

ENERGY COMMUNICATION SERVICES LIMITED

Registered Number 3158935

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 1998



ENERGY COMMUNICATION SERVICES LIMITED

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

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Directors

Mr S J Bott
Mr R Barnes (Resigned 31 May 1999)
Mr J Morris (Appointed 31 May 1999)

Secretary

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

Registered Number

3158935

Auditors

PricewaterhouseCoopers, 1 Embankment Place, London WC2N 6NN

Registered Office

Templar House
81-87 High Holborn
LONDON
WC1V 6NU

ENERGY COMMUNICATION SERVICES LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998

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

PRINCIPAL ACTIVITY

The Company's principal activity is the provision of meter reading and related services. It will continue in this activity for the foreseeable future.

RESULTS AND DIVIDEND

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

The loss for the financial year of £1,774,638 (9 months to 31 December 1997: £27,164) will be accumulated against reserves. Further information is contained in the financial statements appended to this report.

The Directors do not recommend payment of a dividend.

FIXED ASSETS

Details of the movements in fixed assets during the year are shown in Note 8 to the financial statements.

DIRECTORS

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

Mr S J Bott

Mr R Barnes (Resigned 31 May 1999)

Mr J Morris (Appointed 31 May 1999)

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

DIRECTORS' INTERESTS

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

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

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

DIRECTORS' SHAREHOLDINGS

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

YEAR 2000

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

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

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

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

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

CREDIT PAYMENT POLICY

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

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

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

AUDITORS

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

By Order of the Board



R I Higson
Secretary

11 November 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

In preparing those financial statements, the Directors are required to

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

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

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

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

ENERGY COMMUNICATION SERVICES LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF ENERGY COMMUNICATION SERVICES LIMITED

We have audited the financial statements on pages 7 to 12.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, as described on page 5 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements. If the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
11 November 1999

ENERGY COMMUNICATION SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

		12 Months 31 December 1998 £	9 Months 31 December 1997 £
Turnover	Notes 2	6,510,137	3,460,805
Cost of sales	16	(6,360,436)	(2,341,531)
Gross profit		<u>149,701</u>	<u>1,119,274</u>
Administration expenses		(1,889,422)	(1,114,850)
Operating (loss) / profit	3	<u>(1,739,721)</u>	<u>4,424</u>
Write off of capitalised development costs	8	-	(92,586)
Interest (payable) / receivable	6	(34,917)	60,998
Loss on ordinary activities before taxation		<u>(1,774,638)</u>	<u>(27,164)</u>
Tax on ordinary activities	7	-	-
Accumulated loss for the year	12	<u><u>(1,774,638)</u></u>	<u><u>(27,164)</u></u>

The results of the Company relate entirely to continuing operations.

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

There is no difference between the loss on ordinary activities before taxation and the accumulated loss for the year stated above, and their historical cost equivalents.

ENERGY COMMUNICATION SERVICES LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 1998

	Notes	31 December 1998 £	31 December 1997 £
Fixed Assets			
Tangible assets	8	532,513	547,514
Current Assets			
Debtors	9	1,818,865	488,003
Cash & Bank		-	20,051
		<u>1,818,865</u>	<u>508,054</u>
Current Liabilities			
Amounts falling due within one year	10	(3,854,779)	(784,331)
Net Current Liabilities		<u>(2,035,914)</u>	<u>(276,277)</u>
Net (Liabilities) / Assets		<u>(1,503,401)</u>	<u>271,237</u>
Capital and Reserves			
Share capital	11	300,000	300,000
Reserves			
Profit and loss account	12	(1,803,401)	(28,763)
Equity shareholders' funds	13	<u>(1,503,401)</u>	<u>271,237</u>

The financial statements on pages 7 to 12 were approved by the Board of Directors on 11 November 1999 and signed on its behalf by:



Mr J Morris
Director

ENERGY COMMUNICATION SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. ACCOUNTING POLICIES

Accounting conventions

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

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

Turnover

Turnover arises entirely in the United Kingdom from the supply of meter reading services and is stated exclusive of value added tax.

Pensions

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

Tangible fixed assets

The cost of individual tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

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

Lives of depreciable assets are as follows:

IT and other office equipment	5 years
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Deferred tax

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

Leases

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

2. TURNOVER

Turnover arises entirely in the United Kingdom.

3. OPERATING PROFIT

	Note	12 Months 31 Dec 1998	9 Months 31 Dec 1997
		£	£
Operating loss is stated after charging the following:			
Auditors' remuneration		12,000	3,000
Depreciation		193,916	60,842
Loss on disposal of fixed assets	8	-	92,586
Lease payments for vehicles		335,601	240,000
Exceptional item - Additional payment under contract	16	764,000	-

4. DIRECTORS' EMOLUMENTS

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

5. EMPLOYEE INFORMATION

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

	12 Months 31 Dec 1998 Number	9 Months 31 Dec 1997 Number
Direct staff	209	153
Indirect staff	39	29
Total	<u>248</u>	<u>182</u>

Staff costs (for the above persons)	12 Months 31 Dec 1998 £	9 Months 31 Dec 1997 £
Wages and salaries	3,790,496	2,134,262
Social Security costs	505,427	172,752
Other pension costs	51,717	-
	<u>4,347,640</u>	<u>2,307,014</u>

6. INTEREST PAYABLE / RECEIVABLE

	12 Months 31 Dec 1998 £	9 Months 31 Dec 1997 £
Other interest (payable to) / receivable from London Electricity plc	<u>(34,917)</u>	<u>60,998</u>

7. TAXATION ON PROFITS ON ORDINARY ACTIVITIES

	12 Months 31 Dec 1998 £	9 Months 31 Dec 1997 £
Amount receivable from London Electricity plc in respect of group relief	<u>-</u>	<u>-</u>

8. FIXED ASSETS

	IT & Office Equipment £	Total £
Cost		
As at 1 January 1998	608,356	608,356
Additions	178,915	178,915
At 31 December 1998	<u>787,271</u>	<u>787,271</u>
Depreciation		
As at 1 January 1998	60,842	60,842
Charge for the period	193,916	193,916
At 31 December 1998	<u>254,758</u>	<u>254,758</u>
Net book value		
At 31 December 1997	<u>547,514</u>	<u>547,514</u>
At 31 December 1998	<u>532,513</u>	<u>532,513</u>

9. DEBTORS

	31 Dec 1998 £	31 Dec 1997 £
Amount falling due within one year		
Trade Debtors	520,324	18,482
Amount due from London Electricity plc	-	11,954
Prepayments and accrued income	1,298,541	457,567
	<u>1,818,865</u>	<u>488,003</u>

10. CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	31 Dec 1998 £	31 Dec 1997 £
Bank Overdraft	162,770	-
Trade creditors	123,453	402,460
Other taxation and social security	34,289	28,950
Amount due to London Electricity plc	2,289,846	-
Amounts due to other group Companies	92,608	42,511
Other creditors	69,557	14,144
Accruals and deferred income	1,082,256	296,266
	<u>3,854,779</u>	<u>784,331</u>

11. SHARE CAPITAL

	31 Dec 1998 £	31 Dec 1997 £
Authorised		
500,000 Ordinary shares of £1 each	<u>500,000</u>	<u>500,000</u>
Allotted, called up and fully paid		
300,000 Ordinary shares of £1 each	<u>300,000</u>	<u>300,000</u>

12. RESERVES

	Profit and Loss Account 12 Months 31 Dec 1998 £	Profit and Loss Account 9 Months 31 Dec 1997 £
Balance at 1 January 1998	(28,763)	(1,599)
Accumulated loss for the year	(1,774,638)	(27,164)
Balance at 31 December 1998	<u>(1,803,401)</u>	<u>(28,763)</u>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 Dec 1998 £	31 Dec 1997 £
Opening shareholders' funds	271,237	298,401
Loss for the year	(1,774,638)	(27,164)
Closing shareholders' funds	<u>(1,503,401)</u>	<u>271,237</u>

14. PENSIONS

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

The most recent formal actuarial valuation of the scheme was carried out at 31 March 1995 by Bacon and Woodrow, consulting actuaries. Details of the principal assumptions and results of the valuation are included in the financial statements of London Electricity plc. A further formal valuation as at 31 March 1998 took place.

The pension charge for the year was as follows:

	£
Normal charge for the year	122,379
Less pension surplus credit	(122,379)
	<u>-</u>

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

The pension charge for the period relating to that scheme was £51,717 (31 December 1997: £nil).

15. FINANCIAL COMMITMENTS

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

	31 Dec 1998	31 Dec 1997
	Vehicles	Vehicles
	£	£
Expiring within one year	70,271	29,541
Expiring between two and five years inclusive	340,293	143,054
Expiring over five years	84,954	35,713
	<u>495,518</u>	<u>208,308</u>

16. POST BALANCE SHEET EVENT

Following completion of contractual negotiations with a customer of Energy Communication Services (ECS) in October 1999, an additional payment of £764,000 from ECS to the customer has been made in respect of services provided in the year ended 31 December 1998. This has been charged as an exceptional Cost of Sales.

17. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard number 8 "Related Party Disclosure", the company is exempt from disclosing transactions with entities that are part of London Electricity Plc group or investees of the group qualifying as related parties, as it is a wholly owned subsidiary of a parent publishing consolidated financial statements.

18. PARENT COMPANY

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

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