companies. The review, with key officers across the Group, assessed the extent to which the approach met the criteria established in the Turnbull Report.

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 are actively involved in reviewing the effectiveness of the system.

These criteria have been considered in the design and operation of the system of internal control. This specific effectiveness review forms a part of that system. The Group is continuously making changes and improvements to the system of internal control including the establishment of Risk Management Committees, as outlined above, to address areas where potential risks have been identified. These include Energy Trading, particularly during the implementation of the New Electricity Trading Arrangements (NETA). The implementation of a risk self-assessment process is also planned during 2002 as noted above.

Internal Audit

The Group's internal audit department reports quarterly to an Executive Audit 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 managing Executive. Projects are reported to the sponsoring member of senior management and include recommendations for remedial action. Follow-up reviews are also carried out to determine actions taken by the business in response to internal audit findings raised. Internal audit is also responsible for providing advice to the business on risk and controls and carries out a number of specific projects in such areas as business separation and integration.

Executive Audit Committee

The Executive Audit Committee is a sub-committee of the managing Executive responsible for agreeing and reviewing the internal audit work programme. It also meets to review internal audit reports and to ensure those audit recommendations agreed with business management are implemented and work effectively. The Committee also considers planned or completed work undertaken throughout the Group. Its primary focus is on operational audit rather than corporate governance issues which are included within the remit of the London Electricity Audit Committee. Membership includes the Chairman and Chief Executive, and the Group Finance Director.

Audit Committee

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 and Chief Executive, Managing Director, appointed non-executive representatives from EDF, and the former Managing Director in his capacity as a non-executive Director.

Material weaknesses

Some losses have been incurred in the post NETA electricity trading scenario. These arose as a result of the interface between manual and electronic processes and steps have been taken to address the underlying causes.

The Enron collapse may expose the Group to additional costs but as a direct result of the Enron failure rather than any specific defect in Group risk management processes.

Independent Auditors' Report to the Members of London Electricity Group Plc

We have audited London Electricity Group plc's accounts for the year ended 31 December 2001 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 34. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the accounts 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 accounts, 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 London Electricity Group plc 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.

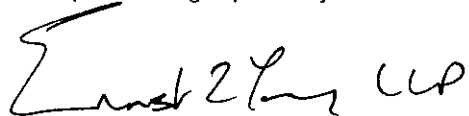
Basis of audit opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to London Electricity Group plc'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31 December 2001 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
Registered Auditor
London

3.4.2002

LONDON ELECTRICITY GROUP PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2001

| | | 12 months to December 2001 | 12 months to December 2000 |
|--|------|-------------------------------|-------------------------------|
| | Note | £m | £m |
| Turnover | | | |
| Turnover: group and share of joint ventures turnover | | 1,975.2 | 2,004.8 |
| Less: share of joint venture turnover | | (32.5) | (27.7) |
| Continuing operations | | | |
| ongoing | | 1,914.9 | 1,970.4 |
| acquisitions | | 27.8 | - |
| | | 1,942.7 | 1,970.4 |
| Discontinued operations | | - | 6.7 |
| Group turnover | 3 | 1,942.7 | 1,977.1 |
| Cost of sales | | (1,270.2) | (1,387.3) |
| Gross profit | | 672.5 | 589.8 |
| Distribution expenses | | (152.6) | (120.2) |
| Administrative expenses | | (342.3) | (280.4) |
| Total operating expenses | | (494.9) | (400.6) |
| Continuing operations | | 190.6 | 189.2 |
| Acquisitions | | (13.0) | - |
| Operating profit | 3,4 | 177.6 | 189.2 |
| Share of operating profit of joint ventures | | 10.0 | 8.0 |
| Share of operating (loss) of associates | | (6.0) | (1.2) |
| Total operating profit: group and share of joint venture and associate | | 181.6 | 196.0 |
| Profit on the sale of fixed assets | | 22.2 | 2.0 |
| Profit on ordinary activities before interest | | 203.8 | 198.0 |
| Income from investments | | 1.1 | 1.1 |
| Net interest payable | 7 | (93.5) | (73.1) |
| Profit on ordinary activities before taxation | | 111.4 | 126.0 |
| Taxation on profit on ordinary activities | 8 | (12.7) | (11.0) |
| Profit on ordinary activities after taxation | | 98.7 | 115.0 |
| Minority Interest | 9 | 3.4 | - |
| Profit for the financial year attributable to members of parent company | | 102.1 | 115.0 |
| Dividends | 10 | (60.0) | (86.0) |
| Retained profit for the financial year | | 42.1 | 29.0 |

There are no recognised gains and losses other than the profit of £42.1 million for the year ended 31 December 2001 (2000: profit of £29.0 million).

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

for the year ended 31 December 2001

| | | 12 months to December 2001 | 12 months to December 2000 |
|---|----|-------------------------------|-------------------------------|
| | | £m | £m |
| Profit on ordinary activities after taxation | | 98.7 | 115.0 |
| Minority Interest | 9 | 3.4 | - |
| Dividends | 10 | (60.0) | (86.0) |
| Net increase in equity shareholders' funds | | 42.1 | 29.0 |
| Opening equity shareholders' funds | | 663.4 | 634.4 |
| Additional share capital | | 230.0 | - |
| Closing equity shareholders' funds | | 935.5 | 663.4 |

LONDON ELECTRICITY GROUP PLC
BALANCE SHEETS

as at 31 December 2001

| | Note | Group | | Company | |
|--|------|-----------|-----------|-----------|-----------|
| | | 31 Dec 01 | 31 Dec 00 | 31 Dec 01 | 31 Dec 00 |
| | | £m | £m | £m | £m |
| Fixed assets | | | | | |
| Intangible assets | 11 | 436.0 | 439.6 | - | 257.1 |
| Tangible assets | 12 | 2,293.7 | 1,799.0 | 83.8 | 1,005.0 |
| Investments | 13 | | | | |
| Subsidiaries | | - | - | 1,129.1 | 91.8 |
| Investments in joint venture: | | | | | |
| Share of gross assets | | 14.8 | 4.4 | - | - |
| Share of gross liabilities | | (4.4) | - | - | - |
| Net investment | | 10.4 | 4.4 | - | - |
| Associates | | - | - | 8.5 | 8.9 |
| Other investments | | 7.4 | 7.4 | 6.3 | 6.1 |
| | | 2,747.5 | 2,250.4 | 1,227.7 | 1,368.9 |
| Current assets | | | | | |
| Stocks | 18 | 55.0 | 27.3 | 4.3 | 6.1 |
| Debtors - amounts falling due: | | | | | |
| After more than one year | 19 | 42.4 | 39.5 | 42.4 | 39.4 |
| Within one year | | 434.4 | 356.5 | 516.7 | 348.1 |
| Less: securitisation of trade debtors | | (100.0) | (92.5) | - | (92.5) |
| Net debtors falling due within one year | 19 | 334.4 | 264.0 | 516.7 | 255.6 |
| Investments | 20 | 19.9 | 19.2 | 10.4 | 11.0 |
| Cash at bank and in hand | | 25.5 | 65.6 | - | 1.6 |
| | | 477.2 | 415.6 | 573.8 | 313.7 |
| Creditors - amounts falling due within one year | | | | | |
| Borrowings | 21 | (554.6) | (424.7) | (626.3) | (242.7) |
| Other creditors | 22 | (709.1) | (543.4) | (569.3) | (466.2) |
| Net current liabilities | | (786.5) | (552.5) | (621.8) | (395.2) |
| Total assets less current liabilities | | 1,961.0 | 1,697.9 | 605.9 | 973.7 |
| Creditors: amounts falling due after more than one year | | | | | |
| Borrowings | 21 | (551.1) | (524.7) | (166.4) | (199.0) |
| Other creditors | 22 | (371.8) | (384.1) | - | (2.2) |
| | | (922.9) | (908.8) | (166.4) | (201.2) |
| Net (liabilities)/assets of associates | 13 | (2.2) | 1.6 | - | - |
| Provisions for liabilities and charges | 24 | (103.4) | (127.3) | (5.7) | (121.6) |
| Minority interest | | 3.0 | - | - | - |
| Net assets | | 935.5 | 663.4 | 433.8 | 650.9 |
| Capital and reserves | | | | | |
| Called up share capital | 27 | 376.5 | 146.5 | 376.5 | 146.5 |
| Share premium account | 28 | 13.9 | 13.9 | 13.9 | 13.9 |
| Capital redemption reserve | 28 | 11.0 | 11.0 | 11.0 | 11.0 |
| Profit and loss account | 28 | 534.1 | 492.0 | 32.4 | 479.5 |
| Equity shareholders' funds | | 935.5 | 663.4 | 433.8 | 650.9 |

The accounts were approved by the Board of Directors on 3rd April 2002 and were signed on its behalf by:

G.I. Wingrove
Gerald Wingrove

Group Finance Director
10

1. STATEMENT OF ACCOUNTING POLICIES

for the year ended 31 December 2001

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. Two new Financial Reporting Standards: No. 17 'Retirement Benefits' (FRS 17) and No.18 'Accounting Policies' (FRS 18), are effective for the Group's 2001 year end reporting. The accounts contain the transitional disclosures required by FRS 17. The adoption of FRS 18 has had no effect on the results for the year nor required any restatement of prior year comparatives. A summary of the more important Group accounting policies is set out below. Policies have been consistently applied except where specifically stated.

Basis of accounting

These accounts have been prepared under the historical cost accounting convention.

Basis of 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 in accordance with the exemptions allowed by Section 230 of the Companies Act 1985.

Acquisitions 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.

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.

The Transfer Scheme and Business Restructuring

The Utilities Act 2000 implemented Government proposals to make electricity supply and distribution separate licensable 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 & 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 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 Venture

The Group profit and loss account includes the Group's share of turnover, operating profit, interest and taxation on joint ventures. Investment in joint ventures is 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.

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.

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.

Leasing

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, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of 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.

Rental costs under operating leases are charged to the profit and loss account in the period on a straight line basis over the lease term.

Pensions

The cost of providing pensions in respect of defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. Pension surpluses and deficits arising are allocated over the estimated average remaining service lives of current employees.

Differences between the amounts charged to the profit and loss account and payments made to the schemes are treated as assets or liabilities in the balance sheet.

The pension cost is assessed in accordance with the advice of qualified actuaries.

Tangible fixed assets

Tangible fixed assets are stated at cost less amounts provided to write off assets over their useful economic life. Cost includes staff costs where employees of the Group participate directly in the construction of assets.

Fixed assets are depreciated from the date of commissioning and are written off over their expected useful lives. All depreciation is charged using the straight line method. No allowance is made for their residual values.

The lives of each major class of depreciable assets are as follows:

| | <u>YEARS</u> |
|---|---|
| Generation assets | 10 - 30 |
| Network assets | 10 - 50 |
| Freehold land | Not depreciated |
| Other buildings | -freehold -leasehold |
| | Up to 40 Lower of lease period or 40 |
| Vehicles and mobile plant | 5 - 10 |
| Fixtures & equipment including computer hardware and software | 3 - 8 |

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 & loss account over the life 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.

Fixed asset investments

Fixed asset investments are stated in the Group balance sheet at cost less any provision for permanent diminution in value.

Current asset investments

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

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.

Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision is made for deferred taxation using the liability method only where it is anticipated that the item will crystallise within the foreseeable future.

Research and Development

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

Foreign currency translations

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

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 trading purposes.

The Group finances its operations by a mixture of retained profits, bank borrowings, 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 Contracts for differences (CFDs) and 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 company'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.

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 these 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 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

The price of electricity and gas purchased to cover the retail business and the income for the generation business can be volatile. As a result, the retail business is exposed to risks arising from the differences between the fixed prices at which it sells electricity and gas and the fluctuating prices at which it purchases electricity and gas. To mitigate exposure to volatility, the business utilised in the year CFDs and energy trading swaps, forward contracts and options to fix the price of its electricity and gas purchases. Similarly, the generation business is exposed to risks arising from differences between relatively fixed costs and fluctuating income. These risks can also be mitigated by the use of CFDs and forward purchase and sales contracts.

Prior to the introduction of NETA in March 2001, the company entered into CFDs primarily to hedge its supply business against the price risk of electricity purchases from the Pool. Gains/(losses) on CFDs are recognised as a decrease/(increase) to cost of sales based upon the difference between fixed prices in the CFD compared to variable prices paid to the Pool for the period. Gains/(losses) based upon the difference between fixed prices in CFDs compared to variable prices paid to the Pool for future electricity purchases are not recognised until the period of such settlements.

With the introduction of NETA, these contracts were converted into physical contracts for the delivery of electricity. From March 2001, the Group managed price volatility by entering into contracts and hedging options on the forward market for electricity, gas and coal. 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.

Cashflow Statement

In accordance with FRS1 (revised) the Group has not prepared a statement of cashflows for the current year as it is a wholly owned subsidiary of a company whose accounts are publicly available.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2001

2 Exceptional items

| | 12 months to December 2001 | 12 months to December 2000 |
|---|----------------------------------|----------------------------------|
| | £m | £m |
| Operating exceptionals | | |
| Severance costs in relation to organisational restructuring (included within distribution costs). | - | 17.8 |
| Total exceptionals | - | 17.8 |

3 Analysis of turnover, operating profit and net assets

| | Turnover | | Operating profit | | Net assets | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | 12 months to December 2001 | 12 months to December 2000 | 12 months to December 2001 | 12 months to December 2000 | 12 months to December 2001 | 12 months to December 2000 |
| | £m | £m | £m | £m | £m | £m |
| Class of business | | | | | | |
| Distribution | 260.8 | 302.4 | 117.8 | 123.7 | 427.5 | 350.0 |
| Retail and energy trading | | | | | | |
| continuing | 2,726.2 | 1,763.7 | (3.9) | 22.6 | 45.9 | 67.0 |
| acquisition | 27.8 | - | (13.0) | - | (7.3) | - |
| Total retail and energy trading | 2,754.0 | 1,763.7 | (16.9) | 22.6 | 38.6 | 67.0 |
| Private electrical distribution systems | 25.3 | 23.8 | 11.8 | 15.6 | 24.5 | 20.5 |
| Generation | | | | | | |
| continuing | 278.4 | - | 50.0 | - | 217.5 | - |
| acquisition | - | 164.6 | - | 27.1 | (2.7) | 72.1 |
| Total generation | 278.4 | 164.6 | 50.0 | 27.1 | 214.8 | 72.1 |
| Service providers and others | | | | | | |
| continuing | 314.6 | 103.7 | 23.3 | 3.8 | 230.1 | 153.8 |
| discontinued | - | 6.7 | - | (1.8) | - | - |
| Total service providers and others | 314.6 | 110.4 | 23.3 | 2.0 | 230.1 | 153.8 |
| | 3,633.1 | 2,364.9 | 186.0 | 191.0 | 935.5 | 663.4 |
| Less: Inter business transactions | (1,690.4) | (387.8) | (8.4) | (1.8) | - | - |
| Continuing operations | 1,942.7 | 1,977.1 | 177.6 | 189.2 | 935.5 | 663.4 |
| Share of operating profits of joint ventures and associates | | | 4.0 | 6.8 | | |
| Profit on the sale of fixed assets | | | 22.2 | 2.0 | | |
| Net interest and income from investments | | | (92.4) | (72.0) | | |
| Profit on ordinary activities before taxation | | | 111.4 | 126.0 | | |

Explanation of terminology used in the profit and loss account

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 energy trading

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

Private electrical distribution systems

Operation, maintenance and expansion of private electrical distribution systems.

Generation

The generation of electricity.

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.

4 Operating profit

| | 12 months to December 2001 £m | 12 months to December 2000 £m |
|---|--|--|
| Operating profit is stated after charging: | | |
| Staff costs (Note 5) | 93.3 | 73.1 |
| Depreciation (Note 12) | 101.5 | 70.8 |
| Operating lease rentals: | | |
| Land and buildings | 8.5 | 6.6 |
| Plant and machinery | 0.2 | - |
| Vehicles | - | - |
| Research & development costs | 0.3 | 0.6 |
| Amounts paid to Group auditors: | | |
| Remuneration as Group auditors | 0.3 | 0.3 |
| Fees for other services in the United Kingdom | 0.7 | 0.4 |
| Amortisation of goodwill | 19.0 | 14.4 |
| and after crediting: | | |
| Rental income | 0.3 | 4.1 |

5 Staff costs

| | 12 months to December 2001 £m | 12 months to December 2000 £m |
|--|--|--|
| Wages and salaries | 91.6 | 75.5 |
| Social security costs | 7.6 | 7.6 |
| Other pension costs (Note 29) | (4.7) | (0.9) |
| | <u>94.5</u> | <u>82.2</u> |
| Less: capitalised expenditure | (1.2) | (9.1) |
| Charged to the profit and loss account | <u>93.3</u> | <u>73.1</u> |

The average number of employees (including executive directors) during the period by class of business:

| | 12 months to December 2001 Number | 12 months to December 2000 Number |
|---|--|--|
| Distribution | 58 | 283 |
| Retail and energy trading | 1,843 | 1,600 |
| Generation | 196 | - |
| Private electrical distribution systems | 85 | 80 |
| Other | 1,350 | 1,670 |
| | <u>3,532</u> | <u>3,633</u> |

A change in the method of calculation has been used in 2001, 2000 figures have been restated to reflect this change in method.

6 Directors' emoluments

| | 12 months to December 2001 £'000 | 12 months to December 2000 £'000 |
|---|---|---|
| Aggregate emoluments | 1,493.2 | 1,691.0 |
| Company contributions to money purchase pension schemes | 16.3 | 32.0 |
| | <u>1,509.5</u> | <u>1,723.0</u> |

Emoluments payable to the highest paid director are as follows:

| | 12 months to December 2001 £'000 | 12 months to December 2000 £'000 |
|----------------------|---|---|
| Aggregate emoluments | 394.8 | 535.9 |
| | <u>394.8</u> | <u>535.9</u> |

Retirement benefits are accruing to one (2000: two) director under money purchase schemes and to no (2000: nil) directors under defined benefit schemes.

7 Net interest payable

| | 12 months to December 2001 £m | 12 months to December 2000 £m |
|--|--|--|
| Interest receivable and similar income: | | |
| Group | 4.1 | 5.4 |
| Joint venture | 0.6 | 0.5 |
| Associates | 0.1 | - |
| | <u>4.8</u> | <u>5.9</u> |
| Interest payable and similar charges: | | |
| Bank loans and overdraft | | |
| Group | (39.1) | (28.2) |
| Joint venture | (4.6) | (5.1) |
| Associates | - | (0.2) |
| Finance Lease | (22.7) | - |
| Unwinding of financial discounts on provisions | 2.1 | - |
| Unwinding of discount on provision | (8.5) | (8.4) |
| Other loans (group) | - | (10.3) |
| Bonds | (25.5) | (26.8) |
| | <u>(98.3)</u> | <u>(79.0)</u> |
| | <u>(93.5)</u> | <u>(73.1)</u> |

8 Taxation on profit on ordinary activities

| | 12 months to December 2001 £m | 12 months to December 2000 £m |
|--|--|--|
| United Kingdom Corporation taxation at 30% (2000: 30%) | | |
| Current taxation on ordinary activities | 23.0 | 31.1 |
| Group relief | (22.6) | (18.2) |
| Deferred taxation on exceptional costs | 1.2 | (1.4) |
| Deferred taxation on other items | 11.1 | (0.5) |
| | <u>12.7</u> | <u>11.0</u> |

9 Minority interest

Minority interest is in relation to Virgin Energy Ltd. London Electricity Group plc increased its percentage shareholding from 25% to 75% on 29 June 2001. For the first six months of 2001, Virgin Energy Ltd was a 25% associate and London Electricity Group plc incorporated their share of Virgin's results. The results for the last six months of the financial year for Virgin Energy Ltd have been fully consolidated into London Electricity Group plc. A minority interest adjustment has been made to reflect the share of the results applicable to Virgin's 25% holding.

10 Dividends

| | 12 months to December 2001 £m | 12 months to December 2000 £m |
|---|--|--|
| Interim dividend of 7.96p per 58 1/3p ordinary share | - | 20.0 |
| Final dividend of 9.3p per 58 1/3p ordinary share (2000: 26.27p per 58 1/3p ordinary share) | 60.0 | 66.0 |
| | <u>60.0</u> | <u>86.0</u> |

Of the final dividend £40 million has been paid and £20 million proposed.

11 Intangible assets

| Goodwill | Group £m | Company £m |
|--|--------------|---------------|
| Cost | | |
| At 1 January 2001 | 460.4 | 274.1 |
| Additions | 14.8 | - |
| Transfer to subsidiary undertaking (Transfer scheme) | - | (274.1) |
| At 31 December 2001 | <u>475.2</u> | <u>-</u> |
| Amortisation | | |
| At 1 January 2001 | 20.8 | 17.0 |
| Charge for the year | 18.4 | - |
| Transfer to subsidiary undertaking (Transfer scheme) | - | (17.0) |
| At 31 December 2001 | <u>39.2</u> | <u>-</u> |
| Net book amounts | | |
| At 31 December 2001 | <u>436.0</u> | <u>-</u> |
| At 31 December 2000 | <u>439.6</u> | <u>257.1</u> |

The £14.8 million goodwill was generated via the purchase of West Burton power station, £5.5 million, and the increased stake in Virgin Energy, £9.3 million. The goodwill in both cases will be amortised over 20 years on a straight line basis.

Purchase of business

The group, acquired West Burton power station and group of companies for £358.0 million (plus acquisition costs of £2.8 million) on 28 December 2001. The full consideration was paid in cash. The analysis of net assets acquired to the group is as follows:

| | Book values as at date of acquisition £m | Fair value at acquisition date £m |
|---|---|---|
| Tangible assets | 421.4 | 421.4 |
| Stock | 18.9 | 18.9 |
| Cash | 0.4 | 0.4 |
| Total creditors | (85.4) | (85.4) |
| Net assets | <u>355.3</u> | <u>355.3</u> |
| Goodwill | | 5.5 |
| Consideration including acquisition costs | | <u>360.8</u> |

No prior year results are available for West Burton. The company was incorporated two months before the purchase by London Power Company plc. The fair value of assets have been based on book values, and may be restated in 2002 following the results of a fair value exercise currently underway.

On 29 June 2001 London Electricity Enterprises Ltd (LEE), a subsidiary of London Electricity Group plc increased its share holding in Virgin Energy from 25% to 75%. The full consideration was paid in cash. The analysis of net assets acquired to the group is as follows:

| | Book values as at date of acquisition £m | Fair value at acquisition date £m |
|-------------------|---|---|
| Tangible assets | 2.1 | 2.1 |
| Cash | 2.2 | 2.2 |
| Debtors | 2.5 | 2.5 |
| Creditors | (5.4) | (5.4) |
| Net assets | <u>1.4</u> | <u>1.4</u> |
| Minority interest | | (0.3) |
| Goodwill | | 9.3 |
| Consideration | | <u>10.4</u> |

Each of these combinations has been accounted for using the acquisition method of accounting.

12 Tangible assets

| Group | Generation assets | Network assets | Other land and buildings | Fixtures and equipment | Vehicles & mobile plant | Deduct: consumers' contributions | Total |
|----------------------------|-------------------|----------------|--------------------------|------------------------|-------------------------|----------------------------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m |
| Cost | | | | | | | |
| At 1 January 2001 | 701.9 | 1,742.9 | 89.1 | 219.0 | 16.5 | (288.1) | 2,481.3 |
| Additions | 428.3 | 154.8 | 0.8 | 51.2 | 0.8 | (36.5) | 599.4 |
| Disposals | - | - | (3.9) | - | (1.7) | - | (5.6) |
| At 31 December 2001 | 1,130.2 | 1,897.7 | 86.0 | 270.2 | 15.6 | (324.6) | 3,075.1 |
| Depreciation | | | | | | | |
| At 1 January 2001 | 7.8 | 588.1 | 27.5 | 129.2 | 9.7 | (80.0) | 682.3 |
| Charge for the year | 31.2 | 40.3 | 1.9 | 31.9 | 2.1 | (5.9) | 101.5 |
| Disposals | - | - | (0.7) | - | (1.7) | - | (2.4) |
| At 31 December 2001 | 39.0 | 628.4 | 28.7 | 161.1 | 10.1 | (85.9) | 781.4 |
| Net book amounts | | | | | | | |
| At 31 December 2001 | 1,091.2 | 1,269.3 | 57.3 | 109.1 | 5.5 | (238.7) | 2,293.7 |
| At 31 December 2000 | 694.1 | 1,154.8 | 61.6 | 89.8 | 6.8 | (208.1) | 1,799.0 |

| Company | Generation assets | Network assets | Other land and buildings | Fixtures and equipment | Vehicles & mobile plant | Deduct: consumers' contributions | Total |
|------------------------------------|-------------------|----------------|--------------------------|------------------------|-------------------------|----------------------------------|--------------|
| | £m | £m | £m | £m | £m | £m | £m |
| Cost | | | | | | | |
| At 1 January 2001 | - | 1,642.4 | 85.8 | 215.9 | - | (288.1) | 1,656.0 |
| Transfers to other group companies | - | (1,642.4) | (70.3) | (70.8) | - | 288.1 | (1,495.4) |
| Additions | - | - | - | 38.3 | - | - | 38.3 |
| Disposals | - | - | (0.7) | - | - | - | (0.7) |
| At 31 December 2001 | - | - | 14.8 | 183.4 | - | - | 198.2 |
| Depreciation | | | | | | | |
| At 1 January 2001 | - | 576.6 | 27.4 | 127.0 | - | (80.0) | 651.0 |
| Transfers to other group companies | - | (576.6) | (22.5) | (32.0) | - | 80.0 | (551.1) |
| Charge for the year | - | - | 0.4 | 14.2 | - | - | 14.6 |
| Disposals | - | - | (0.1) | - | - | - | (0.1) |
| At 31 December 2001 | - | - | 5.2 | 109.2 | - | - | 114.4 |
| Net book amounts | | | | | | | |
| At 31 December 2001 | - | - | 9.6 | 74.2 | - | - | 83.8 |
| At 31 December 2000 | - | 1,065.8 | 58.4 | 88.9 | - | (208.1) | 1,005.0 |

As discussed in Note 1 as part of the transfer scheme on 1 October 2001 London Electricity Group Plc transferred its distribution business to LPN and its supply business to London Electricity plc.

Net book amount of other land and buildings comprises:

| | Group | | Company | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Freehold | 32.9 | 35.4 | 1.1 | 32.2 |
| Long leasehold (over 50 years) | 9.4 | 10.1 | 8.5 | 10.1 |
| Short leasehold (50 years or less) | 15.0 | 16.1 | - | 16.1 |
| | 57.3 | 61.6 | 9.6 | 58.4 |

Net book amount of tangible fixed assets include the following:

| | Group | | Company | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Assets in the course of construction | 48.4 | 36.3 | 18.8 | 10.2 |
| Land not depreciated | 17.5 | 16.2 | - | 16.2 |
| Generation assets held under finance lease | 375.8 | 395.5 | - | - |

13 Fixed asset investments

| | Group | | Company | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Subsidiaries (Note 14) | - | - | 1,129.1 | 91.8 |
| Joint Ventures (Note 15) | 10.4 | 4.4 | - | - |
| Associates (Note 16) | (2.2) | 1.6 | 8.5 | 8.9 |
| Other investments (Note 17) | 7.4 | 7.4 | 6.3 | 6.1 |
| | 15.6 | 13.4 | 1,143.9 | 106.8 |

All investments are unlisted.

14 Subsidiaries - Company

| | Shares £m | Loans £m | Total £m |
|----------------------------|--------------|----------------|----------------|
| At 1 January 2001 | 25.9 | 65.9 | 91.8 |
| Additions | 25.0 | 1,025.5 | 1,050.5 |
| Repayments | - | (13.2) | (13.2) |
| At 31 December 2001 | 50.9 | 1,078.2 | 1,129.1 |

The principal operating subsidiaries at 31 December 2001 included in the consolidated accounts are listed below:

| Name of undertaking | Description of shares held | Proportion of nominal value of shares held | Principal activities |
|---|--|--|--|
| The London Power Company plc | Ordinary £1 | 100% | Investment in electricity generation |
| London Power Insurance Ltd | Ordinary £1 | 100% | Insurance |
| London Electricity Services Ltd | Ordinary £1 | 100% | Electricity distribution projects |
| London Electricity Enterprises Ltd | Ordinary £1 | 100% | Investments in commercial projects |
| London Electricity plc | Ordinary £1 | 100% | Electricity retailing |
| London Power Networks plc | Ordinary £1 | 100% | Contract management for distribution network |
| London Electricity Transport Services Ltd | Ordinary £1 | 100% | Provision and supply of transport services |
| Knight Debt Recovery Services Ltd | Ordinary £1 | 100% | Debt collection and tracing |
| Sutton Bridge Power Ltd*** | Ordinary £1 | 100% | Provision and supply of electricity generation |
| Cottam Power Ltd*** | Ordinary £1 | 100% | Provision and supply of electricity generation |
| West Burton Power Ltd*** | Ordinary £1 | 100% | Provision and supply of electricity generation |
| ECS Metering Services Ltd | Ordinary £1 | 100% | Meter operations and related services |
| ECS Data Services Ltd* | Ordinary £1 | 100% | Meter reading and related services |
| Virgin Energy Ltd** | A Class Shares Ordinary £0.10 B Class Shares Ordinary £0.01 | 75.0% 100.0% | Customer acquisition services |

* Wholly owned by ECS Metering Services Ltd.

** A subsidiary of London Electricity Enterprises Ltd.

*** Wholly owned by London Power Company plc.

The principal non-operating subsidiaries at 31 December 2001 included in the consolidated accounts are listed below.

| Name of undertaking | Description of shares held | Proportion of nominal value of shares held | Principal activities |
|--|----------------------------|--|---|
| London Electricity Projects Ltd | Ordinary £1 | 100% | Project management |
| London Electricity Share Scheme Trustees Ltd | Ordinary £1 | 100% | Trustees of employee share and benefits funds |

All the above subsidiaries operate within the United Kingdom.

15 Joint ventures

| | Share of net assets | Loans | Total |
|-------------------------|---------------------|-------|-------|
| | £m | £m | £m |
| Group | | | |
| At 1 January 2001 | 3.2 | 1.2 | 4.4 |
| Share of profit in year | 6.0 | - | 6.0 |
| At 31 December 2001 | 9.2 | 1.2 | 10.4 |

| Name of undertaking | Description of shares held | Proportion of nominal value of shares held | Principal activities |
|--------------------------|----------------------------|--|---|
| Barking Power Ltd* | Ordinary £1 | 13.5% | Construction & operation of a power station |
| Thames Valley Power Ltd* | Ordinary £1 | 50.0% | Generation and supply |

*Investment held by the London Power Company plc

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.

Barking Power Ltd accounting reference date is 31 March.

All the above Joint Ventures operate within the United Kingdom.

16 Associates

| | Share of net assets / (liabilities) £m | Goodwill £m | Loans £m | Total £m |
|------------------------------------|---|----------------|-------------|--------------|
| Group | | | | |
| At 1 January 2001 | (8.9) | 8.5 | 2.0 | 1.6 |
| Conversion to unsecured loan notes | 1.7 | - | (1.7) | - |
| Amortisation of goodwill | - | (0.5) | - | (0.5) |
| Share of losses in year | (3.0) | - | - | (3.0) |
| Repayment | - | - | (0.3) | (0.3) |
| At 31 December 2001 | (10.2) | 8.0 | - | (2.2) |

Paypoint Ltd accounting reference date is 31 March.

| | Shares £m | Loans £m | Total £m |
|--|--------------|-------------|-------------|
| Company | | | |
| At 1 January 2001 | 6.8 | 2.0 | 8.8 |
| Conversion to convertible unsecured loan notes | 1.7 | (1.7) | - |
| Repayment | - | (0.3) | (0.3) |
| At 1 January 2001 | 8.5 | - | 8.5 |

| Name of undertaking | Description of shares held | Proportion of nominal value of shares held | Principal activities |
|---------------------|---|---|--------------------------------|
| PayPoint Ltd | Ordinary £0.01 Preference shares £0.01 | 39.2% 16.1% | Cash collection services |

The above associate operates within the United Kingdom.

During 2001 the outstanding loan of £1.65 million was converted into convertible unsecured loan notes of £1 each.

17 Other investments

| | Shares £m | Loans £m | Total £m |
|----------------------------|--------------|-------------|-------------|
| Group | | | |
| At 1 January 2001 | 5.0 | 2.4 | 7.4 |
| Additions | - | 0.2 | 0.2 |
| Repayments | - | (0.2) | (0.2) |
| At 31 December 2001 | 5.0 | 2.4 | 7.4 |
| | Shares £m | Loans £m | Total £m |
| Company | | | |
| At 1 January 2001 | 5.0 | 1.1 | 6.1 |
| Additions | - | 0.2 | 0.2 |
| At 31 December 2001 | 5.0 | 1.3 | 6.3 |

Details of unlisted investments in which the group and company hold more than a 10% interest:

| Name of undertaking | Description of shares held | Proportion of nominal value of shares held |
|---------------------------------------|----------------------------------|---|
| London & Continental Railways Limited | Ordinary £0.25 | 11.27% |

18 Stocks

| | Group | | Company | |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Raw materials and consumables | 50.6 | 19.5 | 4.3 | - |
| Work in progress | 4.4 | 7.8 | - | 6.1 |
| | 55.0 | 27.3 | 4.3 | 6.1 |

19 Debtors

| | Group | | Company | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Amounts falling due within one year: | | | | |
| Trade debtors | 217.6 | 110.1 | 27.5 | 97.9 |
| Unbilled consumption | 177.7 | 170.2 | - | 170.2 |
| | 395.3 | 280.3 | 27.5 | 268.1 |
| Less securitisation | (100.0) | (92.5) | - | (92.5) |
| | 295.3 | 187.8 | 27.5 | 175.6 |
| Amounts owed by other group companies | 2.6 | 37.0 | 436.2 | 50.0 |
| Amounts owed by associates | 0.7 | 2.3 | - | - |
| Other debtors | 19.5 | 18.1 | 46.3 | 16.5 |
| Prepayments and accrued income | 16.0 | 12.7 | 6.4 | 7.4 |
| Advance corporation tax recoverable | - | 3.4 | - | 3.4 |
| Deferred taxation recoverable (Note 25) | 0.3 | 2.7 | 0.3 | 2.7 |
| | 334.4 | 264.0 | 516.7 | 255.6 |
| Amounts falling due after more than one year: | | | | |
| Pension scheme prepayment | 42.4 | 39.5 | 42.4 | 39.4 |
| | 42.4 | 39.5 | 42.4 | 39.4 |

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 debtor's receivable 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.

20 Current asset investments

| | Group | | Company | |
|--------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Unlisted | | | | |
| Money market investments | 19.9 | 19.2 | 10.4 | 11.0 |
| | 19.9 | 19.2 | 10.4 | 11.0 |

21 Borrowings

| | Group | | Company | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Amounts falling due within one year: | | | | |
| Short term borrowings | 554.6 | 424.7 | 626.3 | 242.7 |
| Amounts falling due after more than one year: | | | | |
| 8% Eurobonds repayable 28 March 2003 | 99.7 | 99.6 | - | 99.6 |
| 8 5/8 % Eurobonds repayable 26 October 2005 | 99.5 | 99.4 | - | 99.4 |
| Sutton Bridge Bonds | 308.4 | 325.7 | - | - |
| Loans due to fellow subsidiary undertakings | 7.2 | - | - | - |
| Loans due to subsidiary undertakings | - | - | 131.4 | - |
| Loans: Joint Ventures | 36.3 | - | 35.0 | - |
| | 551.1 | 524.7 | 166.4 | 199.0 |

The 8% Eurobonds may not be redeemed prior to 28 March 2003 except upon the occurrence of certain events (for example, a change in taxation law). In addition, 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 the 1 October 2001 these bonds were transferred to London Power Networks, due to the implementation of the transfer scheme.

The secured bonds which are guaranteed by Sutton Bridge Power Ltd comprise two tranches of twenty five year bonds issued by Sutton Bridge Financing Limited. The first tranche comprises a principal amount of £195 million at a fixed interest rate of 8.625%. The second tranche comprises a principal amount of US\$150 million at a fixed interest rate of 7.97%. Sutton Bridge Financing Limited has entered into currency swap agreements with Enron Capital and Trade Resources Limited in order to convert the principal and interest payment on the US dollar bonds into sterling. The effect of these swaps is to convert the US\$150 million payable to an equivalent long term payable with a principal of £91,930,151 and an effective interest rate of 8.45%. Due to Enron filing for Chapter 11 Bankruptcy, the bonds have been revalued at the year end rate of 1.4554. The weighted average interest rate on fixed rate borrowings is 8.57%. The bonds are secured by means of fixed and floating charges over substantially the net assets of the group 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.

The annual maturities of long term debts outstanding at 31 December 2001 were £17.0 million annually through to 2005 respectively.

22 Other creditors

| | Group | | Company | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Amounts falling due within one year: | | | | |
| Payments received on account | 9.7 | 6.0 | 0.2 | 6.0 |
| Amounts owing for purchase of energy | 148.4 | 175.8 | 114.9 | 175.8 |
| Amounts owed to parent company | 26.0 | 69.4 | 337.9 | 45.7 |
| Trade creditors | 110.1 | 77.2 | 64.4 | 90.1 |
| Corporation tax | 62.5 | 14.5 | 2.5 | 21.1 |
| Other taxation and social security | 2.6 | 4.0 | 2.4 | 2.4 |
| Other creditors | 227.3 | 115.8 | 12.2 | 88.5 |
| Accruals and deferred income | 72.1 | 61.7 | 14.4 | 36.2 |
| Deferred tax creditor | 14.9 | 5.0 | - | - |
| Proposed dividends | 20.4 | 0.4 | 20.4 | 0.4 |
| Finance lease (note 23) | 15.1 | 13.6 | - | - |
| | 709.1 | 543.4 | 569.3 | 466.2 |
| Amounts falling due after more than one year: | | | | |
| Finance lease (note 23) | 366.9 | 381.9 | - | - |
| Other creditors | 4.9 | 2.2 | - | 2.2 |
| | 371.8 | 384.1 | - | 2.2 |

23 Obligations under leases

Net obligations under finance leases held by the group

| | Group | |
|-------------------------|------------------|------------------|
| | 31 December 2001 | 31 December 2000 |
| | £m | £m |
| Amount payable | | |
| Within one year | 15.1 | 13.6 |
| In two to five years | 62.4 | 61.8 |
| In more than five years | 304.5 | 320.1 |
| | 382.0 | 395.5 |

24 Provisions for liabilities and charges

Group

| | At 1 January 2001 | Utilised in the period | Released in the period | Transfer to other group companies | Arising during the year | At 31 December 2001 |
|------------------------------|-------------------|------------------------|------------------------|-----------------------------------|-------------------------|---------------------|
| | £m | £m | £m | £m | £m | £m |
| Insurance | 6.5 | (0.9) | (0.4) | - | 0.3 | 5.5 |
| Restructuring costs | 6.4 | (6.4) | - | - | 1.0 | 1.0 |
| Dilapidation | 1.2 | (1.1) | - | - | 0.9 | 1.0 |
| Other costs | 10.2 | (7.2) | - | - | 4.1 | 7.1 |
| Acquisition Provision | | | | | | |
| Teesside Power | 103.0 | (14.2) | - | - | - | 88.8 |
| Total | 127.3 | (29.8) | (0.4) | - | 6.3 | 103.4 |

Company

| | At 1 January 2001 | Utilised in the period | Released in the period | Transfer to other group companies | Arising during the year | At 31 December 2001 |
|------------------------------|-------------------|------------------------|------------------------|-----------------------------------|-------------------------|---------------------|
| | £m | £m | £m | £m | £m | £m |
| Insurance | 2.7 | (0.5) | (0.4) | - | 0.3 | 2.1 |
| Restructuring costs | 6.4 | (6.4) | - | - | 1.0 | 1.0 |
| Dilapidation | 1.2 | (1.1) | - | - | 0.9 | 1.0 |
| Other costs | 8.3 | - | - | (6.7) | - | 1.6 |
| Acquisition Provision | | | | | | |
| Teesside Power | 103.0 | (10.7) | - | (92.3) | - | - |
| Total | 121.6 | (18.7) | (0.4) | (99.0) | 2.2 | 5.7 |

The Teesside Power provision arose on the acquisition of the supply business of South Western Electricity. The provision represents the difference between the contract price and the estimated market electricity price. The discount rate used in arriving at the provision was a risk adjusted rate. The amount utilised in the period for the Teesside provision is net of £8.5 million relating to the unwinding of the discount and has been included within interest payable. This provision was transferred to London Electricity plc as part of the transfer scheme.

The insurance provision is based on an assessment of the Group's known liabilities as at 31 December 2001. The restructuring provision relates primarily to business restructuring.

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.

25 Deferred Taxation

The amount provided for deferred taxation and the amounts for which provision has not been made are as follows:

Provided in accounts:

| | Group | | Company | |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| At 1 January | (2.3) | (4.2) | 2.7 | 0.8 |
| Transfer from profit and loss | (12.3) | 1.9 | (2.4) | 1.9 |
| At 31 December | <u>(14.6)</u> | <u>(2.3)</u> | <u>0.3</u> | <u>2.7</u> |

The deferred liability at 31 December 2001 and 31 December 2000 relates to other timing differences.

Potential liability not provided:

| | Group | | Company | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Accelerated capital allowances | 230.8 | 220.8 | (11.0) | 207.2 |
| Other timing differences | (17.9) | 6.8 | 13.3 | 5.5 |
| | <u>212.9</u> | <u>227.6</u> | <u>2.3</u> | <u>212.7</u> |

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

26 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 FRS13, 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.

| | Fair value 2001 £m | Book value 2001 £m | Fair value 2000 £m | Book value 2000 £m |
|-------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Long term investments | 7.4 | 7.4 | 7.3 | 7.3 |
| Debtors greater than one year | 42.4 | 42.4 | 39.4 | 39.4 |
| Current asset investments | 19.9 | 19.9 | 19.2 | 19.2 |
| Cash at bank and in hand | 25.5 | 25.5 | 2.5 | 2.5 |
| Short term borrowing | (554.6) | (554.6) | (244.7) | (244.7) |
| Long term borrowings | (566.2) | (551.1) | (213.6) | (199.0) |
| Interest rate swap | 0.5 | - | 0.5 | - |

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. In 2000 the directors took advantage of paragraph 53(c) of FRS 13 not to disclose the fair value of the Group's CFDs on the basis it was likely to be seriously prejudicial to the Group's interests.

Interest rate profile of financial liabilities

The interest rate profile of financial liabilities as at 31 December 2001 was as follows:

| | Total £m | Floating rate £m | Fixed rate £m |
|----------------|----------------|---------------------|------------------|
| Pound Sterling | (554.6) | (245.6) | (309.0) |
| US Dollar | (103.1) | - | (103.1) |
| | <u>(657.7)</u> | <u>(245.6)</u> | <u>(412.1)</u> |

Interest rate profile by currency is as follows:

| | Pound Sterling | US Dollar |
|----------------------------------|----------------|-----------|
| Weighted average interest rate % | 8.47 | 7.97 |
| Weighted average period (years) | 11.6 | 21.0 |

At 31 December 2001 London Electricity had interest rate swap on £8.0 million debt (2000: £8.0 million). The fair value of the interest rate swap outstanding at 31 December 2001 was an asset of £0.5 million (2000: £0.5 million).

The benchmark for determining floating exchange rates is LIBOR.

Interest rate profile of financial assets

The interest rate profile of financial assets as at 31 December 2001 was as follows:

| | Total £m | Floating rate £m | Fixed rate £m | Non bearing interest £m |
|------------------|-------------|---------------------|------------------|-------------------------------|
| Financial assets | 95.2 | - | 45.4 | 49.8 |

The weighted average interest rate on fixed rate financial assets is 4.1%.

Maturity of borrowings

The groups maturity of debt at 31 December 2001 was as follows:

| | 2001 £m |
|---|------------------|
| In one year or less or on demand | (554.6) |
| In more than one year but not more than two | (143.2) |
| In more than two years but not more than five years | (99.5) |
| In more than five years time | (308.4) |
| | <u>(1,105.7)</u> |

Borrowing facilities

At 31 December 2001 the group had bilateral committed undrawn borrowing facilities of £556.0 million of varying maturity dates.

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

| | 2001 £m |
|--|--------------|
| In less than one year | - |
| In more than one but less than two years | 556.0 |
| In more than two years | - |
| | <u>556.0</u> |

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 | Net foreign currency monetary assets/(liabilities) | |
|------------------------|--|--------------|
| | US Dollar £m | Total £m |
| Pound Sterling | <u>103.1</u> | <u>103.1</u> |

Aggregated gains and losses on financial instruments used as 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 | Gains |
| | 31 December | 31 December |
| | 2001 | 2000 |
| | £m | £m |
| Gains on hedges at beginning of year | 0.5 | 0.5 |
| Gains/(losses) arising in previous years that were recognised this year | - | - |
| | <u>0.5</u> | <u>0.5</u> |
| Gains/(losses) arising this year that were not recognised this year | - | - |
| Net gains on hedges at end of year | <u>0.5</u> | <u>0.5</u> |
| Of which are expected to be recognised in the profit and loss account: | | |
| In more than one year | 0.5 | 0.5 |
| | <u>0.5</u> | <u>0.5</u> |

In the table above the carried forward unrecognised net gain at 31 December 2001 of £0.5 million equates to the difference between the fair value and book value of hedging instruments.

27 Share capital

| | Group and Company | |
|--|-------------------|--------------|
| | 31 December | 31 December |
| | 2001 | 2000 |
| | £m | £m |
| Authorised | | |
| 651,480,454 ordinary shares of 58 1/3 p each (2000: 257,172,207 ordinary shares of 58 1/3p each) | 380.0 | 150.0 |
| 300,000,002 ordinary shares of 50p each | 150.0 | 150.0 |
| | <u>530.0</u> | <u>300.0</u> |
| Allotted, called up and fully paid | | |
| 645,506,179 ordinary shares of 58 1/3 p each (2000: 251,197,933 ordinary shares of 58 1/3p each) | 376.5 | 146.5 |

On 27 December 2001 the share capital of London Electricity Group plc was increased by £230 million by the creation of 394,308,246 ordinary shares of 58 1/3p each.

28 Reserves and profit and loss account

| | Group & Company | |
|---|-----------------|----------------|
| | £m | |
| Share premium account | | |
| At 1 January 2001 | | 13.9 |
| At 31 December 2001 | | <u>13.9</u> |
| Capital redemption reserve | | |
| At 1 January 2001 | | 11.0 |
| At 31 December 2001 | | <u>11.0</u> |
| Profit and loss account | Group | Company |
| | £m | £m |
| At 1 January 2001 | 492.0 | 479.5 |
| Transfer to other group companies (Transfer scheme) | - | (491.2) |
| Retained profit for the period | 42.1 | 44.1 |
| At 31 December 2001 | <u>534.1</u> | <u>32.4</u> |
| Total reserves at 31 December 2001 | <u>559.0</u> | <u>57.3</u> |

29 Pension commitments

The principal pension scheme available to employees of London Electricity Group plc has been 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 (the Plan) a defined contribution scheme.

The ESPS provides pensions and related benefits based on the final pensionable pay of employees throughout the electricity supply industry. The assets of the scheme are held in a separate trustee administered fund.

A full valuation of the scheme was undertaken by Bacon & Woodrow as at 31 March 2001. At that date the market value of assets relating to the scheme was £1,089 million, which represented a funding ratio of 118.0%. The resultant surplus will be used to increase benefits to pensioners and to facilitate reductions in employer and employee contributions. The valuation adopted a market led approach. The results of this valuation will be implemented with effect from 1 April 2002.

The actuarial valuation of the London Electricity Group plc ESPS used for the purpose of these accounts was carried out at 31 March 1998 by Bacon & Woodrow, consulting actuaries. The valuation method adopted was the attained age method.

At 31 March 1998, the actuarial value of the assets relating to London Electricity Group plc was £756.1 million, which represented 110.1% 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 rises. The resultant surplus is being used to increase benefits to pensioners and to facilitate reductions in employer and employee contributions.

In order to calculate the pension charge in accordance with the group's accounting policy, a separate actuarial valuation was prepared by Bacon & Woodrow, consulting actuaries, as at 31 March 1998. This valuation was determined using the projected unit credit method, and resulted in a regular cost of 10.6% of pensionable pay. This regular cost has been reduced by the benefit of an accounting surplus arising, which is being spread over 11 years, being the average remaining service life of employees. The resulting credit to profit in the year was £4.7 million. A prepayment of £42.4 million is included in debtors greater than one year, as a result of the spreading of the surplus. The directors have reviewed the recoverability of the prepayment of £42.4 million and are of the opinion that the actuarial surplus which gives rise to the prepayment can be utilised under the rules of the scheme, within the foreseeable future.

Under the Plan the charge to profit is the contribution paid by London Electricity Group plc. The amount paid for the year ended 31 December 2001 was £2.1 million (2000: £1.7 million).

The total net credit for pension schemes in the accounts for the year ended 31 December 2001 is £2.6 million (2000: £6.0million).

Further disclosures are required in accordance with the transitional arrangements of FRS17 - Retirement Benefits in respect of the ESPS. A separate actuarial valuation was prepared by Bacon & Woodrow as at 31 December 2001 for this purpose. This valuation was determined using the projected unit credit method (PUC method). ESPS is 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 major assumptions used were:

| | (% per annum) |
|---|---------------|
| Inflation assumption | 2.3 |
| Rate of increase in salaries | 3.3 |
| Rate of increase in pensions in payment and deferred pensions | 2.3 |
| Rate used to discount scheme liabilities | 5.6 |
| Expected rate of return on equities | 7.1 |
| Expected rate of return on bonds | 5.1 |
| Expected rate of return on other assets | 5.1 |

| | |
|--|---------|
| The assets in the scheme were: | 2001 |
| | £m |
| Equities | 744.0 |
| Bonds | 248.0 |
| Total market value of assets | 992.0 |
| Less defined benefits obligation | (940.0) |
| Surplus in scheme | 52.0 |
| Less deferred tax @ 35% | (18.0) |
| Net pension asset (after deferred tax) | 34.0 |

30 Financial commitments

Sutton Bridge Power Ltd has an agreement for the operation and maintenance of the plant located in Sutton Bridge, Lincolnshire. The total commitment of this agreement is £68.6 million (2000: £75.9 million).

The annual commitments of the group under non-cancellable operating leases are as follows:

| | 31 December 2001 | | 31 December 2000 | |
|-----------------------------|--------------------|----------|--------------------|----------|
| | Land and buildings | Other | Land and buildings | Other |
| | £m | £m | £m | £m |
| Expiring within | | | | |
| One year | 9.8 | - | 0.5 | - |
| Two to five years inclusive | 33.4 | - | 0.3 | - |
| Over five years | 75.1 | - | 7.5 | - |
| | 118.3 | - | 8.3 | - |

Capital commitments of the group and company were:

| | Group | | Company | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | 31 December 2001 | 31 December 2000 | 31 December 2001 | 31 December 2000 |
| | £m | £m | £m | £m |
| Contracted for but not provided for | 335.6 | 249.1 | - | 225.5 |

31 Commitments and contingent liabilities

Under Part II A of the Environmental Protection Act 1990 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.

32 Post balance sheet events

On 18 January 2002, London Electricity Group plc bought TXU Europe Group plc's UK distribution business and its 50 per cent interest in 24seven Utility Services Ltd for £560 million and the assumption of £750 million of debt. The acquired distribution business was renamed EPN Distribution Ltd.

EPN's distribution business is one of the largest in the UK and consists of the assets and wires that deliver electricity through a 90,000km network in East Anglia and south-east England. 24seven Utility Services Ltd - a Joint Venture between TXU Europe Group plc and London Electricity Group plc established in April 2000 operates and maintains the two distribution networks.

On 7 February 2002 London Power Company confirmed that it had purchased Northern Electric's wind power portfolio for £3.5 million. It has also agreed to invest £3 million in a marine technology company, Marine Current Turbines Ltd to carry out research into the possibility of installing underwater turbines to harness the power of high tidal stream currents.

33 Related party transactions

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

| | 31 December 2001 | 31 December 2000 |
|---|------------------|------------------|
| | £m | £m |
| Sales: | | |
| Services Supplied | 50.5 | 67.8 |
| Purchases: | | |
| Services Received | (58.5) | (28.6) |
| Tangible Fixed Assets | (64.3) | (47.2) |
| | (72.3) | (8.0) |
| Amounts outstanding at 31 December 2001 | (45.9) | (46.1) |

34 Ultimate parent company

At 31 December 2001 London Electricity Group's plc immediate parent company was considered by the directors to be London Electricity Group Holdings plc.

Electricité de France, a French state owned company is regarded by the directors as the company's ultimate parent company. Copies of that company's consolidated accounts may be obtained from Electricité de France, 22-30 Avenue de Wagram, 75382, Paris Cedex 08, France.