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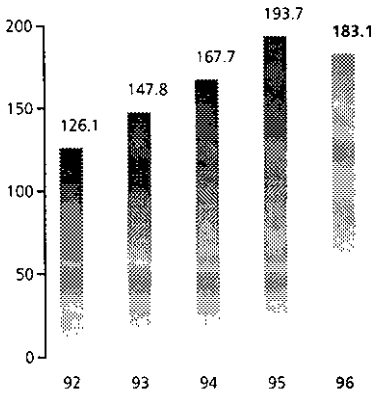
COMPANIES HOUSE 17/08/96

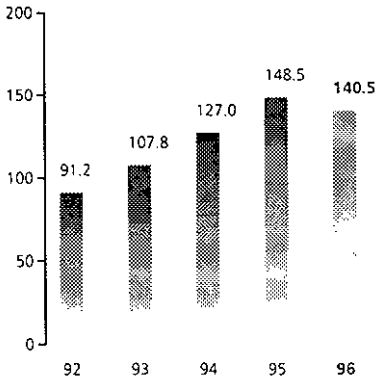
Financial Highlights 1996

	1995/96	1994/95
Turnover (before customer discount)	**£1,278.6m**	£1,209.4m
Operating profit (excluding NGG transactions and exceptional costs)	**£190.2m**	£195.5m
Reported profit before taxation	**£276.1m**	£172.4m
Underlying profit before taxation	**£183.1m**	£193.7m
Underlying profit after taxation	**£140.5m**	£148.5m
Aggregate ordinary dividends payable	**£70.2m**	£58.0m
Dividend cover	**2.0 times**	2.6 times
Gross capital expenditure	**£106.3m**	£110.4m
Net assets	**£499.7m**	£657.8m
Net borrowings	**£264.1m**	£107.8m
Ratio of net borrowings to net assets	**52.9%**	16.4%

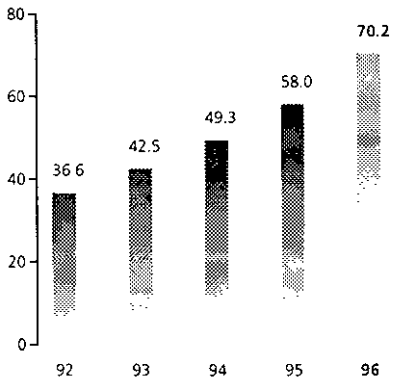
Underlying profit before taxation (£m)



Underlying profit after taxation (£m)



Aggregate dividends payable (£m)



Note:
The underlying figures quoted in the text and financial highlights exclude, for all years, all National Grid Group (NGG) income, and also adjust for exceptional costs and associated taxation. These adjustments are set out in the 5 year statistical review on page 60.

Capital Performance

The electricity industry has seen significant restructuring over the year and has often been the subject of regulatory and political interest. Throughout this period London Electricity has continued to enhance shareholder value by increasing its efficiency, delivering quality services to its customers and marketing its expertise in electricity distribution. As a private sector company providing a public service, customer service is central to the way in which London Electricity runs its business. It is by capitalising on that ethos of customer service that London Electricity will continue to deliver high returns to its shareholders.

OFFER complaints received per 100,000 customers

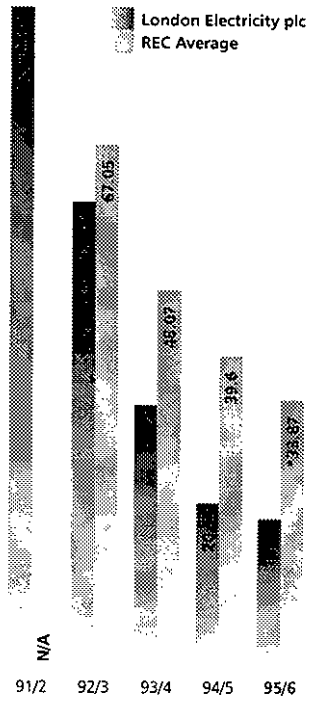


*Fig represents data to 31 December 1995.

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Notice to shareholders

Regulatory Accounts A set of accounts for regulatory purposes is required by the Office of Electricity Regulation. These accounts relate solely to the regulated utility businesses. Copies may be obtained free of charge on request from the Shareholder Enquiry Service at the Company's Registered Office.

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Capital Commitment

London Electricity plc Annual Report and Accounts

1995/96

Chairman's Statement

Group profit before taxation, National Grid Group transactions and exceptional items was £183.1 million. Underlying earnings per share increased from 82.5 pence to 82.6 pence. The final dividend of 27 pence a share brings the total dividend for the year to 38.5 pence. The aggregate dividend payable was increased by 21 per cent to £70.2 million. Despite the impact of the Distribution Reviews the Board has been able to continue to increase the value of dividends in real terms.

In January this year the special dividend of 100 pence per ordinary share, announced in the autumn, returned another £198.7 million to our shareholders. Following the demerger of our shareholding in the National Grid Group, shareholders also received stock worth £350 million. Both distributions followed share buy-backs last year, which further benefited shareholders. In addition eligible residential customers received £50 discounts.

Our main focus remains our distribution business. The key to continuing success is to ensure that our capital assets are refurbished and repaired on a systematic basis. It is therefore important that sufficient cash flow is generated by the business to sustain that as well as provide our shareholders with an attractive return.

We are also seeking opportunities to increase our unregulated earnings by applying our core distribution skills to private electricity networks and construction projects with an electricity distribution component. During the course of this year, we secured a major contract to construct and operate the electricity distribution network for the Channel Tunnel Rail Link.

We continue to operate in a highly regulated and politicised environment. The year opened amid renewed uncertainty following the decision of the Regulator to re-consider the pricing structure for the electricity distribution companies. The eventual outcome was a significant tightening of the permissible return on our distribution business. Under the terms of the second review, London Electricity is obliged to cut its distribution revenues by 11 per cent in the current year and by 3 per cent a year in real terms for each of the next three years. The ruling translates into a revenue loss of around £30 million in the current year before inflation and volume adjustments.

The year has also seen much restructuring of the industry with a range of mergers and acquisitions. Such changes are inevitable. In assessing these moves the overriding factor to consider is whether the changes will assist competition and provide better service and choice for electricity customers.

From April 1998 we, along with the other electricity companies, will face competition in our residential franchise for the first time. We have now proved that we are

capable of competing in competitive markets by rebuilding our position in the commercial market this year. We achieved it by designing innovative contracts, reorganising our sales and marketing efforts and offering competitive prices.

We are already preparing for competition in the residential markets by investing in greater internal efficiency, customer service training, novel payment methods and new metering and billing technology. London Electricity is confident that it can meet the challenge of competition in the residential markets, provided the regulatory framework for it is open, workable and fair. It is only by competing successfully for customers that we will increase rewards for our shareholders.

In September, Mike Kersey was appointed Chief Executive following the resignation of Dr Roger Urwin to take up a new post with the National Grid Group. On behalf of the Board, I would like to extend our thanks to Roger for the drive and commitment with which he managed our transition from the public sector to private ownership.

Mike Kersey, who ran our Energy Services business until he took over as Chief Executive, installed the framework which has transformed that business. He is equipped with the experience and vision to take London Electricity forward into the next stage of its development.

In December, Judith Hanratty joined the Board as a non-executive director. Judith, who is Company Secretary at BP, has valuable experience of commercial, financial services, environmental and administrative law.

Despite the many events of the past year, in politics and the media as well as in the industry itself, London Electricity has continued to supply electricity reliably and safely to its customers and to service their needs to the highest standards. Markets, regulators, politicians and journalists are unlikely to give us any respite in the year to come. But I am confident that our combination of competitive prices, innovative products, dedicated staff and an unmatched reputation for customer service will enable us to develop our businesses to deliver value to our shareholders in the future.

Sir Bob Reid Chairman

Chief Executive's Statement

London Electricity is changing. The Company is now embarking on the next stage in its transformation from a publicly owned company into a dynamic private sector business. Change is not an option, but a necessity. The responsibility of owning the monopoly of electricity distribution in London places upon us the obligation to adapt our own organisation.

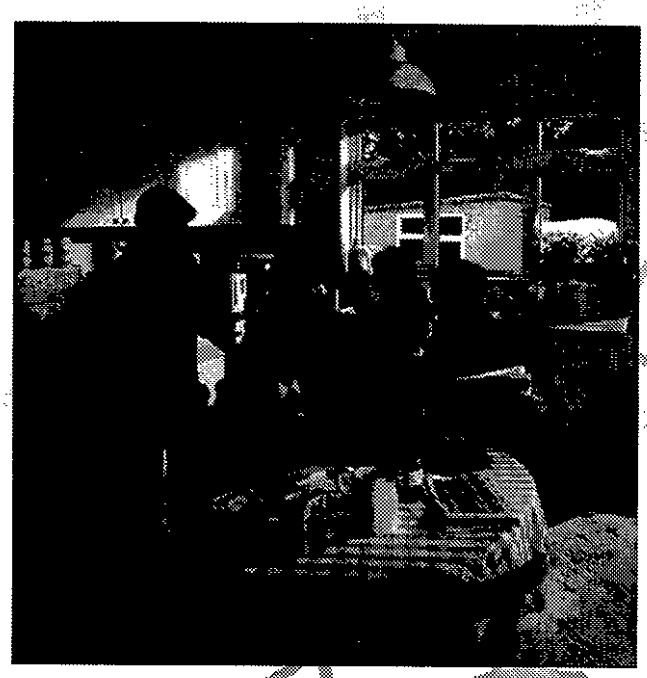
The market speculation and merger and acquisition activity which have characterised the electricity industry in Britain recently are unlikely to abate. From April 1998, we face an additional challenge. The intense competition for commercial customers, which started over two years ago, will be extended to the residential market as well. We are now positioning ourselves to take advantage of the opportunities which these developments present.

London Electricity has a clear vision of the kind of company it must become if it is to compete in a changing industry. Our goal is to create a business geared to what our customers really want, rather than what the regulatory authorities have decided they require. It is only by giving excellent value and service to its customers that London Electricity can earn the right to operate its monopoly of electricity distribution in the capital.

Our customers want a reliable supply of electricity, value-for-money and excellent service. Competition is the best way to ensure that we provide them with this. London Electricity already competes for large commercial customers, and we are preparing to compete vigorously for all our other customers as well. But even in areas of our businesses which will never be subject to competition, each of our activities is now benchmarked against the best in the industry.

London Electricity has a particular responsibility to meet the electricity needs of the capital. In this densely populated city our residential customers have diverse backgrounds and lifestyles. Our job is to meet their needs with competitive prices and a variety of first class services.

Capital City, Capital Service



Serving the needs of our customers is the principal function of London Electricity. In 1998 some 2 million of those customers will be able to choose their electricity supplier. Experience in the competitive business has shown us that while price is an important factor in choosing a supplier, standards of customer service are equally vital.

When making a choice of electricity supplier, we want customers to see London Electricity as their first choice. We therefore seek their comments and listen to their suggestions. We shall continue to work hard on being responsive, efficient and quality conscious. Our success in service provision has resulted in London Electricity's Charter Mark being renewed unconditionally and has ranked us as the best performer of all the electricity companies in meeting our Regulator's guaranteed service standards for the last four years. Our aim is to set our standards high so that we rank as a best service provider.

Customer Service Awards
Recognising the contribution employees make to a successful business is important. Last year over 70 staff received a customer service award recognising good service well done. Pictured is one award winner, Everton Kirkwood, part of London Electricity's customer liaison team.

Customer Operations
The transfer of many of our customer operations activities to Doxford, Sunderland is an example of how cost efficiency and quality service can go hand-in-hand. Our services there include a 24hr-a-day enquiry centre which combines lower operating costs with the latest technology to answer customers' queries.

Chief Executive's Statement

Customer Focus

The introduction of competition to the residential market is an opportunity, not a threat. London Electricity will be free for the first time to sell electricity to residential customers outside the London area. To seize that opportunity, we are maintaining competitive prices, improving efficiency, raising our standards of service and enhancing our sales and marketing activities.

Despite rising fuel costs, residential electricity prices are now 17 per cent lower in real terms than they were five years ago. Earlier this year, eligible residential customers also benefited from a £50 discount on their electricity bills, following our decision to share the benefits of the demerger of the National Grid Group with customers as well as shareholders.

With prices falling in real terms, continuing profitability depends on involving all of our staff in the drive for efficiency. Under the Business Process Re-design (BPR) programme, teams of employees have already made a major contribution to the elimination of unnecessary costs and inefficiencies in the way we work.

Efficiency is not being purchased at the cost of service. The re-location of many of our customer operations activities to the Doxford International Business Park in Sunderland will enable a 24-hour-a-day enquiry centre there to handle an anticipated 2.5 million calls a year. We are also working with Thames Water on areas of our business where co-operation may be mutually beneficial. Again cost efficiencies could be achieved and service standards enhanced.

London Electricity aims not merely to meet the service standards set by the Regulator but to be a best service provider, exceeding customers' expectations. We have now taken first place in the Office of Electricity Regulation's survey of guaranteed standards for four years in succession. In July we became the first electricity distribution company to collect an ISO 9000 accreditation for the implementation of our guaranteed service standards systems.

The renewal of our Charter Mark in December was further recognition of the continuous improvements we have made in customer service standards.

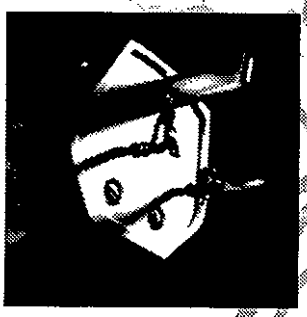
London Electricity is also helping customers by investigating electronic methods of payment. The use of rechargeable Power Keys has eliminated the need to disconnect customers. London Electricity last disconnected a residential customer in January 1994. The key-pad technology now being explored will enable customers to buy electricity by credit card over the telephone. From next year customers paying in cash and by cheque will be able to use around 400 outlets in London, called Paypoints, located in convenient retail outlets.

Our participation with TOTAL in the pilot schemes now being conducted in the South West of England for the opening of the residential gas market to competition is a good example of our willingness to listen. It is already yielding valuable intelligence on what persuades residential customers to change suppliers.

Since 1994 major businesses have been able to choose their electricity supplier. While price is still a fundamental factor in choosing a supplier, service provision has become increasingly more important. London Electricity has concentrated its efforts on providing businesses with contracts that are flexible and tailored to specific needs. Dedicated account managers handle each account and add-on services such as electronic billing and energy advice are available. London Electricity is now recognised as a significant supplier to business and came top in a poll of energy users for its capital service.

Capital City, Capital Service

London Electricity recognises that personal service and responding to what customers want are the keys to long-term customer relationships, a factor which has helped London Electricity become a significant player in the national energy supply market.



RESPOND is an integrated electricity, gas and water monitoring system developed by London Electricity, which can pinpoint inefficient energy use and promote responsible energy management among customers – another example of thinking widely about customers' needs.

New Business London Electricity exceeded its targets by winning more than £150 million of new business in the latest contract round. London Electricity confirmed its presence as a key player in the national market by winning household names including Thames Water and Next Retail Ltd, in addition to retaining a high proportion of businesses such as the Safeway supermarket chain, Mercury Communications Ltd and Cadbury Schweppes.

Chief Executive's Statement

Competitive Success

Our confidence that we can prosper in competitive markets is reinforced by our record of recent success in the commercial sector, where we have faced intense competition for over two years. After some initial setbacks, London Electricity has now proved that electricity can be sold on service as well as price.

Last year our unit sales of electricity to large commercial customers increased by 45 per cent. The 1996/97 contract round, in which we secured £150 million of new business, went equally well.

We have adopted a more focused approach to sales, appointing both specialist salesmen and women and dedicated account managers. A £1.5 million marketing campaign, launched in January last year, helped them to secure over 1,000 new sites and over 100 new customers last year. The campaign, which combined public relations, advertising and direct marketing, took first prize in the marketing category at the Electrical Review Industry Awards for Excellence last autumn.

Whilst our willingness to tailor contracts to the needs of the customer has given our sales force a formidable competitive advantage, price remains an important incentive for customers to change supplier. The contracts we offer are flexible on price, duration and site coverage. Customers can also choose between paper invoices and electronic billing and take advantage of a range of value-added services like consumption analysis and energy audit.

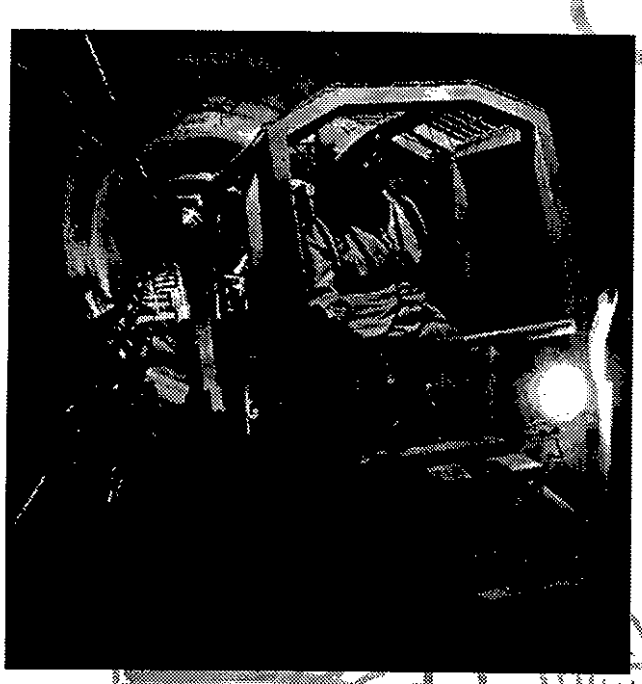
In January this year we launched RESPOND, an energy management reporting system which enables companies to monitor gas and water usage as well as electricity consumption. It is the first service which monitors all three utilities to be offered by any regional electricity company, and equips users with a powerful new tool for managing the cost of energy.

We have a broad range of commercial customers, many of them household names. Commercial Union Assurance plc, Metropolitan Police, Mercury Communications Ltd, Cadbury Schweppes and Safeway have all renewed and extended their contracts in the last year, and major new contracts were secured from Next Retail Ltd, Ladbroke Group, W. M. Morrison Supermarkets plc and Thames Water. The volume of new business we are winning is a tribute to our flexibility on price, our broad portfolio of products and our commitment to the highest standards of customer service. This was confirmed in a recent poll of major electricity users which ranked London Electricity top in terms of service quality.

This market is likely to undergo significant change in the coming years depending upon the extent of reorganisation, reintegration and the alliances forged among the electricity companies. London Electricity intends to participate in this market provided we are able to achieve satisfactory returns.

London Electricity's main business centres around its electricity distribution network, a significant element in London's infrastructure. Reliability and security of supply are high priorities for our customers. To achieve the standards they expect regular investment is vital.

Capital Investment

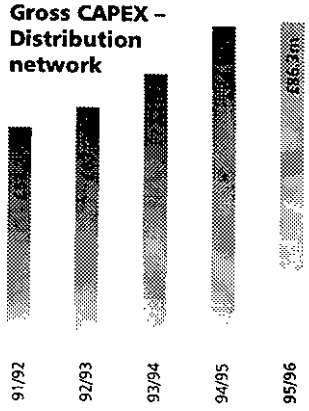


£86.3 million was spent last year on enhancing or maintaining the distribution network to improve reliability and reconnect supplies more quickly should something go wrong.

We are also using our expertise to invest in the development and management of private electrical distribution networks elsewhere. That expertise will be used in the construction of the Channel Tunnel Rail Link.

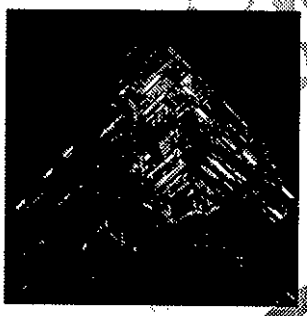
Tunnel Regular investment in our network is essential to provide a reliable supply of electricity to the capital. London Electricity operates in a densely populated area – by laying cables in tunnels instead of digging up roads, we will minimise the environmental impact on London's communities.

Gross CAPEX – Distribution network



A European Passenger Services photograph

Eurostar London Electricity is a key member of London & Continental Railways, the winning consortium in the bid to build and operate the Channel Tunnel Rail Link, and is also a member of the Light Railway Group bidding to build the Docklands Light Railway extension in South East London.



Barking Power A variety of generators is vital for effective competition. Barking Power, a new independent plant in which London Electricity has a stake, was officially opened in October 1995 and is now fully operational and profitable.

Chief Executive's Statement

Investment in the Network

London Electricity cannot afford to take risks with the integrity of its distribution network. It is our major source of earnings. Unless we invest continuously to maintain the network and to improve it, we cannot achieve the level of customer service to which we aspire.

Last year we spent over £86 million on the maintenance and improvement of the network. The underground tunnel from Pimlico to Wimbledon, part of a £52 million modernisation of the primary distribution network in South West London, was completed in the year. Work on the second phase of the project, a 6km tunnel from Willesden to Fulham, started in September. A third tunnel, under the Thames from New Cross to Blackfriars, is part of a £63 million investment programme designed to enhance the electricity network for the City of London, which accounts for over 10 per cent of total electricity demand in the capital.

A major programme to invest in the automation of sub-station switching is now under way. The ability to restore disrupted supply by remote control will keep London Electricity on course to meet its target to reduce continually the average loss of supply per customer.

The network will remain our most important source of earnings for the foreseeable future but, with revenues under pressure from tighter regulation and increased competition, we are actively pursuing alternative investments. London Electricity has never diversified into unrelated markets, and we continue to seek only those opportunities where we can make use of our core skills.

Our principal focus is private electricity distribution networks. Properly run, they can produce a stream of long-term high quality earnings similar to our distribution franchise. Revenues from the airport networks we purchased from BAA three years ago, for example, are rising steadily in line with our investment programme.

These earnings will eventually be augmented by revenues from our participation in the London & Continental consortium, which bid successfully to build and operate the Channel Tunnel Rail Link. We have also agreed with the London Docklands Development Corporation to design, build and operate a private distribution network for the Royal Docks. Additional private distribution business is being sought. London Electricity is part of the Light Railway Group bidding to construct the Docklands Light Railway extension and has been shortlisted to tender for the electricity requirements of London Underground.

We are exploring further opportunities to invest in generation as well as distribution. Our participation in the consortium which built the power station at Barking, which became fully operational this year, has given us valuable experience which we can apply elsewhere.

Long term success for London Electricity will be influenced by the achievements of our employees. A committed, involved work force who understand the Group's goals and ethics will be motivated and able to take up the opportunities of the future. The Company views as a top priority investment in equipping its staff with the appropriate skills and creating the best environment in which they can develop. Training focuses on team work, encouraging initiative and setting standards which ensure that our customers get quality from whoever they deal with at London Electricity.

Capital Investment

Quality Training Whatever the work, well qualified, motivated staff provide a more effective, efficient service. London Electricity's commitment to providing staff training of the highest quality was recognised with the winning of two National Training Awards – for the Customer Services STAR training scheme and Network Service Action Plan Training.

Skills Olympics Working together as a team is essential to meet the challenges of the future, producing better results and helping to produce continuous improvement in the way we do things. The benefits of teamwork are much in evidence during London Electricity's annual Skills Olympics in which teams attempt to provide novel solutions to practical problems.

Chief Executive's Statement

Investment in People

Our ability to sell services which depend on customer relationships is a measure of the progress which London Electricity has made in raising its standards of customer service. But we cannot deliver the level of service demanded by a competitive marketplace unless our own employees are well-trained and highly motivated.

Over the last year we have made considerable progress in breaking down the cultural barriers to the creation of a customer-focused business. Every employee is taking part in the re-shaping of the Company, through management leadership courses, the BPR programme, training courses, workshops, and a confidential consultation programme designed to generate ideas for further improvement.

Success in modern business is built on teamwork. A company which does not share its skills and ideas will fail to make the most of all of its employees. The beneficial effects of the re-organisation of London Electricity into distinct business units, each managed by a single individual, are being reinforced by the formation of teams drawn from the separate units. Clear lines of responsibility are not incompatible with mutual support.

No company can respond quickly to customer demands unless individuals are empowered, within a framework of corporate principles and values, to make decisions. Good decisions depend on excellent training in the right skills. All staff at Doxford, for example, are expected to attend the Staff Training Accreditation Requirement (STAR) programme. They do not deal with customers until they have taken the appropriate number of training modules and passed stringent accreditation tests.

In February this year the STAR training course won one of two prestigious National Training Awards given to London Electricity by the Department of Employment. The Network Services Action Plan, a five year programme organised by the engineering training section to introduce more flexible methods of maintaining the network, also won an award. The plan has contributed to a 25 per cent reduction in network operating costs over the last four years.

Community

London Electricity is an integral part of London. As the owner of the electricity distribution monopoly, providing an essential service to families and businesses, London Electricity has a stronger obligation to contribute to the life of the city than most companies based in the capital.

London Electricity cannot improve the quality of life in the capital, or broaden the range of opportunities open to its people, without the support of others.

In the last year we have made substantial contributions to education projects and urban regeneration schemes in the capital in partnership with schools and local community groups. As an engineering-based company, we are particularly concerned with the importance of numeracy to both our core business and our systems of management and financial control.

London is important to London Electricity and London Electricity is important to London. We believe we have a responsibility to be involved in the wider issues that affect London. Education, youth and the environment are our main priorities.

Capital People

The London Electricity Maths Fund is now in its third year of helping to improve maths teaching in London schools – a long-term contribution to the quality of the capital's workforce. London Electricity is also a member of West London Leadership – a public/private sector initiative to help regenerate an area of West London – and a similar scheme in East London through membership of the East London Partnership.

Framework Children's Theatre One of the many community projects benefiting from London Electricity's community affairs programme is the children's theatre group based in Stoke Newington. The Framework Children's Theatre benefited from a £1,000 donation to help it in its work with young children, promoting multi-cultural integration from an early age through theatre in local schools.

Maths Fund London Electricity's award-winning £100,000 Adding Value Maths Fund scheme aims to help develop core maths skills in the capital's children through interactive projects in partnership with local businesses.

South Kilburn Improving the local environment by working in partnership with other businesses and local authorities is the aim of the West London Leadership project. As part of this project London Electricity Contracting provided and installed low energy lighting throughout the hallways and stairways in the Mozart Estate in South Kilburn, thereby improving the security of local residents.

Employee Involvement London Electricity staff at Romford Road played host to a party of children from the autistic unit at Tollgate School in Plaistow, East London. The visit, organised by customer services clerk Kim Berwick (pictured), a special needs governor of the school, was part of a series to help widen the children's experiences and develop their social skills.

Chief Executive's Statement

Through our Electricity in Education Advisory Service we support projects which bring the science and technology aspects of the national curriculum to life. London Electricity staff also visit schools, giving talks on the generation and use of electricity and encouraging children to use it safely and efficiently. Over the last two years, our Adding Value Maths Fund has contributed £100,000 to improving the understanding, teaching and practical application of maths in over 100 primary and secondary schools in London.

Another educational initiative, Learning Through Landscapes, has just been launched. By investing in stimulating and safe playgrounds in the inner city, London Electricity is making a major contribution to improving educational environments in London.

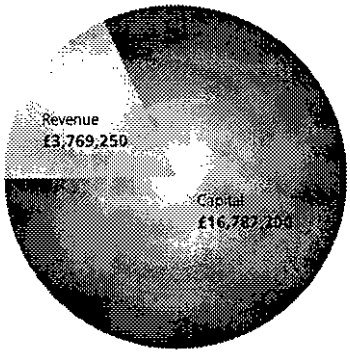
As a member of London First, London Electricity is also active in the promotion of the capital as an international business and financial centre. But we are also anxious to play our part in helping the most deprived parts of the city. The East London Partnership has received grants to help in the revival of parts of the boroughs of Tower Hamlets, Newham and Hackney. We also support a similar project in West London, West London Leadership. One specific project there has involved a partnership with businesses and local authorities to improve the street lighting in one residential area. Crime rates have fallen and local residents feel more secure. In all, the Company invested £750,000 in community projects in the last year.

Environment, Health and Safety

Care for the environment and the health and safety of our employees are key elements in our business strategy. We recognise that as a major player in the energy industry, we have a responsibility not to unnecessarily place anyone at risk or degrade the environment in which we live and work.

Our goal is to ensure that Environment, Health and Safety form a natural part of our business management. A responsible attitude to the environment makes good business sense too. Tighter environmental regulation will increase our costs if we do not develop waste management, recycling and energy-saving techniques of our own. During the course of the year we reaffirmed our commitment to reduce our own energy consumption. Last year, we reduced our energy costs by 13 per cent, saving an estimated £240,000.

Environmental Expenditure 1995/96



Capital Expenditure

Refurb of oil filled cables
£400,000

Secondary switch gear replacement
£8,800,000

Cable tunnels
£7,300,000

Replacement of PCB contaminated equipment
£125,000

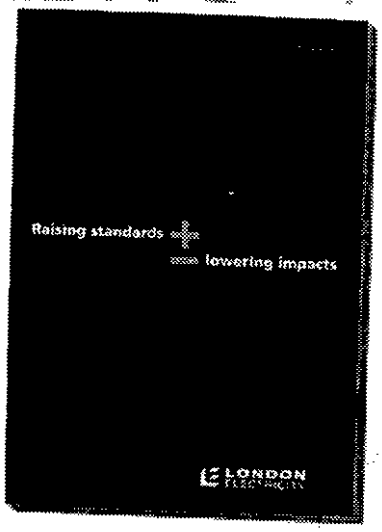
Other
£162,200

The chart above shows total expenditure on projects which have an environmental benefit.

Care for the environment and for the health and safety of our people is one of the most important aspects of our business. Our goal is to ensure that these areas form a natural part of our management and are recognised as central in securing competitive advantage. Each business group now has a dedicated environment, health and safety team focused on setting standards and improving performance. Our commitment involves openness about our performance through regular reporting and setting challenging strategic targets, such as reducing our energy consumption and achieving zero lost time accidents and electrical injuries.

Capital Practice

Environmental Report This year saw the publication of London Electricity's first and award-winning, Environmental Annual Report. The Report reflects the Company's commitment to honest and open dialogue about our environmental performance and help maintain public trust and confidence in what we do.



HSE Conference The issues of health, safety and the environment are ones on which London Electricity will not compromise. Delegates at a conference earlier this year recognised that consistent attention to health, safety and the environment is essential if London Electricity is to continue to improve its productivity and profitability and enhance its company image.

Waste Recycling London Electricity aims to minimise the impact of its operations on the environment. To that end, proper waste disposal is a responsibility the Company takes very seriously. The new waste handling compound at London Electricity's Bengeworth Road depot is evidence of our commitment to recover and recycle operational wastes.

Chief Executive's Statement

In October last year we published our first environmental report. *Raising Standards, Lowering Impacts* details the ways in which we impinge on the environment, and charts both the progress we are making towards the more responsible use of energy, land and waste and the steps we are taking to reduce pollution. The report, which won an award from the Chartered Association of Certified Accountants, will be updated annually.[1]

We are also helping our customers reduce their impact on the environment. London Electricity is committed to saving customers 461GWh of electricity through energy-efficiency schemes over the four years to 1998. To achieve this testing target, we are convening business seminars to advise companies on how to reduce their consumption.

We are subsidising the purchase of compact fluorescent lamps and giving grants to improve the efficiency of the heating and lighting of both public and private housing. Since November last year, we have made our energy-saving expertise available to the public free of charge via our Energy Fax File line.

Health and Safety is another area in which London Electricity is not prepared to compromise. Investment in health and safety is not a subtraction from shareholder value. It costs shareholders on average £100,000, excluding pension rights, to retire a 50-year-old employee because of illness or injury at work. People work longer and better, and make fewer mistakes, if their working conditions are healthy and safe. Health and safety raises productivity and profitability.

Each business group now has a dedicated Health, Safety and Environment team, organised by a single co-ordinator. The first of a series of conferences designed to raise awareness of health, safety and environment was held in February this year and a risk management package to help managers anticipate and control potential hazards has been devised.

Conclusion

London Electricity has embarked on a series of changes designed to enhance our ability to compete for commercial and residential customers. We have invested in our networks, and in the people who operate them. The process of change is never easy. But I am confident that the reward for our boldness will be the development of a dynamic and profitable business.

Mike Kersey Chief Executive

1. Shareholders and other interested parties will be able to obtain copies of the new report from the Environmental Manager, London Electricity plc, Templar House, 81-87 High Holborn, London WC1V 6NU when it is published later this year.

Operating and Financial Review

Underlying profit before taxation and exceptional items was £183.1 million. Comparisons with last year are complicated by the demerger from the Group of its 10.5 per cent holding in National Grid Group and the subsequent payment of a special dividend to shareholders. There was also a further restructuring provision of £20.0 million and a £4.5 million provision for possible losses to March 1998 in the joint venture with TOTAL. For the purposes of comparison, figures for underlying profit before and after taxation and the reported figures are set out in Table 1.

Table 1 Underlying results – 1995/96

	Reported £m	NGG £m	Excluding NGG £m	Other £m	Underlying £m
Turnover	1,187.7	(90.9)	1,278.6	–	1,278.6
Cost of sales	(834.5)	8.3	(842.8)	–	(842.8)
Operating costs	(280.0)	(14.4)	(265.6)	(20.0)	(245.6)
Operating profit	73.2	(97.0)	170.2	(20.0)	190.2
Other income and expenses	202.9	214.5	(11.6)	(4.5)	(7.1)
Profit before taxation	276.1	117.5	158.6	(24.5)	183.1
Taxation	(89.4)	(53.4)	(36.0)	6.6	(42.6)
Profit after taxation	**186.7**	**64.1**	**122.6**	**(17.9)**	**140.5**

Underlying results – 1994/95

	Reported £m	NGG £m	Excluding NGG £m	Other £m	Underlying £m
Turnover	1,209.4	–	1,209.4	–	1,209.4
Cost of sales	(740.1)	–	(740.1)	–	(740.1)
Operating costs	(306.8)	–	(306.8)	(33.0)	(273.8)
Operating profit	162.5	–	162.5	(33.0)	195.5
Other income and expenses	9.9	21.2	(11.3)	(9.5)	(1.8)
Profit before taxation	172.4	21.2	151.2	(42.5)	193.7
Taxation	(22.5)	(4.2)	(18.3)	26.9	(45.2)
Profit after taxation	**149.9**	**17.0**	**132.9**	**(15.6)**	**148.5**

Distribution

The turnover of the electricity distribution business fell by 6 per cent to £357.1 million. This reflected the further restrictions imposed on regulated revenues by the Office of Electricity Regulation (OFFER). The fall in revenue was largely offset by a reduction in operating costs. Buoyant demand for electricity, particularly in the commercial sector, ensured that unit sales rose by 5 per cent to 20,692 GWh.

Supply

Overall turnover in the supply business rose by 7 per cent to £1,188.9 million. An underrecovery in the franchise market of £7.4 million is expected to be recovered in the 1996/97 financial year. As a consequence of the underrecovery, the underlying profit of £14.2 million is lower than last year.

Operating and Financial Review

Rising market share in the commercial sector for customers buying more than 100Kw of electricity reflects continuing investment in sales and marketing and in flexible and innovative contracts as referred to in the Chief Executive's Review. Sales volumes rose by 45 per cent.

Table 2 Underlying turnover and operating profit by class of business

	Underlying turnover 1995/96 £m	1994/95 £m	Underlying operating profit 1995/96 £m	1994/95 £m
Class of business				
Distribution	**357.1**	379.1	**162.5**	166.0
Supply	**1,188.9**	1,113.6	**14.2**	16.9
Private electrical distribution systems	**15.9**	14.8	**12.0**	11.0
Other	**43.2**	29.6	**3.0**	1.6
	1,605.1	1,537.1	**191.7**	195.5
Less: Inter business transactions	**(326.5)**	(327.7)	**(1.5)**	–
Continuing operations	**1,278.6**	1,209.4	**190.2**	195.5

Private Distribution Networks

Turnover in private distribution systems rose by 7.4 per cent to £15.9 million and operating profit by £1 million to £12 million. The portfolio of businesses now includes a number of commercial buildings in London, including Canary Wharf and Centre Point, as well as the private distribution networks at Heathrow, Gatwick and Stansted airports.

The Group is a partner in the London & Continental consortium which bid successfully to build the Channel Tunnel Rail Link. The Group will eventually build, own and operate the electricity network for the Link. Electricity distribution assets belonging to the Eurostar rail network at Waterloo International, and the international train depots at North Pole in West London and in Manchester, are already in the ownership of the Group. The Group is involved in tendering for several other private networks.

Other Businesses

The 50 per cent joint venture with TOTAL, London Total Gas, now supplies 3,760 sites around London and enables London Electricity to offer selected clients a total energy package. London Electricity's share of the loss for 1995/96 was £1.1 million. A provision of £4.5 million has been made to cover possible losses to March 1998 on the gas purchase arrangements with TOTAL.

The Company continues to believe that gas supply offers a valuable long term business opportunity to supply existing and potential customers with total energy solutions. In a highly competitive marketplace, most participants have experienced difficulties, but the relationship with TOTAL remains exceptionally strong.

During the year a second joint venture, London Total Energy, was established with TOTAL. The new enterprise is participating in the pilot schemes now being conducted in the South West of England to test the viability of a competitive market in residential gas supplies and customers' response.

Electrical contracting increased its contribution to operating profits, from £1 million to £1.2 million, excluding revenues from services supplied to the core distribution network.

Operating and Financial Review

Barking Power Limited, in which the Company has a 13.475 per cent shareholding, continues to perform well. Over the next twelve months, Barking Power Limited expects to repay a substantial tranche of the subordinated debt from its shareholders used to finance the project. The figure for net interest payable in the profit and loss account includes £2.8 million of accrued interest receivable on this debt.

During the course of the financial year, the Company established a joint venture with Canadian Utilities, Thames Valley Power, to operate a combined heat and power plant at Heathrow Airport.

Capital Expenditure

Gross capital expenditure on the distribution network continued to rise, by 1.6 per cent to £86.3 million, and total gross Group capital expenditure was £106.3 million. Some of the major capital projects now under way are mentioned in the Chief Executive's Review.

National Grid Group (NGG) Demerger

In December 1995, the Company demerged its 10.5 per cent shareholding in the NGG. As part of the transaction, the Company received dividends from the NGG of £134.9 million.

The Company subsequently distributed the majority of its shares to eligible shareholders in the form of a distribution in specie.

Following the demerger, all eligible residential customers received a discount on their electricity bills of £50. This resulted in an adjustment to revenues of £90.9 million. After allowing for a reduction in fossil fuel levy of £8.3 million there was a reduction in gross profit of £82.6 million.

An Employee Share Ownership Plan (ESOP) was established to hold NGG shares for employee option holders in London Electricity shares (mainly in the employee sharesave scheme), who would otherwise have suffered a loss in value as a result of these transactions. Accounting for this under the rules in UITF13 has resulted in a first year exceptional charge of £13.1 million.

Professional advice related to the demerger of the holding in NGG cost £1.3 million. This sum is also included in the exceptional charge to the profit and loss account.

In a separate transaction associated with the demerger, the Company has recognised a profit of £70.1 million on its share of the sale to Mission Energy of the pumped storage business formerly owned by NGG.

The overall effect of the demerger on operating profit is set out in Table 1. The overall effect on the profit and loss account is set out in a separate column in the profit and loss account on page 36. That column also includes the interim dividend for 1995/96 received by the Company before the demerger.

Capital Restructuring

As part of its strategy to return value to shareholders, the Company paid a special dividend of 100 pence (net) a share in January 1996. The total cost was £198.7 million. The special dividend was followed by a consolidation of share capital in which six new shares of 58⅓ pence each were issued in exchange for every seven existing shares of 50 pence each.

Operating and Financial Review

Profits and Dividends

The recommended final dividend of 27 pence per share results in a total dividend for the year of 38.5 pence per share. The cost of the dividends payable by the Company totalled £70.2 million, an increase of 21 per cent. The total dividend is covered 2 times by underlying earnings. The Company expects to continue to increase the value of dividends in real terms.

Treasury and Cash Flow

The Group net cash inflow from operating activities before movements in working capital was £117.9 million (1994/95 £193.2 million). There was an increase of £15.3 million in working capital compared with an increase of £38.1 million in 1994/95.

At 31 March 1996 the Group had net borrowings of £264.1 million giving a ratio of borrowing to net assets of 52.9 per cent compared with 16.4 per cent at 31 March 1995. These figures are impacted by the NGG transactions, and certain of their associated taxation effects.

In order to fund increased longer term borrowing requirements the Company in October 1995 issued £100 million, 8⅝ per cent Eurobonds repayable in 2005. This is the second bond issue made by the Company and represents a further tranche of fixed debt. The Company continues to enjoy good long term ratings, being rated AA+ by Standard & Poor's and Aa3 by Moody's.

To ensure the adequacy of committed borrowing facilities against foreseen needs, further bilateral agreements were negotiated to provide a total of £230 million of committed borrowing facilities. These facilities are supplemented by uncommitted borrowing lines of £228 million and a £150 million commercial paper programme.

The Company's treasury operations are regulated by policies set by the Board and are monitored by staff independent of the dealing function. The policies set criteria for the deposit of cash balances restricting the type of investment and counterparty. Credit ratings form a central feature of this policy. The use of hedging instruments is also strictly controlled and relates to securing protection from adverse interest rate movement on a proportion of foreseeable cash exposures. It is anticipated that the Group will move further into a borrowing position over the next few years and will review the role of fixed rate debt and hedging to control interest rate risk. The Group has no significant exposure to foreign currency exchange rates.

Balance Sheet

The initiatives taken during the year included the continued restructuring of the Balance Sheet with the aim of releasing value to shareholders and moving towards a level of borrowing more consistent with the business of the Group.

Future Developments

The core distribution business is sound, its prospects are good and the Company has a proven record of extracting value from it. The expertise of the Company in electricity distribution is now being applied to a number of unregulated but related businesses which will provide growing returns in the years ahead. The revitalised electricity supply business provides the Company with a powerful platform from which to tackle the challenges posed by the introduction of competition to the residential electricity market in April 1998.

Report of the Remuneration Committee

REMUNERATION POLICY

The Report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury was published on 17 July 1995. Central to its recommendation was a Code of Best Practice whose main provisions are being incorporated in the London Stock Exchange Listing Rules ('the Listing Rules') or in Section A or Section B of the best practice provisions annexed to them. Although the amendments to Sections A and B to the Listing Rules are not binding on the Company for the year under review, the following Report by the Remuneration Committee ('the Committee') is in line with the Greenbury Code.

Remuneration of the executive directors is determined by the Committee, all of whose members are non-executive directors of the Company having no personal financial interest other than as shareholders in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. Their names are listed on pages 26 and 27. Remuneration of the non-executive directors is determined by the Board as a whole.

The Committee considers that throughout the year under review the Company has complied with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange. Furthermore, in framing its remuneration policy, the Committee has given full consideration to the matters set out in Section B of those provisions.

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place to attract, motivate and retain high calibre executives. The packages are linked to individual and business performance and are designed to align personal reward with enhanced shareholder value over both the short and long term.

Packages consist of annual salary, health and car benefits, an annual cash bonus scheme and pension contributions. The Committee uses surveys of executive remuneration provided by its external adviser when setting pay levels. These surveys include data on comparable companies as well as more general trends in the marketplace.

BONUS PAYMENTS

The amount of bonus paid to each director is based on the achievement of a combination of personal performance measures and of Company performance against budget and against a Regional Electricity Company ('REC') peer group. The figures shown in the Directors' emoluments table are for payments made in respect of the year 1994/95.

The maximum bonus payable is 25 per cent of basic salary.

Personal performance criteria constitute less than 50 per cent of the maximum bonus payable. The component criteria relate to each individual director's areas of responsibility.

The components for 1995/96 were made up as follows:

	Individual	Corporate against budget	Corporate against peer group
Chief Executive	5%	10%	10%
Finance Director	7%	7%	11%
Other Executive Directors	9%	6%	10%

The Company performance criteria for 1995/96 for executive directors were as follows:

a) Company performance against budget

i) By comparison with percentage profit growth within REC peer group.

ii) Calculation of profit to exclude NGG dividend and exceptional items.

iii) No payment to be made for the 11th or 12th place in the peer group. Thereafter 10 per cent of potential award to be granted for each ascent in ranking within the group.

b) Company performance against peer group

This is based on the increase in total shareholder value calculated as the percentage return on investment taking into account both any increase or decrease in capital value and any dividend payments or other distributions declared with respect to that financial year, the payment to be made only if performance exceeds the median of the peer group.

Bonuses are not pensionable nor are benefits in kind.

Report of the Remuneration Committee

SHARE OPTION SCHEMES

Executive share option scheme

Executive directors participated in the executive share option scheme during the year. Other than the grant to Mr M J Kersey of an option over 75,077 shares on 3 April 1995, no new share options were granted during the year to directors. The Company does not presently intend to make any further grants of share options to the directors under the existing executive share option scheme.

Sharesave scheme

The Company also operates a Save As You Earn (Sharesave) scheme which offers participating employees the opportunity to buy shares in London Electricity. There are approximately 1,077 members of staff in this scheme.

PENSIONS

Executive directors are entitled to a pension of up to two thirds of basic salary on retirement at age 60 and, on death during employment, an executive director's dependants receive a lump sum of four times basic salary. Contributions by the directors are 6 per cent of basic salary.

SERVICE CONTRACTS

All of the executive directors have service contracts with a notice period of 12 months. However, in the event of a change of control the notice period is extended to an initial period of 24 months effective from the date of change of control, reducing over the succeeding year to 12 months. The Committee considers that such maximum notice periods are reasonable and in the interests of the Company (having regard to the competitive conditions and current practice among large public companies) and are important in attracting and retaining high quality executives.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The remuneration for non-executive directors consists of fees for their services in connection with Board and Board Committee meetings and, where relevant, for additional services such as chairing the Board or a Board Committee or devoting additional time and expertise for the benefit of the Group. They do not have contracts of service, are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive schemes.

DIRECTORS' EMOLUMENTS

Salaries and Fees

	Salary £000	Bonus £000	Pensions £000	Benefits £000	1995/96 Total £000	1994/95 Total £000	Notes
Chairman:							
Sir Bob Reid	100	–	–	–	100	100	
J J Wilson	–	–	–	–	–	22	(1)
	100	–	–	–	100	122	
Executive directors:							
M J Kersey	137	12	59	12	220	–	(2)
	123	1	47	12	–	183	
I R Beament	99	10	42	12	163	–	
	92	16	39	10	–	157	
M J Brown	98	10	43	12	163	–	
	89	15	38	10	–	152	
A V Towers	127	14	54	7	202	–	
	122	22	52	10	–	206	
R J Urwin	94	20	40	5	159	–	(2)
	184	31	79	10	–	304	
Total 1995/96	555	66	238	48	907		
Total 1994/95	610	85	255	52		1,002	
Non-executive directors:							
J C Hanratty	6	–	–	–	6	–	(3)
G M W Owen	21	–	–	–	21	21	
L W Priestley	21	–	–	–	21	21	
C A Prendergast	–	–	–	–	–	6	(3)
H G Robinson	–	–	–	–	–	6	(3)
	48	–	–	–	48	54	
Total	703	66	238	48	1,055	1,178	

The figures for pensions included above represent the contributions paid by the Company. Further guidance is awaited from the Institute of Actuaries on a more appropriate method of reporting this information.

Notes:

1. J J Wilson

He resigned as Chairman on 31 March 1994 and the emoluments shown are in respect of a bonus for that year.

2. Chief Executive (Highest paid director)

During the year both R J Urwin and M J Kersey served as Chief Executive. Dr Urwin resigned on 29 September 1995 and Mr Kersey was appointed as his successor on 30 September 1995. On his appointment as Chief Executive, Mr Kersey received a salary increase of 11.4 per cent to reflect his additional duties.

3. Non-executive directors

Miss J C Hanratty was appointed as a non-executive director on 5 December 1995 and her fees are included from that date.

Mrs H G Robinson and Mr C A Prendergast resigned as directors on 5 August 1994.

Directors' interests in the issued ordinary share capital and share options of the Company

The interests of the directors of the Company at 31 March 1996 in the issued ordinary share capital and share options of the Company, as shown in the register kept by the Company, are given below. The interests are shown from 1 April 1995 or date of appointment where this is later.

All the interests are beneficial unless otherwise stated.

(a) Ordinary shares

	At 31/3/96	At 1/4/95
Sir Bob Reid	**428**	500
M J Kersey	**428**	500
I R Beament	**15,774**	9,905
M J Brown	**6,013**	3,356
J C Hanratty (appointed 5/12/95)	**Nil**	n/a
G M W Owen	**857**	1,000
L W Priestley	**857**	1,000
A V Towers	**10,727**	5,335
C A Prendergast (retired 5/8/94)	**282**	330
H G Robinson (retired 5/8/94)	**Nil**	150
R J Urwin (resigned 29/9/95)	**94,419**	7,121
Total	**129,785**	29,197

Shareholdings at 31 March 1996 take into account the share capital consolidation which took place on 18 January 1996 by means of which six new ordinary shares were issued to replace every seven existing shares.

None of the directors has a beneficial interest in the shares of any subsidiary company, nor in the debenture or loan stocks issued by the Company or any subsidiary.

Report of the Remuneration Committee

(b) Share options

		Sharesave No. 1	Sharesave No. 2	Executive No. 1	Executive No. 2	Executive No. 3	Executive No. 5	Total
M J Kersey	31/3/96	–	–	–	–	–	75,077	75,077
	1/4/95	–	–	–	–	–	–	–
I R Beament	31/3/96	–	–	–	–	19,400	–	19,400
	1/4/95	5,571	–	–	14,000	19,400	–	38,971
M J Brown	31/3/96	–	990	–	–	14,400	–	15,390
	1/4/95	5,571	990	–	–	14,400	–	20,961
A V Towers	31/3/96	–	990	–	–	23,800	–	24,790
	1/4/95	5,571	990	100,000	28,000	23,800	–	158,361
R J Urwin	31/3/96	–	–	–	–	29,350	–	29,350
	1/4/95	5,571	–	120,000	35,000	29,350	–	189,921
Total	31/3/96	–	1,980	–	–	86,950	75,077	164,007
	1/4/95	22,284	1,980	220,000	77,000	86,950	–	408,214
Exercise price per share		£1.75	£3.03	£2.61	£3.00	£4.83	£5.92	
Earliest exercisable date		1/3/96	31/12/97	17/1/94	14/1/95	20/7/96	3/4/98	
Latest exercise date		1/9/96	30/6/98	17/1/2001	14/1/2002	20/7/2003	3/4/2005	

Options granted, exercised and sold during the year

	Shares granted	Price £	Shares exercised	Exercise price £	Market price at date of exercise £	Shares sold	Market price at date of sale £	Date of sale
M J Kersey	75,077	5.92	–	–	–	–	–	–
I R Beament	–	–	5,571	1.75	7.59	10,000	8.08	10/8/95
	–	–	14,000	3.00	8.08	2,000	8.70	10/10/95
			19,571					
M J Brown	–	–	5,571	1.75	7.59	2,434	7.43	7/3/96
			5,571					
A V Towers	–	–	5,571	1.75	7.59	118,335	8.08	10/8/95
	–	–	100,000	2.61	8.08	4,500	7.32	12/3/96
	–	–	28,000	3.00	8.08	3,200	7.12	30/1/96
			133,571					
R J Urwin	–	–	120,000	2.61	8.08	51,965	8.08	10/8/95
	–	–	35,000	3.00	8.08	–	–	–
			155,000					

The closing market price of the shares at 31 March 1996 was £7.43 (31 March 1995 £5.82).

The number of options lapsed unexercised was 5,571 shares in respect of Dr R J Urwin's option under the Sharesave Scheme which lapsed on his leaving the Company (1994/95 nil).

The following directors sold shares over which they held an interest after 31 March 1996:

	Shares sold	Market price at date of sale £
I R Beament	2,000	7.92
M J Brown	2,790	7.92
A V Towers	3,200	7.93

The other directors' interests in the shares of the Company remain unchanged between 31 March 1996 and 18 June 1996.

Board of Directors

CHAIRMAN

Sir Bob Reid (Age 62) is non-executive Chairman. He joined London Electricity as a non-executive Director on 1 December 1993 and became Chairman on 1 April 1994. Sir Bob joined Shell International Petroleum Company Limited in 1956 and after a distinguished career overseas became a Director in 1984, and Chairman and Chief Executive of Shell UK in 1985. He was Chairman of British Rail until 31 March 1995. He is currently Chairman of Sears plc and is Chairman of British Borneo Petroleum Syndicate plc.

CHIEF EXECUTIVE

Mike Kersey (Age 54) is Chief Executive and is a chartered engineer. He took up his present position with London Electricity in October 1995, having joined the Company in January 1994. He held a number of appointments in various parts of the world, latterly with Matthew Hall Ltd where he was appointed Managing Director in 1987. Following the acquisition of Matthew Hall in 1988 by AMEC plc, he became Chairman of the Mechanical and Electrical Sector. In 1992, he was appointed Chief Executive of AMEC Construction Pty Ltd based in Australia.

EXECUTIVE DIRECTOR

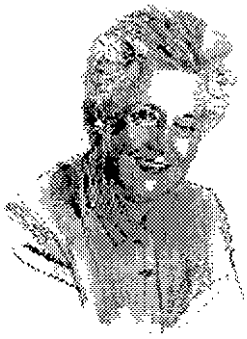
Ian Beament (Age 51) is an Executive Director and is a chartered engineer. He joined Eastern Electricity in 1962 and was appointed Area Engineering Manager in 1978. He joined London Electricity as Construction and Operations Engineer in 1983 and was appointed Director of Engineering in July 1984, and to his present position on 1 June 1993.

EXECUTIVE DIRECTOR

Mike Brown (Age 51) is an Executive Director and is a chartered secretary. He joined the industry in 1964 working for SEEBOARD and then the Electricity Council. He joined London Electricity in 1982 as Management Services Director and after successive senior line management appointments, he became Director of Customer Services in April 1989. He was appointed to his present position on 1 June 1993.

FINANCE DIRECTOR

Alan Towers (Age 54) is Finance Director and is a chartered accountant. Before joining London Electricity in December 1988, he held financial posts in a number of companies including, most recently, Group Finance Manager of GPG plc.



NON-EXECUTIVE DIRECTOR

Judith Hanratty (Age 52) was appointed a non-executive Director of London Electricity in December 1995. She is currently Company Secretary of The British Petroleum Company plc and a Director of various BP subsidiary companies. She is a Secretary of State nominee on The Insurance Brokers Regulation Council and a member of the Committee established by the London Stock Exchange to enquire into Private Share Ownership (the Weinburg Committee). She is also a Trustee of Lucy Cavendish College, Cambridge and the Waitangi Foundation. A barrister, she held Board positions associated with the privatisation of New Zealand Government assets before coming to the UK in 1986.

NON-EXECUTIVE DIRECTOR†

Gordon Owen CBE (Age 58) was appointed a non-executive Director of London Electricity in March 1990. Previously Group Managing Director of Cable and Wireless plc, he is currently Chairman of Energis Communications Limited and non-executive Chairman of Utility Cable plc. He is also a Director of Verity Group plc and Acorn Computer Group plc.

NON-EXECUTIVE DIRECTOR*

Leslie Priestley TD (Age 62) was appointed a non-executive Director of London Electricity in 1983. Having held senior positions in Barclays Bank plc, he became Chief Executive of TSB England and Wales plc. He is currently a member of the Monopolies and Mergers Commission and Chairman of the Civil Aviation Authority Pension Scheme and Caviapen Trustees Ltd. He is also a non-executive Director of Pearce Group Holdings Limited, Pinnacle Insurance plc and Expatriate Management Ltd.

† Chairman of the Audit Committee
* Chairman of the Remuneration Committee

Directors' Report

The directors present their report and financial statements for the year ended 31 March 1996.

PRINCIPAL ACTIVITIES

The principal activities of the Group throughout the year were the licensed distribution and supply of electricity to commercial, residential and industrial customers within the London area, the provision of services relating to energy and electrical contracting and the operation of private distribution networks.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Chairman's Statement, Chief Executive's Review and the Operating and Financial Review set out on pages 3 to 21 inclusive, report on the progress made during the year under review and outline future developments.

RESULTS AND DIVIDENDS

The historical cost profit on ordinary activities of the Group before taxation amounted to £276.1 million and after taxation to £186.7 million. An interim dividend of 11.5 pence per share was paid on 26 January 1996 amounting to £22.9 million and a special dividend of £1 per share was also paid on 26 January 1996 amounting to £198.7 million. The directors recommend the payment of a final dividend in respect of the year ended 31 March 1996 of 27 pence per share payable on 6 August 1996 amounting to £47.3 million.

FIXED ASSETS

Land and buildings are carried in the historical cost accounts at a net book value of £107.0 million. The directors consider that the market value of land and buildings is significantly in excess of this amount. On a current cost basis, land and buildings are valued at £209.1 million.

DIRECTORS

The names of the directors at the date of this report together with brief biographical details are listed on pages 26 and 27. Dr R J Urwin who was also a director during the year resigned on 29 September 1995.

In accordance with the Articles of Association, Sir Bob Reid and Mr M J Brown retire from the Board by rotation and being eligible, offer themselves for re-election. Miss J C Hanratty who was appointed a non-executive director on 5 December 1995 will retire and offer herself for election.

All of the executive directors have service contracts with a notice period of 12 months. However, in the event of a change of control, the notice period is extended to an initial period of 24 months effective from the date of change of control reducing over the succeeding year to 12 months.

DIRECTORS' INTERESTS

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

The interests of the directors in the capital of the Company are shown in the Report of the Remuneration Committee.

SUBSTANTIAL SHAREHOLDINGS

As at 18 June 1996, the Company had been notified of interests of 3 per cent or more in the issued ordinary share capital of the Company as follows:

Prudential Corporation Group of Companies 5.31 per cent

Directors' Report

NATIONAL GRID DEMERGER

In December 1995, the regional electricity companies agreed to the demerger of the National Grid. A distribution of National Grid Group shares was made to eligible shareholders of the Company and eligible residential electricity customers received a one-off discount on their bills in respect of the demerger.

Further details are shown in Note 2 to the accounts on page 40.

SHARE CAPITAL CONSOLIDATION

At the Extraordinary General Meeting on 17 January 1996, shareholders approved a share capital consolidation as part of the process of restructuring the Company's balance sheet. The basis of the share consolidation was 6 new ordinary shares of a nominal value of 58⅓ pence each for every 7 existing shares of a nominal value of 50 pence each. This resulted in the repurchase and cancellation of 839,573 fractional shares.

Further details are shown in Note 25 to the accounts on page 51.

SHARE REPURCHASE PROGRAMME

At the Company's Annual General Meeting held on 4 August 1995, shareholders gave approval for the Company to effect on-market purchases of up to 10 per cent of its shares. This authority was renewed at the Extraordinary General Meeting of the Company held on 17 January 1996 at which the nominal value of the shares was changed from 50 pence per share to 58⅓ pence per share. Other than the repurchase of the fractional shares arising from the share capital consolidation which was authorised under a separate resolution at the Extraordinary General Meeting held on 17 January 1996, no further share repurchases have taken place during the period under review and the amount of shares available remains at 10 per cent.

RESEARCH AND DEVELOPMENT

The Group undertakes a programme of research covering energy utilisation, 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 requirements is addressed in conjunction with a number of our 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 £750,000 (1994/95 £547,000).

There were no political donations.

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. Wherever possible, subsidiaries follow the same policy.

Directors' Report

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.

Details of employee share schemes may be found in Note 26 to the accounts on page 52.

ANNUAL GENERAL MEETING

Full details of the Annual General Meeting to be held on Friday 2 August 1996 and explanations of the resolutions including items of special business appear in the Notice of Annual General Meeting circulated separately to shareholders.

AUDITORS

The auditors, Coopers & Lybrand, are willing to continue in office. A resolution for their re-appointment as the Company's auditors and to authorise the directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Andrew Robertson,
Company Secretary
18 June 1996

Corporate Governance

London Electricity supports the recommendations of the Cadbury Committee on the Financial Aspects of Corporate Governance and has complied throughout the accounting period with the Code of Best Practice, in all those aspects which have been brought into application, except for the requirements relating to the composition of the Audit Committee. In accordance with the Code of Best Practice, the Audit Committee is a formally constituted sub-committee of the Board. It has written terms of reference which address the membership, authority and duties of the Committee and it meets four times a year. Currently, the Committee comprises three non-executive directors in compliance with the Code. However, until the appointment of Miss J C Hanratty on 5 December 1995, the Committee consisted of two non-executive directors. The Committee is chaired by Mr G M W Owen.

The Remuneration Committee also consists entirely of non-executive directors including the Chairman. It determines the terms and conditions of service of the executive directors, ensuring that salaries and bonuses satisfy performance and other criteria. The Committee is chaired by Mr L W Priestley.

The Nominations Committee is established to deal with the appointment of executive and non-executive directors. The Committee is chaired by Sir Bob Reid and is composed of the non-executive directors and the Chief Executive.

INTERNAL FINANCIAL CONTROLS

The Board is responsible for the Group's system of internal financial controls, the effectiveness of which has been reviewed. Following the recommendations arising from this review, a Risk Management Policy Manual was put in place which governs the activities of the Group as a whole. Although no system of internal financial controls can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the Board with reasonable assurance that any problems are identified and dealt with appropriately. The key procedures in place to enable the Board's responsibility to be discharged are as follows:

- The Group has a detailed schedule of matters reserved for approval by the Board, covering strategic, financial, organisational and compliance issues.

- The responsible director of each business unit of the Group is clearly accountable for the quality of internal financial controls within the business unit.

- The Group operates a comprehensive annual budgeting and financial reporting system. The Board reviews actual performance to budget on a monthly basis. Revised forecasts for the year are considered by the Board at regular intervals.

- The Group has defined procedures for the authorisation of capital and other expenditure, treasury operations and the purchase of contracts for the supply of electricity.

- All parts of the Group are subject to regular internal audit, and the plans and activities of the internal audit department in the Group are reviewed by the Audit Committee, together with the management letters prepared by the external auditors, Coopers & Lybrand.

GOING CONCERN

The financial statements 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.

Statement of Directors' Responsibilities

for the Financial Statements

The following statement sets out the responsibilities of the directors in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss 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 assume 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group 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.

Report of the Auditors

to the Members of London Electricity plc

We have audited the financial statements on pages 34 to 56.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 32 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1996 and of the profit, total recognised gains and cashflows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In our opinion the current cost information set out on pages 57 and 59 has been properly prepared in accordance with the accounting policies described on page 58.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
18 June 1996

Report of the Auditors

to London Electricity plc on Corporate Governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on page 31 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which are not disclosed.

Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Company or Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on page 31 and on going concern on page 31, in our opinion the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (both as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on our enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on page 31 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Coopers & Lybrand
Chartered Accountants
London
18 June 1996

Statement of Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

Basis of accounting

These financial statements have been prepared under the historical cost accounting convention, modified to include the investment in The National Grid Group at November 1995 valuation.

Basis of consolidation

The Group financial statements incorporate the financial statements 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 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 year 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.

Goodwill arising on the acquisition is written off immediately against reserves. Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired.

Associated undertakings

An associated undertaking is one where the Group exercises significant influence and has a long term interest. The consolidated profit and loss account includes the Group's share of the profits less losses and taxation of associated undertakings and the Group balance sheet includes the investment in these companies at the Group's share of their net assets other than goodwill.

Turnover

Turnover represents the value of electricity consumption during the year, including an estimate of the sales value of units supplied to consumers between the date of the last meter reading and the year end, rents and the invoice value of other goods sold and services provided, exclusive of value added tax.

Operating leases

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

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 in 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.

The capital costs of ex-gratia and supplementary pensions are charged to the profit and loss account in the accounting period in which they are granted.

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. No allowance is made for residual values. The lives of each major class of depreciable assets are as follows:

Statement of Accounting Policies

	Years
Network assets	40
(Depreciation is charged at 3% for 20 years followed by 2% for the remaining 20 years).	
Freehold land	Not depreciated
Other buildings – freehold	Up to 60
– leasehold	Lower of lease period or 60
Vehicles and mobile plant	5-10
Fixtures and equipment including computer hardware and software	3-5

Major systems development software costs are capitalised during the development phase and depreciated from the date of commissioning over a maximum period of 5 years.

Consumers' contributions are credited to the profit and loss account over a 40 year period at a rate of 3% for the first 20 years followed by 2% for the remaining 20 years. No allowance is made for residual values.

Fixed asset investments

Fixed asset investments are stated in the Group balance sheet at cost less any provision for permanent diminution in value, except in the case of the Group's residual interest in the National Grid Group, which is included in the Balance Sheet at a November 1995 valuation.

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.

Price control

Charges for distribution of electricity and supply to customers with a maximum demand under 100Kwh are subject to a price control formula set out in the Company's Public Supply Licence which allows a maximum charge per unit of electricity.

Differences in the charges, or in the purchase cost of electricity, can result in the under or overrecovery of revenues in a particular year.

Where there is an overrecovery of supply or distribution business revenues against the regulated maximum allowable amount, revenues are deferred equivalent to the overrecovered amount. The deferred amount is deducted from turnover and included in provisions. Where there is an underrecovery, no anticipation of any potential future recovery is made.

Property clawback

Arrangements have been implemented which entitle HM Government to a proportion of certain property gains accruing to London Electricity plc as a result of disposals or events treated as disposals occurring after 31 March 1990 of properties held at that date. These arrangements will continue until 31 March 2000.

A provision for clawback in respect of property disposals is made only to the extent that it is probable that a liability will crystallise.

Employee Share Ownership Trust (ESOP)

The accounts include the assets (money market investments and shares in NGG) of the ESOP.

Group Profit and Loss Account

for the year ended 31 March 1996

	Note	Excluding National Grid Group transactions 1995/96 £m	National Grid Group transactions 1995/96 £m	Total 1995/96 £m	1994/95 £m
Turnover – continuing operations	2,3	1,278.6	(90.9)	1,187.7	1,209.4
Cost of sales	2	(842.8)	8.3	(834.5)	(740.1)
Gross profit		435.8	(82.6)	353.2	469.3
Net operating expenses	1,2	(253.9)	(14.4)	(268.3)	(273.8)
Exceptional cost of restructuring	1	(20.0)	–	(20.0)	(33.0)
Less: use of prior year provision	1	8.3	–	8.3	–
Operating profit – continuing operations	3,4	170.2	(97.0)	73.2	162.5
Share of losses of associated undertakings		(2.2)	–	(2.2)	(0.7)
Exceptional provision for losses in associated undertaking	3	(4.5)	–	(4.5)	–
Exceptional profit on sale of investment in pumped storage business	2	–	70.1	70.1	–
Profit on ordinary activities before interest		163.5	(26.9)	136.6	161.8
Income from investment in National Grid Group	7	–	144.4	144.4	21.2
Net interest payable	8	(4.9)	–	(4.9)	(1.1)
Exceptional item – premium on redemption of Government debt	9	–	–	–	(9.5)
Profit on ordinary activities before taxation		158.6	117.5	276.1	172.4
Taxation on profit on ordinary activities	10	(36.0)	(53.4)	(89.4)	(22.5)
Profit on ordinary activities after taxation		122.6	64.1	186.7	149.9
Dividends					
Distribution in specie	12	–	(350.4)	(350.4)	–
Special	12	(198.7)	–	(198.7)	–
Interim	12	(22.9)	–	(22.9)	(19.4)
Final proposed	12	(47.3)	–	(47.3)	(38.6)
Retained (loss)/profit for the financial year		(146.3)	(286.3)	(432.6)	91.9
Earnings per share	13			109.7p	83.3p
Dividends per share				38.5p	29.0p

Balance Sheets

as at 31 March 1996

	Note	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Fixed assets					
Tangible assets	14	**783.6**	730.2	**720.3**	673.6
Investments	15	**10.6**	93.4	**114.6**	191.7
		794.2	823.6	**834.9**	865.3
Current assets					
Stocks	19	**7.4**	4.3	**3.6**	3.3
Debtors: amounts falling due:					
Within one year	20	**388.8**	263.0	**387.2**	266.0
After more than one year	20	**29.4**	20.5	**35.3**	20.5
Investments	21	**29.3**	49.3	**19.2**	40.7
Cash at bank and in hand		**0.4**	0.7	**1.2**	–
		455.3	337.8	**446.5**	330.5
Creditors: amounts falling due within one year					
Borrowings	22	**(96.1)**	(59.2)	**(96.1)**	(59.2)
Other creditors	23	**(388.5)**	(284.0)	**(386.9)**	(284.9)
Net current liabilities		**(29.3)**	(5.4)	**(36.5)**	(13.6)
Total assets less current liabilities		**764.9**	818.2	**798.4**	851.7
Creditors: amounts falling due after more than one year					
Borrowings	22	**(197.7)**	(98.6)	**(197.7)**	(98.6)
Other creditors	23	**(13.3)**	(16.1)	**(9.3)**	(11.6)
		(211.0)	(114.7)	**(207.0)**	(110.2)
Provisions for liabilities and charges	24	**(54.2)**	(45.7)	**(49.9)**	(42.6)
Net assets		**499.7**	657.8	**541.5**	698.9
Capital and reserves					
Called up share capital	25	**101.7**	98.8	**101.7**	98.8
Share premium account	27	**9.6**	2.9	**9.6**	2.9
Capital redemption reserve	27	**11.0**	11.0	**11.0**	11.0
Revaluation reserve	27	**7.6**	81.9	**7.6**	81.9
Profit and loss account	27	**369.8**	463.2	**411.6**	504.3
Equity shareholders' funds		**499.7**	657.8	**541.5**	698.9

The financial statements were approved by the Board of Directors on 18 June 1996 and were signed on its behalf by:

Sir Bob Reid Chairman

Alan Towers Finance Director

Group Cash Flow Statement

for the year ended 31 March 1996

	Note	1995/96 £m	1994/95 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	28	102.6	155.1
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		12.3	14.4
Interest paid		(12.4)	(13.8)
Exceptional item – premium on redemption of Government debt		–	(9.5)
Dividends received from fixed asset investments		130.9	16.4
Dividends paid		(260.3)	(52.5)
Net cash outflow from returns on investments and servicing of finance		(129.5)	(45.0)
TAXATION			
UK Corporation tax paid		(77.0)	(43.0)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(111.8)	(105.0)
Consumer contributions received		14.0	17.4
Proceeds from sale of tangible fixed assets		3.8	4.6
Investment in associated undertakings		(2.8)	(1.7)
Repayment of loan from other investment		–	0.5
Purchase of subsidiary (net of cash acquired)	29a	(0.6)	–
Exceptional proceeds from sale of pumped storage business		60.1	–
Loan to associated undertaking		(4.6)	–
Purchase of fixed asset investments		(19.1)	(2.6)
Decrease in fixed term deposits greater than 3 months		14.6	112.7
Net cash (outflow)/inflow from investing activities		(46.4)	25.9
Net cash (outflow)/inflow before financing		(150.3)	93.0
FINANCING			
Bond issue		100.9	–
Expenses paid in connection with bond issue		(2.0)	–
Repayment of Government debt		–	(70.0)
Shares issued under option schemes		9.6	1.2
Purchase of own shares		(0.8)	(150.4)
Net cash inflow/(outflow) from financing		107.7	(219.2)
Decrease in cash and cash equivalents	29b	(42.6)	(126.2)

Shareholder Information

ANALYSIS OF SHARE REGISTER

Shareholders by range	Shareholder accounts %	Shares %
100 and under	76.95	8.54
101 – 300	17.31	3.80
301 – 49,999	5.57	14.78
50,000 and above	0.17	72.88

Shareholders' interest

As at 31 March 1996, the number of shares in issue was 174,290,836 and the number of shareholder accounts was 222,423 of which 53.21 per cent were held by customers.

Shareholdings by category	Shares %
Pension funds	31.63
Insurance companies	17.59
Unit trusts	6.92
Investment trusts	2.57
Individuals	27.48
Overseas	9.23
Others	4.58

Annual General Meeting

The Annual General Meeting will be held on Friday 2 August 1996 at 11.00am at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Shareholder calendar

Ex-dividend date	24 June 1996
Record date (qualifying date) for final dividend	2 July 1996
Payment of final dividend	6 August 1996
Announcement of half-year results	November/December 1996
Ex-dividend date	December 1996/January 1997
Record date (qualifying date) for interim dividend	December 1996/January 1997
Payment of interim dividend	January/February 1997
Preliminary announcement of results for the year ending 31 March 1997	June 1997

Share dealing service

For details of a low cost share dealing service for shares in London Electricity contact The Share Centre Ltd at the address opposite.

The publication of this information has been approved for the purposes of Section 57 of the Financial Services Act 1986 by The Share Centre Ltd which is regulated by The Securities and Futures Authority.

London Electricity plc
Registered Office
Templar House
81-87 High Holborn
London WC1V 6NU

Registered in England and Wales No. 2366852

Five Year Statistics
Unit Sales and Customers

for the year ended 31 March

	1992 GWh	1993 GWh	1994 GWh	1995 GWh	**1996 GWh**
Units distributed					
Domestic	6,235	6,219	6,321	6,230	**6,472**
Commercial including farms and public lighting	11,252	11,188	11,383	11,621	**12,383**
Industrial including traction	2,028	1,919	1,874	1,815	**1,837**
Total	19,515	19,326	19,578	19,666	**20,692**
Analysed by regulatory categories					
LV1	642	658	693	717	**799**
LV2	1,034	1,048	1,034	1,025	**1,048**
LV3	14,314	13,905	13,958	13,891	**14,532**
HV	3,275	3,482	3,638	3,776	**4,037**
Regulated units	19,265	19,093	19,323	19,409	**20,416**
EHV	250	233	255	257	**276**
Total	19,515	19,326	19,578	19,666	**20,692**
Number of customers connected at year end					
Domestic	1,689,335	1,686,421	1,692,962	1,705,898	**1,721,123**
Commercial including farms and public lighting	237,534	234,657	231,064	231,621	**231,330**
Industrial including traction	12,389	11,508	10,755	10,283	**9,667**
Total	1,939,258	1,932,586	1,934,781	1,947,802	**1,962,120**
Units supplied (GWh)	17,724	17,614	17,584	15,746	**18,087**
(Units distributed and supplied exclude the Company's own use and sales to other RECs).					
Typical annual bill for residential customer	296.71	282.94	282.52	276.59	**282.64**
At 1995/96 prices	328.83	307.72	300.36	285.06	**282.64**
Methods of payment					
Direct debit customers	200,563	256,712	312,417	392,623	**440,329**
Power key customers	155,000	225,834	298,815	348,259	**397,585**
Net simultaneous maximum demand (MW)	4,073	3,823	4,005	3,935	**4,183**
Average minutes lost per customer	67.3	52.8	52.6	57.8	**54.2**
Domestic disconnections	8,019	526	139	0	**0**
Customer complaints to OFFER	1,775	1,152	640	400	**361**
Guaranteed service standards					
Number of payments to customers	150	90	72	22	**19**
Success rate	99.97%	99.98%	99.99%	99.99%	**99.99%**
per 10,000	2.5	1.6	0.6	0.2	**0.2**

Five Year Statistics
Other Information

for the year ended 31 March

	1992 £m	1993 £m	1994 £m	1995 £m	**1996 £m**
Average number of employees					
Core business	5,329	5,182	4,597	4,590	**4,058**
Other	1,252	1,076	935	318	**346**
Total	6,581	6,258	5,532	4,908	**4,404**
Employment costs					
Salaries	116.6	117.8	113.7	104.1	**97.7**
Social security costs	9.2	9.5	9.1	8.5	**8.1**
Other pension costs	24.8	9.7	10.8	16.9	**1.3**
Total	150.6	137.0	133.6	129.5	**107.1**
Charged to:					
Capital expenditure	18.2	18.3	15.9	19.0	**21.8**
Profit and loss account	132.4	118.7	117.7	110.5	**85.3**
Over/(under) recovery of revenues permitted by price control formulae					
Distribution	(0.9)	4.4	0.7	(1.0)	**(1.1)**
Supply	0.1	5.1	13.4	(1.2)	**(7.4)**
Historical cost per unit distributed (p)					
At outturn prices	1.19	1.16	1.17	1.15	**0.96**
At 1995/96 prices	1.32	1.26	1.24	1.19	**0.96**

Notes:

1. Cost per unit distributed figures have been calculated by dividing distribution and supply operating costs by total units distributed (page 63).

2. Cost per unit at 1995/96 prices have been calculated using the average Retail Price Index for the year.

Five Year Statistics
Balance Sheet, Cash Flow and Capital Expenditure

for the year ended 31 March

	1992	1993	1994	1995	1996
	£m	£m	£m	£m	£m
BALANCE SHEET					
Fixed assets	625.3	708.7	768.6	823.6	794.2
Net current assets/(liabilities)	83.3	28.3	187.9	(5.4)	(29.3)
Creditors (amounts falling due after more than one year)	(72.4)	(73.3)	(189.7)	(114.7)	(211.0)
Provisions for liabilities and charges	(35.6)	(41.8)	(50.1)	(45.7)	(54.2)
Net Assets	600.6	621.9	716.7	657.8	499.7
Share capital	109.0	109.4	111.5	101.7	111.3
Reserves and retained profits	491.6	512.5	605.2	556.1	388.4
Equity shareholders' funds	600.6	621.9	716.7	657.8	499.7
Net cash/(debt)	(96.4)	(89.4)	64.1	(107.8)	(264.1)
RATIOS					
Ratio of net cash/(debt) to net assets	(16.1)%	(14.4)%	8.9%	(16.4)%	(52.9)%
CASH FLOW STATEMENT	£m	£m	£m	£m	£m
Net cash flow from operating activities	183.3	251.3	299.2	155.1	102.6
CAPITAL EXPENDITURE	£m	£m	£m	£m	£m
Distribution network-regulated	57.7	63.2	72.2	84.9	86.3
Other	18.3	23.7	32.0	25.5	20.0
Gross capital expenditure	76.0	86.9	104.2	110.4	106.3
Less consumer contributions	(15.6)	(11.3)	(13.0)	(14.6)	(14.9)
Net capital expenditure	60.4	75.6	91.2	95.8	91.4

Five Year Statistics
Financial Results

for the year ended 31 March

	1992 £m	1993 £m	1994 £m	1995 £m	**1996 £m**
PROFIT AND LOSS ACCOUNT					
Turnover					
Distribution	374.1	360.7	366.6	379.1	**357.1**
Supply (before customer discount)	1,262.2	1,266.0	1,227.5	1,113.6	**1,188.9**
Private electrical distribution systems	–	0.2	14.2	14.8	**15.9**
Other	67.4	86.1	37.3	29.6	**43.2**
Inter business sales	(356.6)	(345.6)	(337.2)	(327.7)	**(326.5)**
	1,347.1	1,367.4	1,308.4	1,209.4	**1,278.6**
Profit on ordinary activities before interest					
Distribution	158.3	152.0	153.9	166.0	**162.5**
Supply	5.8	6.7	6.4	16.9	**14.2**
Private electrical distribution systems	–	0.1	10.6	11.0	**12.0**
Other	(26.7)	(6.5)	1.6	1.6	**3.0**
Inter business sales	–	–	–	–	**(1.5)**
Total before exceptional items	137.4	152.3	172.5	195.5	**190.2**
Share of profit/(losses) of associated undertakings	(0.1)	(0.2)	0.3	(0.7)	**(2.2)**
Exceptional items	–	(20.0)	(1.0)	(33.0)	**(51.4)**
	137.3	132.1	171.8	161.8	**136.6**
Underlying profit before taxation					
Reported profit before taxation	142.5	145.5	186.5	172.4	**276.1**
Income from NGG before taxation	(16.4)	(17.7)	(19.8)	(21.2)	**(117.5)**
Exceptional items	–	20.0	1.0	42.5	**24.5**
	126.1	147.8	167.7	193.7	**183.1**
Underlying profit after taxation					
Reported profit after taxation	103.5	108.0	142.0	149.9	**186.7**
Income from NGG before taxation	(16.4)	(17.7)	(19.8)	(21.2)	**(117.5)**
Exceptional items	–	20.0	1.0	42.5	**24.5**
Taxation related to NGG	4.1	4.1	4.1	4.2	**53.4**
Other taxation	–	(6.6)	(0.3)	(26.9)	**(6.6)**
	91.2	107.8	127.0	148.5	**140.5**
Ordinary dividends payable	(36.6)	(42.5)	(49.3)	(58.0)	**(70.2)**
Underlying dividend cover	2.5	2.5	2.6	2.6	**2.0**
Reported earnings per share	55.4	57.8	75.8	83.3	**109.7**
Ordinary dividends per share	16.8	19.5	22.5	29.0	**38.5**
Other dividends	–	–	–	–	**(549.1)**

1. Dividend cover is calculated on the basis of underlying profit after taxation divided by the monetary value of both the interim and final dividends.

2. Earnings per share has been restated for previous years to reflect the 6 for 7 share consolidation.

Notes to the current cost information

for the year ended 31 March 1996

A. Tangible Fixed Assets	Network assets £m	Other land and buildings £m	Fixtures and equipment £m	Vehicles & mobile plant £m	Deduct consumers' contributions £m	Total £m
Cost	5,117.6	75.1	139.0	19.6	(392.3)	4,959.0
Depreciation	(3,749.5)	(2.5)	(90.3)	(11.6)	177.6	(3,676.3)
Net book amount						
At 31 March 1996	1,368.1	72.6	48.7	8.0	(214.7)	1,282.7
At 31 March 1995	1,357.3	74.9	47.5	8.3	(212.2)	1,275.8

The depreciation charge for the year is £84.0m (1994/95 £81.9m).

The net book amount of other land and buildings comprises:

	1996 £m	1995 £m
Freehold	57.2	62.9
Long leasehold	7.7	9.0
Short leasehold	7.7	3.0
	72.6	74.9

B. Fixed asset investments	1996 £m	1995 £m
Associated undertakings	1.4	1.4
Other investments	9.2	339.7
At end of year	10.6	341.1

C. Deferred taxation

Current cost revaluations do not provide an appropriate basis for the provision of deferred taxation and, accordingly, no account has been taken of any potential liability arising if disposal took place at current cost valuations.

Notes to the current cost information

STATEMENT OF ACCOUNTING POLICIES

Basis of preparation

These accounts have been prepared using current cost accounting principles. Provision is made in the accounts for the effects of specific price changes on the resources necessary to maintain the operating capability of the business.

Comparative amounts have not been adjusted to bring them to 1995/96 price levels.

Current cost accounting, whilst not a system of accounting for general inflation, allows for price changes specific to the business when reporting assets employed and profits thereon. The current cost operating profit is determined after taking account of the following current cost adjustments:

1. Supplementary depreciation

Depreciation is calculated on the basis of the current cost of tangible fixed assets. Supplementary depreciation is the difference between current cost depreciation and historical cost depreciation.

2. Cost of sales adjustment (COSA)

This represents the difference between the current cost and historical cost of stock consumed in the year. The COSA is calculated by applying appropriate indices to the historical cost of goods sold. The component parts of indices are periodically reviewed.

3. Monetary working capital adjustment (MWCA)

This represents the amount of additional internally generated finance needed for monetary working capital as a result of changes in the input prices of goods and services used and financed by London Electricity plc. It is calculated by applying an appropriate index to average monetary working capital.

4. Gearing adjustment

The gearing adjustment reduces the effect of the other current cost adjustments (1 to 3 above) in the profit and loss account to allow for the effect of financing the business partly by borrowings.

Tangible fixed assets and depreciation

The gross replacement cost of fixed assets is derived by applying appropriate indices to historical cost figures. These indices may be subject to continuing revision as more information becomes available.

Certain land and buildings are valued on a 5 year cycle by professionally qualified staff employed by the Company.

The charge for depreciation is calculated to write off assets over their estimated useful lives. The lives of each major class of depreciable assets are as per the historical cost accounts.

The profit or loss on the disposal of land and other buildings is calculated and taken direct to the current cost reserve. The profit or loss on the disposal of all other tangible fixed assets is taken to the profit and loss account.

Fixed asset investments

The investment in The National Grid Group is at a November 1995 valuation.

Stocks

Stocks are valued at the lower of current replacement 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.

Other

All other accounting policies are in accordance with those stated in the historical cost accounts.

Current cost information

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1996

	Excluding National Grid Group transactions 1995/96 £m	National Grid Group transactions 1995/96 £m	Total 1995/96 £m	1994/95 £m
Historical cost profit on ordinary activities before interest	163.5	(26.9)	136.6	161.8
Less current cost adjustments:				
Depreciation	(42.9)	–	(42.9)	(43.6)
Cost of sales	(0.2)	–	(0.2)	(0.2)
Monetary working capital	(1.9)	–	(1.9)	(1.7)
Profit on disposal of assets	(1.8)	–	(1.8)	(0.8)
Current cost profit on ordinary activities before interest	116.7	(26.9)	89.8	115.5
Gearing adjustment	11.2	–	11.2	2.6
Income from investment in National Grid Group	–	144.4	144.4	21.2
Net interest payable before exceptional item	(4.9)	–	(4.9)	(1.1)
Exceptional item – premium on redemption of Government debt	–	–	–	(9.5)
Current cost profit on ordinary activities before taxation	123.0	117.5	240.5	128.7
Taxation on profit on ordinary activities	(36.0)	(53.4)	(89.4)	(22.5)
Current cost profit on ordinary activities after taxation	87.0	64.1	151.1	106.2
Distribution in specie	–	(350.4)	(350.4)	(58.0)
Special	(198.7)	–	(198.7)	–
Interim	(22.9)	–	(22.9)	–
Final proposed	(47.3)	–	(47.3)	–
Current cost retained (loss)/profit for the year	(181.9)	(286.3)	(468.2)	48.2
Earnings per share			88.8p	59.0p

SUMMARY GROUP BALANCE SHEET

as at 31 March 1996

	Note	1996 £m	1995 £m
Tangible fixed assets	A	1,282.7	1,275.8
Investments	B	10.6	341.1
Net current liabilities		(29.3)	(5.4)
Creditors: amounts falling due after more than one year		(211.0)	(114.7)
Provisions for liabilities and charges		(54.2)	(45.7)
Net assets		998.8	1,451.1
Capital and Reserves			
Called up share capital and share premium account		111.3	101.7
Reserves		887.5	1,349.4
Equity shareholders' funds		998.8	1,451.1

Notes to the Accounts

32 LEASE OBLIGATIONS

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

	1996		1995	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Expiring within:				
One year	**0.4**	**0.4**	–	0.2
Two to five years inclusive	**0.2**	**1.1**	0.1	0.5
Over five years	**6.5**	**–**	5.7	–
	7.1	**1.5**	5.8	0.7

33 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has an interest in a joint venture, Barking Power Ltd, a company formed to build and operate a gas fired power station. The Group is committed to contributing up to £1.9m over a period of one year for subordinated loan stock and equity.

Since the year end, the Group has subscribed £5m for a 11.3% stake in London & Continental Railways and paid £5.6m to purchase the private distribution networks at North Pole International depot, Waterloo International station and Manchester International depot from European Passenger Services Ltd. The Group expects to invest, over the next seven years, between £50m and £75m in infrastructure costs for the Channel Tunnel Rail Link.

The Group may be called upon to subscribe up to a further £5m for equity during the next few years.

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.

Notes to the Accounts

Borrowings

	1995/96 £m	1994/95 £m	1993/94 £m	1995/96 Movement £m	1994/95 Movement £m
12.661% Bonds due 1999	–	–	70.0	–	(70.0)
8% Eurobonds due 2003	98.8	98.6	98.4	0.2	0.2
8⅝% Eurobonds due 2005	100.9	–	–	100.9	–
Expenses of Bond issue	(2.0)	–	–	(2.0)	–
Issue costs amortised	(0.6)	(0.4)	(0.2)	(0.2)	(0.2)
	197.1	98.2	168.2	98.9	(70.0)

31 PENSION COMMITMENTS

The principal pension scheme available to employees of London Electricity plc has been the Electricity Supply Pension Scheme (ESPS). Since April 1994 new employees have been offered membership of 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.

The scheme was unitised with effect from 31 March 1989 and an actuarial valuation carried out at that date apportioned the assets of the ESPS between the various participating employers. The most recent formal actuarial valuation of the London Electricity Group for the purpose of determining contribution rates was carried out at 31 March 1995 by Bacon & Woodrow, consulting actuaries. The valuation method adopted was the attained age method.

The principal assumptions were that the investment return would exceed salary increases by 3.0% and exceed future pension increases by 4.5% per annum.

At the valuation date, the actuarial value of the assets relating to London Electricity Group was £672.8 million, which represented 108.1% 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 members and to facilitate reductions in employer and employee contributions.

In order to calculate the pension charge in accordance with the Group's accounting policy as stated on page 34 a separate actuarial valuation was prepared by Bacon & Woodrow, consulting actuaries. This valuation was determined using the projected unit credit method, and resulted in a regular annual pension charge of 10.2% of pensionable pay. This regular cost has been reduced by the benefit of an actuarial surplus arising using this method, which is being spread over 10 years, being the average remaining service life of employees. The resulting net charge to profit in the year was £nil (1994/95 £8.5 million). A prepayment of £19.4 million (31 March 1995 £9.2 million) is included in debtors greater than one year, as a result of spreading the surplus.

Executive directors and certain senior employees are also entitled to join the London Electricity Executives pension scheme from which further benefits based on final pensionable pay are available.

Under the Company's defined contribution scheme the charge to profit is the contribution paid by the Company for the year. The amount paid is not yet material.

The total net charge for pension schemes in the accounts is £0.3 million (1994/95 £8.8 million).

Contributions payable by the Company arising from ex-gratia pensions and early retirement were £1 million (1994/95 £8.1 million).

Notes to the Accounts

28 RECONCILIATION OF PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1995/96 £m	1994/95 £m
Profit on ordinary activities before interest	**136.6**	161.8
Depreciation	**41.1**	38.3
Increase/(decrease) in provisions and liabilities	**8.5**	(4.4)
Gain on sale of tangible fixed assets	**(2.6)**	(0.8)
Exceptional profit on sale of investment in pumped storage business	**(70.1)**	–
Share of losses of associated undertakings	**6.7**	0.7
Increase in pension fund prepayment	**(10.2)**	(2.4)
ESOP	**7.9**	–
	117.9	193.2
Movements in working capital		
(Increase)/decrease in stocks	**(2.6)**	0.3
(Increase) in trade debtors	**(15.5)**	(20.3)
(Increase) in other debtors	**(17.0)**	(5.2)
Increase/(decrease) in trade creditors	**5.7**	(4.9)
Increase/(decrease) in other creditors	**16.2**	(19.3)
Increase/(decrease) in other taxation and social security	**(0.2)**	0.1
Increase/(decrease) in accruals and deferred income	**(1.9)**	11.2
Total working capital movements	**(15.3)**	(38.1)
Net cash inflow from operating activities	**102.6**	155.1

29a PURCHASE OF SUBSIDIARY UNDERTAKING

Net assets acquired on the piecemeal acquisition of Combined Power Systems (Southern) Ltd were £0.9m including cash of £0.1m. Goodwill arising on the acquisition is £0.5m. Cash consideration in aggregate was £1.4m.

29b ANALYSIS OF CASH AND CASH EQUIVALENTS

	1995/96 £m	1994/95 £m	1993/94 £m	1995/96 Movement £m	1994/95 Movement £m
Cash at bank and in hand	**0.4**	0.7	10.5	**(0.3)**	(9.8)
Current asset investments	**29.3**	49.3	224.9	**(20.0)**	(175.6)
Less:					
Tax certificates of deposit	–	–	(2.8)	–	2.8
Short term investments greater than 3 months	**(16.7)**	(31.3)	(144.0)	**14.6**	112.7
Short term borrowings	**(96.1)**	(59.2)	(2.9)	**(36.9)**	(56.3)
	(83.1)	(40.5)	85.7	**(42.6)**	(126.2)

The movement in current asset investments excludes items of greater than 3 months' duration.

30 ANALYSIS OF CHANGES IN FINANCING

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Cash inflow £m
At 1 April 1995	98.8	2.9	11.0	–
Nominal values of shares repurchased and cancelled	–	–	–	–
Shares issued under option scheme	2.9	6.7	–	9.6
At 31 March 1996	**101.7**	**9.6**	**11.0**	**9.6**

Cash flow movements

Shares were issued under option schemes for a total consideration of £9.6m (1994/95 £1.2m). Shares were repurchased for a total cost of £0.8m (1994/95 £150.4m).

Notes to the Accounts

27 RETAINED PROFIT AND RESERVES

	Group £m	Company £m
Share premium account		
At 1 April 1995	2.9	2.9
Premium on options exercised	6.7	6.7
At 31 March 1996	**9.6**	**9.6**
Capital redemption reserve		
At 1 April 1995	11.0	11.0
Nominal value of shares repurchased	–	–
At 31 March 1996	**11.0**	**11.0**
Revaluation reserve		
At 1 April 1995	81.9	81.9
Revaluation surplus on NGG	266.2	266.2
Revaluation surplus transferred to profit and loss account in respect of NGG:		
Distribution in specie	(333.2)	(333.2)
Sale of shares to ESOP	(7.3)	(7.3)
At 31 March 1996	**7.6**	**7.6**
Profit and loss account		
At 1 April 1995	463.2	504.3
Revaluation surplus realised on NGG:		
Distribution in specie	333.2	333.2
Sale of shares to ESOP	7.3	7.3
Shares repurchase	(0.8)	(0.8)
Goodwill written off on investment in associated undertaking	(0.5)	–
Retained loss for the year	(432.6)	(432.4)
At 31 March 1996	**369.8**	**411.6**
Total reserves at 31 March 1996	**398.0**	**439.8**

The cumulative amount of goodwill charged to reserves is £48.6m (1994/95 £48.1m).

The revaluation reserve is in respect of the NGG investment which is included in other investments in Note 18 on page 47.

Special Rights Redeemable Preference Share

The Special Rights Redeemable Preference Share was redeemed at par on 31 March 1995 and converted, following the resolution passed at the Annual General Meeting held on 4 August 1995, into two ordinary shares of 50 pence each. This share, which could only be held by the Secretary of State for Energy or another person acting on behalf of HM Government, did not carry any rights to vote at general meetings but entitled the holder to attend and speak at such meetings.

26 SHARE OPTIONS

(a) The Executive Share Option Scheme

An approved share option scheme for executive directors and senior executives whereby an option to purchase the shares of the Company is issued and may be exercised between the third and tenth anniversaries of the date of grant.

Options have been granted to eligible employees and executive directors to subscribe for ordinary shares in the Company in accordance with the rules of the scheme.

(b) The Sharesave Scheme

An approved share option scheme where the options to purchase the shares of the Company are linked to a five year savings contract. All staff who met a qualifying period of employment prior to the Grant Date were eligible to participate.

The rules of the Executive Share Option Scheme and Sharesave Scheme include provisions for early exercise of the options in certain circumstances.

Options granted and outstanding at 31 March 1996 were:	Date options granted	Subscription price per share	Period within which options are exercisable	Number of shares for which rights are exercisable 1996 £	1995 £
Executive share option scheme					
1	Jan. 1991	2.61	17/1/94-17/1/2001	**30,000**	280,000
2	Jan. 1992	3.00	14/1/95-14/1/2002	**129,000**	356,000
3	July 1993	4.83	20/7/96-20/7/2003	**475,800**	512,800
4	Mar. 1994	5.71	28/3/97-28/3/2004	**22,767**	22,767
5	April 1995	5.92	3/4/98-3/4/2005	**75,077**	–
6	April 1995	6.04	13/4/98-13/4/2005	**14,551**	–
Sharesave					
1	Dec. 1990	1.75	1/3/96-1/9/96	**161,115**	4,896,557
2	Sept. 1992	3.03	30/12/97-30/6/98	**892,282**	992,658

Notes to the Accounts

Deferred taxation

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

	Group		Company	
	1996	1995	**1996**	1995
Provided in accounts:	**£m**	£m	**£m**	£m
At 1 April	**(7.9)**	–	**(7.8)**	–
Transfer from profit and loss	**(3.1)**	(7.9)	**(3.1)**	(7.8)
At 31 March	**(11.0)**	(7.9)	**(10.9)**	(7.8)
Provided in accounts:				
Accelerated capital allowances	–	–	–	–
Other timing differences	**(11.0)**	(7.9)	**(10.9)**	(7.8)
	(11.0)	(7.9)	**(10.9)**	(7.8)

	Group		Company	
	1996	1995	**1996**	1995
Potential liability not provided:	**£m**	£m	**£m**	£m
Accelerated capital allowances	**184.1**	173.5	**177.6**	169.5
Other timing differences	**(6.5)**	(11.2)	**(6.4)**	(11.6)
	177.6	162.3	**171.2**	157.9

Total potential deferred taxation liability is computed at a Corporation tax rate of 33% (31 March 1995 33%).

The Directors do not consider that any deferred taxation provision is required in respect of the revaluation of NGG shares.

25 SHARE CAPITAL

	Group and Company	
	1996	1995
	£m	£m
Authorised		
257,142,857 ordinary shares of 58⅓p each (1994/95 300,000,000 ordinary shares of 50p each)	**150.0**	150.0
Allotted, called up and fully paid		
174,290,836 ordinary shares of 58⅓p each (1994/95 197,695,699 ordinary shares of 50p each)	**101.7**	98.8

Share options

During the year options were exercised on 5,104,982 (1994/95, 513,399) ordinary shares at £4.83, £3.03, £3.00, £2.61 and £1.75 for a total consideration of £9.6m (1994/95 £1.2m).

Share repurchase

The following share repurchase took place during the year:

On 18 January 1996, 839,573 shares with a nominal value of 8⅓p at a price of £1.00.

These fractional shares were subsequently cancelled and resulted in a decrease of less than £0.1m in share capital which was transferred to the capital redemption reserve. They arose from the share consolidation of every seven existing ordinary shares into six new ordinary shares and represented the fractional element.

The total repurchase cost was £0.8m which has been charged against profit and loss reserves.

Notes to the Accounts

23 CREDITORS

	Group		Company	
	1996	1995	1996	1995
Amounts falling due within one year:	£m	£m	£m	£m
Payments received on account	**11.4**	7.5	**7.5**	6.1
Amounts owing for purchase of electricity	**73.5**	66.5	**73.5**	66.5
Amounts owed to subsidiary undertakings	–	–	**12.5**	7.6
Other trade creditors	**32.6**	38.1	**30.9**	36.9
Corporation tax	**86.9**	55.4	**83.9**	54.1
Advance corporation tax	**64.6**	20.9	**64.6**	20.9
Other taxation and social security	**3.6**	3.8	**3.3**	3.4
Other creditors	**43.3**	20.8	**40.4**	20.4
Advance payments on extension of VAT	**5.2**	14.5	**5.2**	14.5
Accruals and deferred income	**20.1**	17.9	**17.8**	15.9
Proposed dividends	**47.3**	38.6	**47.3**	38.6
	388.5	284.0	**386.9**	284.9
Amounts falling due after more than one year:				
Trade creditors	–	1.0	–	1.0
Other creditors	**11.1**	8.4	**7.1**	8.4
Accruals and deferred income	**0.1**	4.6	**0.1**	0.1
Advance payments on extension of VAT	**2.1**	2.1	**2.1**	2.1
	13.3	16.1	**9.3**	11.6

24 PROVISIONS FOR LIABILITIES & CHARGES

Group	Insurance	Restructuring costs	Other	Total
At 1 April 1995	16.3	18.7	10.7	45.7
Utilised in the year	(0.6)	(8.3)	(2.6)	(11.5)
Transferred from profit and loss account	0.3	20.0	(0.3)	20.0
At 31 March 1996	**16.0**	**30.4**	**7.8**	**54.2**

Company	Insurance	Restructuring costs	Other	Total
At 1 April 1995	13.7	18.7	10.2	42.6
Utilised in the year	(0.6)	(8.3)	(2.6)	(11.5)
Transferred from profit and loss account	(0.8)	20.0	(0.4)	18.8
At 31 March 1996	**12.3**	**30.4**	**7.2**	**49.9**

Notes to the Accounts

21 CURRENT ASSET INVESTMENTS

	Group		Company	
	1996	1995	1996	1995
	£m	£m	£m	£m
Listed				
UK investments	1.2	2.5	–	–
Overseas investments	2.9	0.4	–	–
	4.1	2.9	–	–
Unlisted				
Money market investments	23.2	46.4	19.2	40.7
Tax certificates of deposit	2.0	–	–	–
	25.2	46.4	19.2	40.7
	29.3	49.3	19.2	40.7
Market value at 31 March was:				
Listed investments	4.1	3.0	–	–
Unlisted investments	25.2	46.4	19.2	40.7

22 BORROWINGS

	Group		Company	
	1996	1995	1996	1995
	£m	£m	£m	£m
Amounts falling due within one year:				
Short term borrowings	96.1	59.2	96.1	59.2
Amounts falling due after more than one year:				
8% Eurobonds repayable 28 March 2003	98.9	98.6	98.9	98.6
8⅝% Eurobonds repayable 26 October 2005	98.8	–	98.8	–
	197.7	98.6	197.7	98.6

The 8% Eurobonds may not be redeemed prior to 28 March 2003 except upon the occurrence of certain events. In addition, the 8⅝% Eurobonds may be redeemed in full together with accrued interest by either the 'Issuer' or 'Bondholders' upon the occurrence of certain events.

Borrowing facilities

The Group had at 31 March 1996 bilateral committed borrowing facilities of £230m of varying maturities up to seven years. The other facilities available to the Group were short term unsecured, uncommitted facilities of £228m and the Company has a £150m Sterling Commercial Paper programme.

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
Barking Power Ltd	Ordinary £1	13.5%

19 STOCKS

	Group		Company	
	1996	1995	1996	1995
	£m	£m	£m	£m
Raw materials and consumables	1.4	1.8	1.3	1.6
Work in progress	6.0	2.4	2.3	1.7
Finished goods and goods for resale	–	0.1	–	–
	7.4	4.3	3.6	3.3

20 DEBTORS

	Group		Company	
	1996	1995	1996	1995
Amounts due within one year:	£m	£m	£m	£m
Trade debtors	113.5	106.1	111.1	103.8
Unbilled consumption	77.2	68.8	77.2	68.8
Amounts owed by subsidiary undertakings	–	–	16.0	6.3
Amounts owed by associated undertakings	0.7	0.4	0.1	0.5
Other debtors	52.9	21.1	38.7	20.6
Prepayments and accrued income	8.1	3.7	7.8	3.2
Advance corporation tax recoverable	125.1	43.6	125.1	43.6
Deferred taxation recoverable (Note 24)	11.0	7.9	10.9	7.8
Dividends receivable	0.3	11.4	0.3	11.4
	388.8	263.0	387.2	266.0
Amounts due after more than one year:				
Advance corporation tax recoverable	10.0	6.7	10.0	6.7
Pension scheme prepayment	19.4	9.2	19.4	9.2
Amounts owed by subsidiary undertakings	–	–	5.9	–
Amounts owed by associated undertakings	–	4.6	–	4.6
	29.4	20.5	35.3	20.5

Notes to the Accounts

17 INTERESTS IN ASSOCIATED UNDERTAKINGS

Group	Shares £m	Loans £m	Share of post acquisition reserves £m	Total £m
At 1 April 1995	1.7	0.7	(1.0)	1.4
Additions	2.8	5.0	–	7.8
Transfer to subsidiary undertakings	(0.7)	–	0.2	(0.5)
Transfer to debtors: amounts due within one year	–	(0.4)	–	(0.4)
Share of retained losses in year	–	–	(6.9)	(6.9)
At 31 March 1996	**3.8**	**5.3**	**(7.7)**	**1.4**

Company	Shares £m	Loans £m	Total £m
At 1 April 1995	–	0.7	0.7
Additions	1.9	0.3	2.2
At 31 March 1996	**1.9**	**1.0**	**2.9**

Name of undertaking	Description of shares held	Proportion of nominal value of shares held	Principal activities
London Total Gas Ltd	Ordinary £1	50%	Gas supply
Combined Power Systems Ltd	Ordinary £1	30.83%	Supply of combined heat
	Preference £1	33.33%	and power units
Thames Valley Power Ltd	Ordinary £1	50.0%	Generation and supply
London Total Energy Ltd	Ordinary £1	50.0%	Gas supply

18 OTHER INVESTMENTS

Group	Shares £m	Loans £m	Total £m
At 1 April 1995	82.1	9.9	92.0
Additions at cost	19.1	–	19.1
Transfer to other debtors	–	(9.9)	(9.9)
Net movement in respect of distribution in specie and transfer to ESOP of NGG shares	(92.0)	–	(92.0)
At 31 March 1996	**9.2**	**–**	**9.2**

Company	Shares £m	Loans £m	Total £m
At 1 April 1995	82.1	–	82.1
Additions at cost	18.0	–	18.0
Net movement in respect of distribution in specie and transfer to ESOP of NGG shares	(92.0)	–	(92.0)
At 31 March 1996	**8.1**	**–**	**8.1**

Notes to the Accounts

The net book amount of other land and buildings comprises:

	Group		Company	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Freehold	**35.8**	36.5	**35.3**	36.1
Long leasehold (over 50 years)	**9.3**	9.2	**9.3**	9.2
Short leasehold (50 years or less)	**12.2**	10.8	**12.2**	10.8
	57.3	56.5	**56.8**	56.1

Tangible fixed assets include the following:

	Group		Company	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Assets in the course of construction	**82.3**	76.5	**75.2**	74.1
Land not depreciated	**16.2**	16.2	**16.2**	16.2
	98.5	92.7	**91.4**	90.3

15 FIXED ASSET INVESTMENTS

	Group		Company	
	1996	1995	**1996**	1995
	£m	£m	**£m**	£m
Subsidiary undertakings (Note 16)	**–**	–	**103.6**	108.9
Associated undertakings (Note 17)	**1.4**	1.4	**2.9**	0.7
Other investments (Note 18)	**9.2**	92.0	**8.1**	82.1
	10.6	93.4	**114.6**	191.7

Other investments include 3.8 million shares in NGG which are stated at a valuation of £7.9m and are listed on the London Stock Exchange with a market value of £7.4m at 31 March 1996. All other investments are unlisted.

16 SUBSIDIARY UNDERTAKINGS

			Company
	Shares	**Loans**	**Total**
	£m	**£m**	**£m**
At 1 April 1995	16.9	92.0	108.9
Additions	–	7.5	7.5
Transfer to amounts owed by subsidiary undertakings	–	(12.8)	(12.8)
At 31 March 1996	**16.9**	**86.7**	**103.6**

The principal operating subsidiaries 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 Ltd	Ordinary £1	100%	Investment in electricity generation
London Power Insurance Ltd	Ordinary £1	100%	Insurance
Berkeley Environmental Systems Plc	Ordinary 5p	100%	Building energy management systems
London Electricity Services Ltd	Ordinary £1	100%	Electricity distribution projects
London Electricity Contracting Ltd	Ordinary £1	100%	Electrical contracting
London Electricity Transport Services Ltd	Ordinary £1	100%	Provision and supply of transport services
Combined Power Systems (Southern) Ltd	Ordinary £1	100%	Supply of combined heat and power units
Knight Debt Recovery Services Ltd	Ordinary £1	100%	Debt collection and tracing

Notes to the Accounts

14 TANGIBLE FIXED ASSETS

Group	Network assets £m	Other land and buildings £m	Fixtures and equipment £m	Vehicles & mobile plant £m	Deduct consumers' contributions £m	Total £m
Cost						
At 1 April 1995	1,151.0	74.7	105.2	16.3	(189.3)	1,157.9
Subsidiary on acquisition	–	–	5.4	–	–	5.4
Additions	91.6	2.9	10.0	1.8	(14.9)	91.4
Disposals	(1.2)	(0.6)	(1.8)	(2.2)	–	(5.8)
At 31 March 1996	**1,241.4**	**77.0**	**118.8**	**15.9**	**(204.2)**	**1,248.9**
Depreciation						
At 1 April 1995	386.4	18.2	60.2	9.1	(46.2)	427.7
Subsidiary on acquisition	–	–	1.1	–	–	1.1
Charge for the year	30.8	1.6	11.5	2.6	(5.4)	41.1
Disposals	(0.9)	(0.1)	(1.7)	(1.9)	–	(4.6)
At 31 March 1996	**416.3**	**19.7**	**71.1**	**9.8**	**(51.6)**	**465.3**
Net book amounts						
At 31 March 1996	**825.1**	**57.3**	**47.7**	**6.1**	**(152.6)**	**783.6**
At 31 March 1995	764.6	56.5	45.0	7.2	(143.1)	730.2

Company	Network assets £m	Other land and buildings £m	Fixtures and equipment £m	Vehicles & mobile plant £m	Deduct consumers' contributions £m	Total £m
Cost						
At 1 April 1995	1,100.6	74.2	103.8	–	(189.3)	1,089.3
Additions	86.3	2.9	9.5	–	(14.9)	83.8
Disposals	(0.9)	(0.6)	(1.6)	–	–	(3.1)
At 31 March 1996	**1,186.0**	**76.5**	**111.7**	**–**	**(204.2)**	**1,170.0**
Depreciation						
At 1 April 1995	384.0	18.1	59.8	–	(46.2)	415.7
Charge for the year	29.3	1.7	11.0	–	(5.4)	36.6
Disposals	(0.9)	(0.1)	(1.6)	–	–	(2.6)
At 31 March 1996	**412.4**	**19.7**	**69.2**	**–**	**(51.6)**	**449.7**
Net book amounts						
At 31 March 1996	**773.6**	**56.8**	**42.5**	**–**	**(152.6)**	**720.3**
At 31 March 1995	716.6	56.1	44.0	–	(143.1)	673.6

	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Capital commitments:				
Contracted for but not provided for	**91.8**	58.1	**83.3**	57.1

Notes to the Accounts

10 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1995/96 £m	1994/95 £m
United Kingdom Corporation tax at 33% (1994/95 33%)		
Current taxation on ordinary activities	43.7	46.9
Tax on exceptional restructuring costs	(4.6)	(4.7)
Deferred tax on exceptional restructuring costs	(2.0)	(6.2)
Deferred tax on other provisions	(1.1)	(1.7)
Tax over-provided in prior years	–	(16.0)
	36.0	18.3
Corporation tax reduction relating to customer discount	(27.3)	–
Tax credit on NGG special dividend	22.8	–
Tax credit on NGG ordinary dividends	1.8	4.2
Corporation tax in relation to exceptional ESOP costs	(3.6)	–
Corporation tax charge arising from distribution in specie	59.7	–
	53.4	4.2
	89.4	22.5

The taxation charge has been reduced by £12.8m (1994/95 £14.2m) as a result of timing differences, principally capital allowances and certain provisions.

No deferred taxation adjustment is considered necessary in respect of these timing differences except as shown above.

11 PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION

The profit for the financial year is made up as follows:

	1995/96 £m	1994/95 £m
Dealt with in the accounts of the holding company	186.9	147.4
Retained by subsidiary undertakings	6.7	3.4
Retained by associated undertakings	(6.9)	(0.9)
	186.7	149.9

12 DIVIDENDS

	1995/96 £m	1994/95 £m
Interim dividend of 11.5p per 50p ordinary share (1994/95 9.5p; 11.1p on an equivalent basis)	22.9	19.4
Final proposed of 27.0p per consolidated ordinary share (1994/95 19.5p; 22.8p on an equivalent basis)	47.3	38.6
	70.2	58.0
Distribution of NGG shares by way of specie dividend	350.4	–
Special dividend of 100p per 50p ordinary share	198.7	–
	619.3	58.0

13 EARNINGS PER SHARE (EPS)

	1995/96	1994/95
This is calculated on:		
weighted average number of shares	170,208,893	180,029,001
profit on ordinary activities after taxation	£186.7m	£149.9m
resulting in EPS of (p)	109.7	83.3

The 1994/95 weighted average number of shares has been restated for the 6 for 7 share consolidation in January 1996.

Notes to the Accounts

7 INCOME FROM INVESTMENT IN NGG

	1995/96 £m	1994/95 £m
Interim dividend	9.2	7.1
Final dividend	0.3	14.1
NGG special dividend	113.9	–
NGG second dividend	18.0	–
NGG rights dividend	3.0	–
	144.4	21.2

8 NET INTEREST PAYABLE

	1995/96 £m	1994/95 £m
Interest receivable and similar income	11.8	13.0
Interest payable and similar charges:		
Bank loans and overdraft	(4.7)	(2.4)
Bonds	(12.0)	(11.7)
	(16.7)	(14.1)
Net interest payable	(4.9)	(1.1)

9 EXCEPTIONAL ITEM – PREMIUM ON REDEMPTION OF GOVERNMENT DEBT

	1995/96 £m	1994/95 £m
12.661% Bonds due 1999 repaid 23 August 1994	–	(9.5)

Notes to the Accounts

4 OPERATING PROFIT

Operating profit is stated after charging:

	1995/96 £m	1994/95 £m
Staff costs (Note 5)	**85.3**	110.5
Depreciation (Note 14)	**41.1**	38.3
Operating lease rentals:		
Land and buildings	**6.6**	6.5
Plant and machinery	**1.3**	0.7
Amounts paid to Coopers & Lybrand:		
Remuneration as Group auditors	**0.2**	0.2
Fees for other services in the United Kingdom	**1.1**	0.7
and after crediting:		
Rental income	**2.5**	3.2
Profit on disposal of fixed assets	**2.6**	0.8

Auditor's remuneration includes £0.1 million (1994/95 £0.1m) for audit services provided to the parent company.

5 STAFF COSTS

	1995/96 £m	1994/95 £m
Wages and salaries	**97.7**	104.1
Social security costs	**8.1**	8.5
Other pension costs (Note 31)	**1.3**	16.9
	107.1	129.5
Less: charged as capital expenditure	**(21.8)**	(19.0)
Charged to the profit and loss account	**85.3**	110.5
The average number of employees (including executive directors) during the year was:		
Staff grades	**2,925**	3,059
Industrial staff grades	**1,479**	1,849
	4,404	4,908

6 DIRECTORS' EMOLUMENTS

The total emoluments of the directors, including pension contributions paid, were as follows:

	1995/96 £	1994/95 £
Fees to non-executive directors	**148,000**	154,493
Executive directors:		
fixed remuneration	**554,738**	610,287
annual bonus payments	**66,313**	106,285
pension contributions	**237,954**	255,079
benefits in kind	**48,471**	51,754
	1,055,476	1,177,898

The remainder of the information required by the Companies Act and the London Stock Exchange Listing Rules is contained in the Report of the Remuneration Committee on pages 22 to 25.

Notes to the Accounts

3. ANALYSIS OF TURNOVER, OPERATING PROFIT AND NET ASSETS

	Turnover		Operating profit		Net assets	
	1995/96	1994/95	1995/96	1994/95	1995/96	1994/95
Class of business	£m	£m	£m	£m	£m	£m
Distribution	357.1	379.1	147.5	136.0	686.8	621.9
Supply	1,188.9	1,113.6	9.2	13.9	44.0	37.7
Private electrical distribution systems	15.9	14.8	12.0	11.0	56.1	52.8
Other	43.2	29.6	3.0	1.6	11.5	(1.0)
NGG items	(90.9)	–	(97.0)	–	–	–
	1,514.2	1,537.1	74.7	162.5	798.4	711.4
Less: Inter business transactions	(326.5)	(327.7)	(1.5)	–	–	–
Unallocated net liabilities	–	–	–	–	(298.7)	(53.6)
Continuing operations	1,187.7	1,209.4	73.2	162.5	499.7	657.8

Analysis of NGG items by class of business	Turnover £m	Cost of sales £m	Operating costs £m	Total £m
Distribution	–	–	9.9	9.9
Supply	90.9	(8.3)	2.3	84.9
Other	–	–	2.2	2.2
	90.9	(8.3)	14.4	97.0

The exceptional cost of restructuring the business has been charged to the Distribution business £15m (1994/95 £30m), and to the Supply business £5m (1994/95 £3m).

The exceptional provision for losses in associated undertaking of £4.5m has been charged to the Other class of business.

Explanation of terminology used in the profit and loss account

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

Supply business
This is the buying and selling of electricity as suppliers.

Private electrical distribution systems
This is the operation, maintenance and expansion of private electrical distribution systems.

Other businesses
This includes the operation of contracting, generation, building energy management systems, transport, property and insurance activities.

Allocation of turnover and costs
Wherever possible turnover and costs are allocated specifically to the business to which they relate. However, because of the integrated nature of the Group's activities, it is necessary to recharge or apportion certain costs.

Allocation of assets and liabilities
Operating assets and liabilities are allocated or apportioned to the business to which they relate.

Net operating assets consist of non interest bearing operating assets (fixed assets, stocks and debtors) less non interest bearing operating liabilities (creditors and provisions) arising on operating activities.

Unallocated net liabilities includes other fixed asset investments, cash, borrowings, dividends receivable and payable and taxation.

Geographical analysis
Turnover arises entirely in the United Kingdom.

Notes to the Accounts

for the year ended 31 March 1996

1 ANALYSIS OF NET OPERATING EXPENSES

	1995/96 £m	NGG 1995/96 £m	Total 1995/96 £m	1994/95 £m
Distribution	115.2	2.8	118.0	114.2
Distribution: exceptional cost of restructuring	4.2	–	4.2	6.8
Less: use of prior year provision	(1.7)	–	(1.7)	–
Administrative	138.7	11.6	150.3	159.6
Administrative: exceptional cost of restructuring	15.8	–	15.8	26.2
Less: use of prior year provision	(6.6)	–	(6.6)	–
	265.6	14.4	280.0	306.8

Operating expenses

Distribution costs

Distribution costs are the cost of maintaining the network including appropriate depreciation, rates and NGG exit charges. Other charges from NGG are included in cost of sales.

Administrative expenses

Administrative expenses include all other operating costs.

Exceptional cost of restructuring

The charge of £20m is in respect of the continuing restructuring of the electricity business. Of the £18.7m brought forward, £8.3m has been utilised. A provision of £30.4m is carried forward in the balance sheet.

Exceptional provision for losses in associated undertaking

A provision has been made for losses on gas contracts for the period up to 31 March 1998.

2 ANALYSIS OF NGG TRANSACTIONS

Turnover

This relates to a £50 discount given to residential customers who had a point of supply as at 31 December 1995 and was part of the agreement with HM Government following the capital reorganisation of NGG.

Cost of sales

This is in respect of the fossil fuel levy saved as a result of the customer discount.

Operating expenses

These are exceptional costs in respect of the ESOP (£13.1m) and professional fees for NGG transactions (£1.3m).

The ESOP was set up to purchase NGG shares to be transferred to option holders as compensation for the loss in value of the London Electricity shares under option. The ESOP Trustee is funded by London Electricity to purchase from London Electricity the appropriate number of NGG shares required in relation to unexercised options.

Funding of the ESOP is by way of interest-free limited recourse loans by the Company.

Exceptional profit on sale of investment in pumped storage business

As part of the changes in the capital structure of NGG, prior to listing, the pumped storage business (First Hydro Limited) was demerged and sold to Mission Energy. The amount shown represents London Electricity's share of the sale proceeds.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 1996

	1995/96 £m	1994/95 £m
Profit on ordinary activities after taxation	**186.7**	149.9
Other net gains recognised in reserves:		
Surplus on revaluation of NGG investment	**266.2**	–
Total recognised gains relating to the year	**452.9**	149.9

Note of Historical Cost Group Profits and Losses

for the year ended 31 March 1996

	1995/96 £m	1994/95 £m
Profit on ordinary activities before taxation	**276.1**	172.4
Realisation of revaluation surpluses on NGG investment	**340.5**	–
Historical profit on ordinary activities before taxation	**616.6**	172.4
Historical cost (loss)/profit for the period retained after taxation and dividends	**(92.1)**	91.9

Reconciliation of Movement in Shareholders' Funds

for the year ended 31 March 1996

	Note	1995/96 £m	1994/95 £m
Profit on ordinary activities after taxation		**186.7**	149.9
Dividends	**12**	**(619.3)**	(58.0)
Retained (loss)/earnings		**(432.6)**	91.9
Shares issued under option schemes		**9.6**	1.2
Shares repurchased and cancelled		**(0.8)**	(150.4)
Goodwill on acquisition deducted from reserves		**(0.5)**	(1.6)
Other net recognised gains relating to the year		**266.2**	–
		274.5	(150.8)
Net decrease in equity shareholders' funds		**(158.1)**	(58.9)
Equity shareholders' funds at start of year		**657.8**	716.7
Closing equity shareholders' funds		**499.7**	657.8

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Capital Commitment

Annual Review and Summary Accounts 1995/96

Changing for the future London Electricity is changing. The company is now embarking on the next stage in its development from a publicly owned company into a dynamic private sector business. Change is not an option but a necessity. From April 1998 we face an additional challenge. The intense competition for commercial customers, which started over two years ago, will be extended to the residential market as well. We are now positioning ourselves to take advantage of the opportunities which these developments present.

LONDON ELECTRICITY

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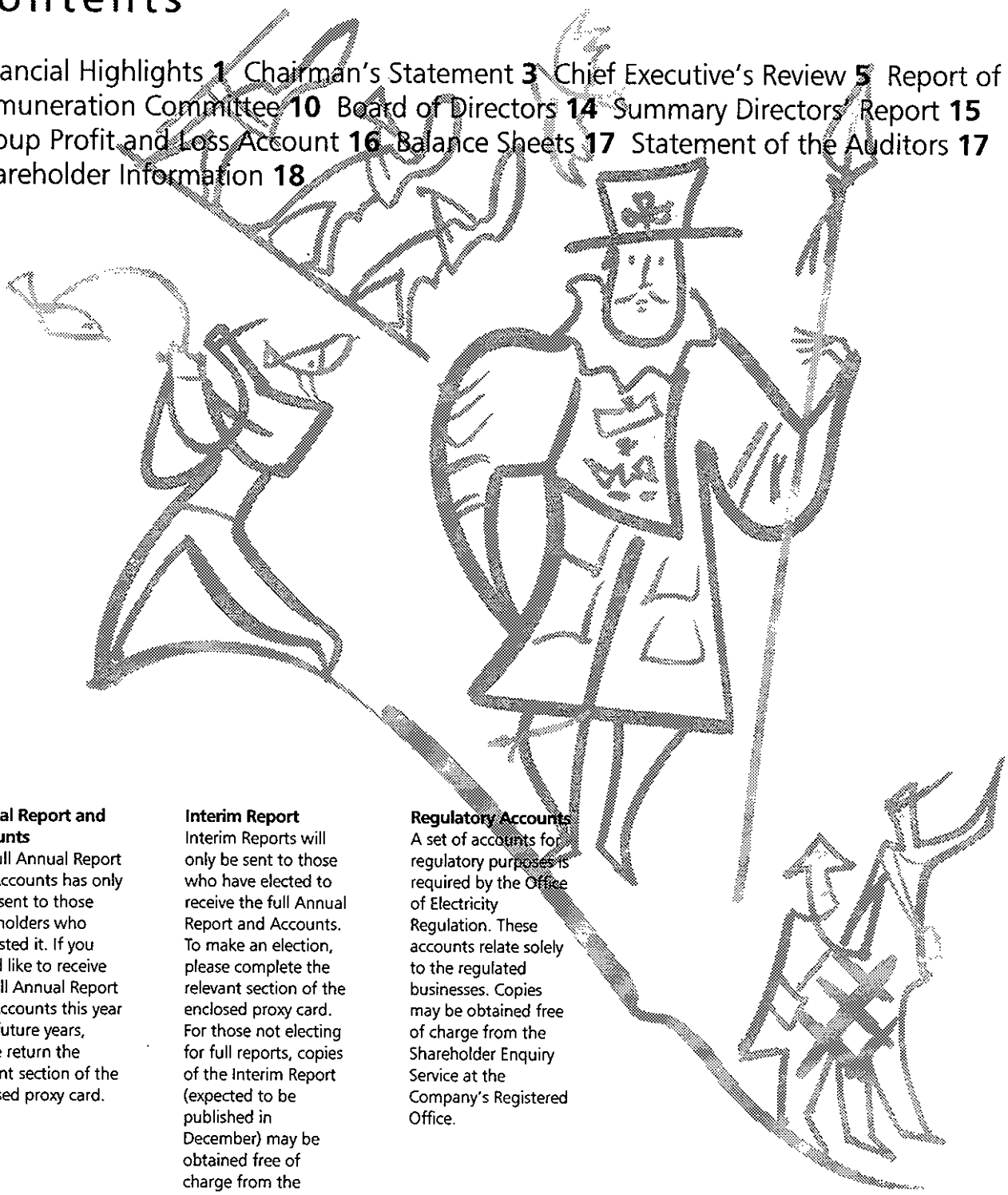


Annual Report and Accounts
The full Annual Report and Accounts has only been sent to those shareholders who requested it. If you would like to receive the full Annual Report and Accounts this year or in future years, please return the relevant section of the enclosed proxy card.

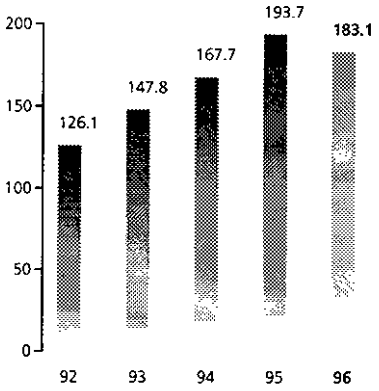
Interim Report
Interim Reports will only be sent to those who have elected to receive the full Annual Report and Accounts. To make an election, please complete the relevant section of the enclosed proxy card. For those not electing for full reports, copies of the Interim Report (expected to be published in December) may be obtained free of charge from the Shareholder Enquiry Service at the Company's Registered Office.

Regulatory Accounts
A set of accounts for regulatory purposes is required by the Office of Electricity Regulation. These accounts relate solely to the regulated businesses. Copies may be obtained free of charge from the Shareholder Enquiry Service at the Company's Registered Office.

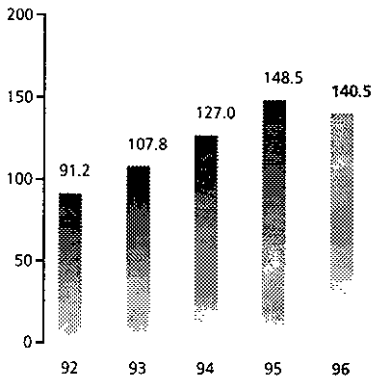
Financial Highlights 1996

	1995/96	1994/95
Turnover (before customer discount)	**£1,278.6m**	£1,209.4m
Operating profit (excluding NGG transactions and exceptional costs)	**£190.2m**	£195.5m
Reported profit before taxation	**£276.1m**	£172.4m
Underlying profit before taxation	**£183.1m**	£193.7m
Underlying profit after taxation	**£140.5m**	£148.5m
Aggregate ordinary dividends payable	**£70.2m**	£58.0m
Dividend cover	**2.0 times**	2.6 times
Gross capital expenditure	**£106.3m**	£110.4m
Net assets	**£499.7m**	£657.8m
Net borrowings	**£264.1m**	£107.8m
Ratio of net borrowings to net assets	**52.9%**	16.4%

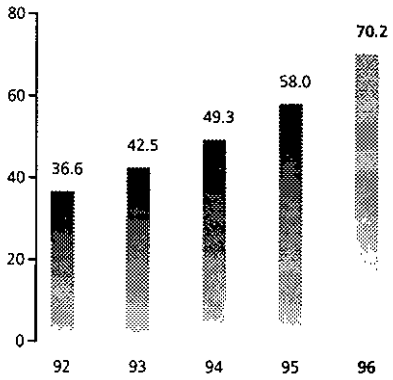
Underlying profit before taxation (£m)



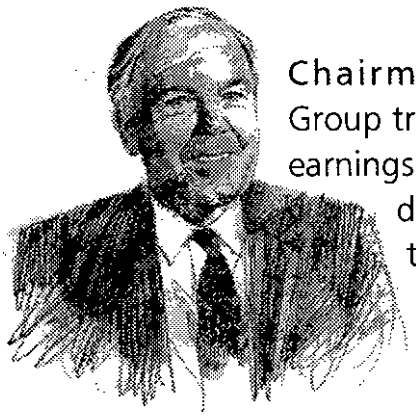
Underlying profit after taxation (£m)



Aggregate dividends payable (£m)



Note:
The underlying figures quoted in the text and financial highlights exclude, for all years, all National Grid Group (NGG) income, and also adjust for exceptional costs and associated taxation.



Chairman's Statement Group profit before taxation, National Grid Group transactions and exceptional items was £183.1 million. Underlying earnings per share increased from 82.5 pence to 82.6 pence. The final dividend of 27 pence per share brings the total dividend for the year to 38.5 pence. The aggregate dividend payable has increased by 21 per cent to £70.2 million. Despite the impact of the Distribution Reviews the Board has been able to continue to increase the value of dividends in real terms.

In January this year, the special dividend of 100 pence per ordinary share, announced in the autumn, returned another £198.7 million to our shareholders. Following the demerger of our shareholding in the National Grid Group, shareholders also received stock worth £350 million. Both distributions followed share buy-backs last year, which further benefited shareholders. In addition eligible residential customers received £50 discounts.

Our main focus remains our distribution business. The key to continuing success is to ensure that our capital assets are refurbished and repaired on a systematic basis. It is therefore important that sufficient cash flow is generated by the business to sustain that, as well as provide our shareholders with an attractive return.

We are also seeking opportunities to increase our unregulated earnings by applying our core distribution skills to private electricity networks and construction projects with an electricity distribution component. During the course of this year, we secured a major contract to construct and operate the electricity distribution network for the Channel Tunnel Rail Link.

We continue to operate in a highly regulated and politicised environment. The year opened amid renewed uncertainty following the decision of the Regulator to re-consider the pricing structure for the electricity distribution companies. The eventual outcome was a significant tightening of the permissible return on our distribution business. Under the terms of the second review, London Electricity is obliged to cut its distribution revenues by 11 per cent in the current year and by 3 per cent a year in real terms for each of the next three years. The ruling translates into a revenue loss of around £30 million in the current year before inflation and volume adjustments.

The year has also seen much restructuring of the industry with a range of mergers and acquisitions. Such changes are inevitable. In assessing these moves, the overriding factor to consider is whether the changes will assist competition and provide better service and choice for electricity customers.

From April 1998 we, along with the other electricity companies, will face competition in our residential franchise for the first time. We have now proved that we are capable of competing in competitive markets by rebuilding our position in the commercial market this year. We achieved it by designing innovative contracts, reorganising our sales and marketing efforts and offering competitive prices.

We are already preparing for competition in the residential markets by investing in greater internal efficiency, customer service training, novel payment methods and new metering and billing technology. London Electricity is confident that it can meet the challenge of competition in the residential markets, provided the regulatory framework for it is open, workable and fair. It is only by competing successfully for customers that we will increase rewards for our shareholders.

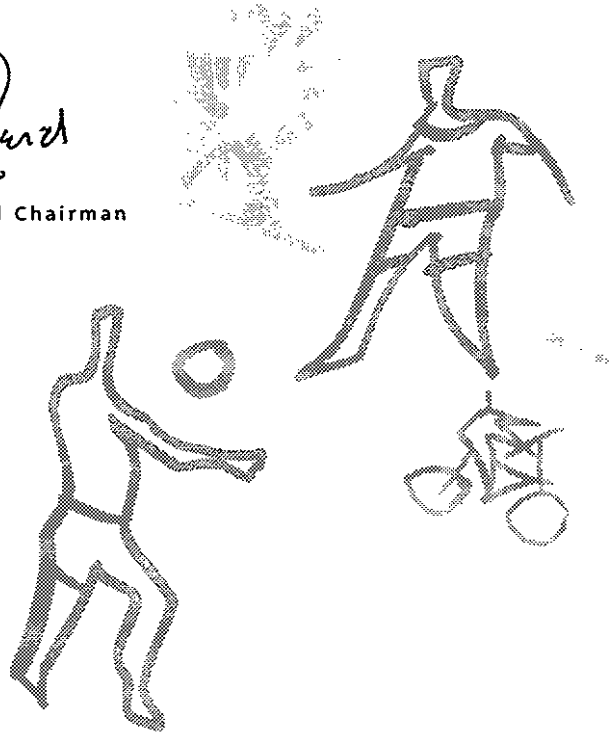
In September, Mike Kersey was appointed Chief Executive following the resignation of Dr Roger Urwin to take up a new post with the National Grid Group. On behalf of the Board, I would like to extend our thanks to Roger for the drive and commitment with which he managed our transition from the public sector to private ownership.

Mike Kersey, who ran our Energy Services business until he took over as Chief Executive, installed the framework which has transformed that business. He is equipped with the experience and vision to take London Electricity forward into the next stage of its development.

In December, Judith Hanratty joined the Board as a non-executive director. Judith, who is Company Secretary at BP, has valuable experience of commercial, financial services, environmental and administrative law.

Despite the many events of the past year, in politics and the media as well as in the industry itself, London Electricity has continued to supply electricity reliably and safely to its customers and to service their needs to the highest standards. Markets, regulators, politicians and journalists are unlikely to give us any respite in the year to come. But I am confident that our combination of competitive prices, innovative products, dedicated staff and an unmatched reputation for customer service will enable us to develop our businesses to deliver value to our shareholders in the future.

Sir Bob Reid Chairman



Mercury
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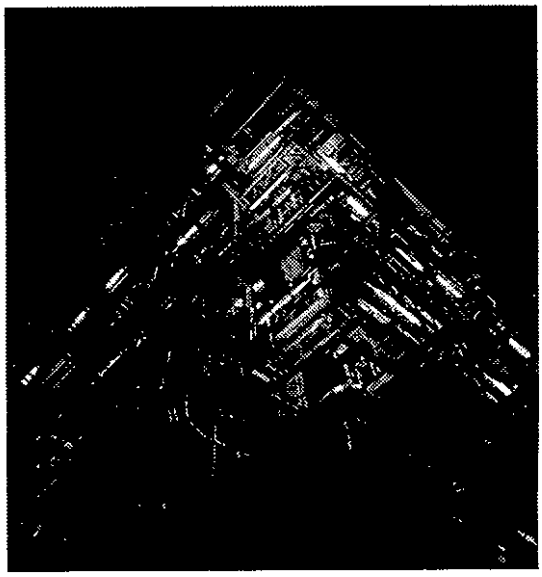
Chief Executive's Review

London Electricity is Changing The Company is now embarking on the next stage in its transformation from a publicly owned company into a dynamic private sector business. Change is not an option but a necessity.

The Need to Change The structure of our industry is being transformed by both a wave of mergers and acquisitions and by growing competition for our business. From April 1998, we will have to compete for residential as well as commercial customers.



Customer Focus To seize the opportunities created by these changes, we must create a business geared to what our customers want rather than what we believe they need or the regulatory authorities have decided they require.

Welcoming Competition Our customers want a reliable supply of electricity, value-for-money and excellent service. Competition is the best way to deliver this. Where competition is impossible, we are benchmarking our activities against the best in the industry.

RESPOND An integrated electricity, gas and water monitoring system developed by London Electricity in order to pinpoint inefficient energy use.

Reliability Last year, we invested over £86 million in ensuring Londoners have a reliable supply of electricity. Our networks in South and West London and the City are being modernised, and interruptions to supply will be sharply reduced by the automation of substation switching.

Barking Power A new independent plant in which London Electricity has a stake.

Everton Kirkwood One of London Electricity's customer service award winners.

Competitive Prices Despite rising fuel costs, residential electricity prices have continued to fall in real terms. They are now 17 per cent lower than they were five years ago. This year, the sale of our holding in the National Grid Group has also enabled us to give eligible residential customers a £50 discount on their electricity bills.

Excellent Service Our service standards are unrivalled. Last year, we took first place in the OFFER survey of service standards for the fourth successive year, secured unconditional renewal of our Charter Mark and collected the first ISO 9000 accreditation awarded to any electricity company for the implementation of our guaranteed service standard systems.

Commercial Success These strengths will enable us to retain residential customers in a competitive market. But our confidence is reinforced by our record of recent success in the commercial sector where we have faced competition for over two years.

Rising Sales We have now become a formidable competitor for commercial customers on both price and service. Last year, our unit sales to large commercial customers increased by 45 per cent.

A Flexible Approach The volume of new business we are winning reflects our flexibility on price, our broad portfolio of products, our commitment to customer service and the success of a more focused approach to marketing and sales.

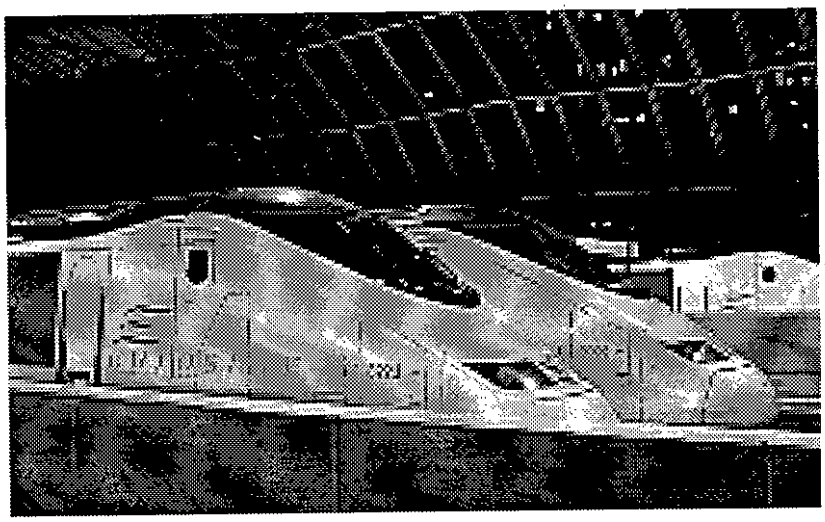
Winning Customers We have a broad range of commercial customers. Mercury Communications Ltd, Cadbury Schweppes, Ladbroke Group and Safeway all renewed or extended their contracts and for 1996/97 new business worth £150 million was won from customers such as Next Retail Ltd, W. M. Morrison Supermarkets plc, Commercial Union Assurance plc and Thames Water.

capital
network

Growing the Business The network will remain our most important source of earnings for the foreseeable future but, with revenues under pressure from tighter regulation and increased competition, we are actively pursuing alternative investments for our core expertise in electricity distribution.

Running Private Networks Our principal focus is private electricity networks. Run properly, they produce a stream of high quality earnings similar to our main franchise. Revenue from the airport networks and commercial buildings is rising steadily.

Channel Tunnel Rail Link These earnings will be augmented eventually by revenues from our shareholding in London & Continental, the consortium which bid successfully to build and operate the Channel Tunnel Rail Link. Already electrical assets such as those at Waterloo International have been transferred.



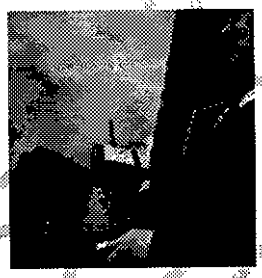
A European Passenger Services photograph

New Business Possibilities We have also agreed with the London Docklands Development Corporation to design, build and operate a private network in the Royal Docks. Additional business is being pursued with London Underground and London Electricity, as part of the Light Railway Group, is bidding to construct the proposed extension to the Docklands Light Railway.

Efficiency and Service Our ability to win and retain new business depends on our ability to combine rising standards of service with increased internal efficiency and we have found a number of innovative ways in which to do this.

The Move to Doxford The re-location of many of our customer service operations activities to Doxford International Business Park in Sunderland, for example, will enable us to run those services, including a 24-hour-a-day enquiry centre, at lower cost while maintaining standards.

Working with Thames Water We are also working with Thames Water to explore areas of our businesses which might benefit from close co-operation. By pooling our expertise, it should be possible to reduce costs and raise standards.



Hand-held Computer Computerised meter reading is performed more efficiently, reducing the need for estimated bills and increasing staff productivity.

Investing in People Ultimately, we cannot deliver the level of service to which we aspire unless our employees are well-trained and highly motivated. Over the last year, we have made considerable progress towards the creation of a new corporate culture.

Team Working Every employee is taking part in the re-shaping of the Company through our commitment to teamwork. Teams of employees are examining every aspect of our working methods, in order to devise cheaper and better ways of delivering a higher standard of service.

Greater Efficiency The Network Services Action Plan, a five year programme organised by the engineering training section to introduce more flexible methods of working, is a good example of what can be achieved. Over four years, it has helped reduce operating costs by a quarter.

Empowering Employees Employees are also being empowered, within an overall framework of corporate principles and values, to make decisions. This is the best way to ensure that we respond quickly to customer demands.

Training Good decisions, particularly in customer service, depend on excellent training in the right skills. Employees at Doxford, for example, do not deal with customers until they are fully accredited under our Staff Training Requirement (STAR) programme. Together with the Network Services Action Plan, these two training schemes won National Training Awards.

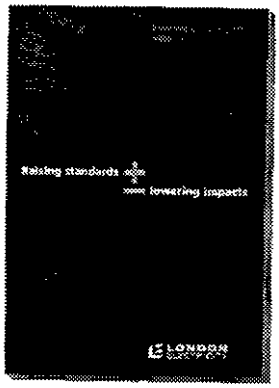
ommunity
commitment

Investing in London London Electricity also has an obligation to invest in the people of London. As the owner of the distribution monopoly, providing an essential service to families and businesses, we should not ignore the environment in which we work.

Investing in the Community In the last year, we have invested a total of £750,000 in the community, including educational projects, crime reduction initiatives and urban regeneration schemes in London, in partnership with schools and local community groups.

Framework Children's Theatre (right) One of the many community projects benefiting from London Electricity's community affairs programme.

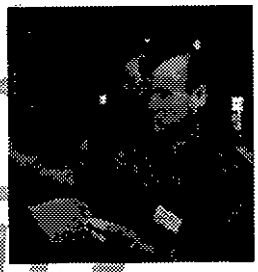
The London Electricity Adding Value Maths Fund (left) Over the last two years, the Maths Fund has contributed £100,000 to improving the understanding, teaching and practical application of maths in thirty primary and secondary schools in the capital. This won the London Regional Aim High award from Business in the Community for its contribution to education.



Employee Involvement Kim Berwick, a customer service clerk at Romford Road Customer Service Centre, with children from the autistic unit at Tollgate School, Plaistow.

Environmental Reporting (above) In October last year we published our first, and award-winning, environmental report. Raising Standards, Lowering Impacts details the ways in which we impinge on the environment and charts the progress we are making towards a less destructive impact. The report will be up-dated annually.

Reducing Environmental Damage Each of our business units now measures the waste it produces and sets targets to reduce, re-use or re-cycle it. We are aiming, for example, to halve our consumption of cable oil within two years.



Health and Safety Health and safety is another area in which we are investing heavily. People work more productively, make fewer mistakes and retire later if their working conditions are healthy and safe. This raises productivity and profitability.

Community and Regeneration We have funded regeneration projects in both East and West London, worked with local businesses and councils to improve street lighting, and we are now investing in safer and more stimulating playgrounds for children.

Protecting the Environment Care for the environment and the health and safety of our employees is a key element in our business strategy. We recognise that we have a responsibility not to unnecessarily place anyone at risk or degrade the environment in which we live and work.

Energy Efficiency London Electricity is also helping our customers reduce their impact on the environment by subsidising the efficient use of electricity. We are committed to saving customers 461GWh of electricity through energy saving schemes over the four years to 1998. These include subsidising low energy lighting and insulation programmes.

Managing Change London Electricity has embarked on a series of changes designed to enhance our ability to compete for commercial and residential customers. We are investing in our networks and in the people who operate them. The process of change is never easy. But London Electricity is confident that the reward for boldness will be the creation of a dynamic and profitable energy business.

Report of the Remuneration Committee

Remuneration policy The Report of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury was published on 17 July 1995. Central to its recommendation was a Code of Best Practice whose main provisions are being incorporated in the London Stock Exchange Listing Rules ('the Listing Rules') or in Section A or Section B of the best practice provisions annexed to them. Although the amendments to Sections A and B to the Listing Rules are not binding on the Company for the year under review, the following Report by the Remuneration Committee ('the Committee') is in line with the Greenbury Code.

Remuneration of the executive directors is determined by the Committee, all of whose members are non-executive directors of the Company having no personal financial interest other than as shareholders in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business. Their names are listed on page 14. Remuneration of the non-executive directors is determined by the Board as a whole.

The Committee considers that throughout the year under review the Company has complied with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange. Furthermore, in framing its remuneration policy, the Committee has given full consideration to the matters set out in Section B of those provisions.

The aim of the Committee is to ensure that the Company has competitive remuneration packages in place to attract, motivate and retain high calibre executives. The packages are linked to individual and business performance and are designed to align personal reward with enhanced shareholder value over both the short and long term.

Packages consist of annual salary, health and car benefits, an annual cash bonus scheme and pension contributions. The Committee uses surveys of executive remuneration provided by its external adviser when setting pay levels. These surveys include data on comparable companies as well as more general trends in the marketplace.

Bonus payments The amount of bonus paid to each director is based on the achievement of a combination of personal performance measures and of Company performance against budget and against a Regional Electricity Company ('REC') peer group. The figures shown in the Directors' emoluments table are for payments made in respect of the year 1994/95.

The maximum bonus payable is 25 per cent of basic salary.

Personal performance criteria constitute less than 50 per cent of the maximum bonus payable. The component criteria relate to each individual director's areas of responsibility.

The components for 1995/96 were made up as follows:

	Individual	Corporate against budget	Corporate against peer group
Chief Executive	5%	10%	10%
Finance Director	7%	7%	11%
Other Executive Directors	9%	6%	10%

The Company performance criteria for 1995/96 for executive directors were as follows:

a) Company performance against budget

i) By comparison with percentage profit growth within REC peer group.
ii) Calculation of profit to exclude NGG dividend and exceptional items.
iii) No payment to be made for the 11th or 12th place in the peer group. Thereafter 10 per cent of potential award to be granted for each ascent in ranking within the group.

b) Company performance against peer group

This is based on the increase in total shareholder value calculated as the percentage return on investment taking into account both any increase or decrease in capital value and any dividend payments or other distributions declared with respect to that financial year, the payment to be made only if performance exceeds the median of the peer group.

Bonuses are not pensionable nor are benefits in kind.

Share option schemes

Executive share option scheme

Executive directors participated in the executive share option scheme during the year. Other than the grant to Mr M J Kersey of an option over 75,077 shares on 3 April 1995, no new share options were granted during the year to directors. The Company does not presently intend to make any further grants of share options to the directors under the existing executive share option scheme.

Sharesave scheme

The Company also operates a Save As You Earn (Sharesave) scheme which offers participating employees the opportunity to buy shares in London Electricity. There are approximately 1,077 members of staff in this scheme.

Pensions Executive directors are entitled to a pension of up to two thirds of basic salary on retirement at age 60 and, on death during employment, an executive director's dependants receive a lump sum of four times basic salary. Contributions by the directors are 6 per cent of basic salary.

Service contracts All of the executive directors have service contracts with a notice period of 12 months. However, in the event of a change of control the notice period is extended to an initial period of 24 months effective from the date of change of control, reducing over the succeeding year to 12 months. The Committee considers that such maximum notice periods are reasonable and in the interests of the Company (having regard to the competitive conditions and current practice among large public companies) and are important in attracting and retaining high quality executives.

Remuneration policy for non-executive directors The remuneration for non-executive directors consists of fees for their services in connection with Board and Board Committee meetings and, where relevant, for additional services such as chairing the Board or a Board Committee or devoting additional time and expertise for the benefit of the Group. They do not have contracts of service, are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive schemes.

Directors' emoluments

Salaries and Fees

	Salary £000	Bonus £000	Pensions £000	Benefits £000	1995/96 Total £000	1994/95 Total £000	Notes
Chairman:							
Sir Bob Reid	100	–	–	–	100	100	
J J Wilson	–	–	–	–	–	22	(1)
	100	–	–	–	100	122	
Executive directors:							
M J Kersey	137	12	59	12	220	–	(2)
	123	1	47	12	–	183	
I R Beament	99	10	42	12	163	–	
	92	16	39	10	–	157	
M J Brown	98	10	43	12	163	–	
	89	15	38	10	–	152	
A V Towers	127	14	54	7	202	–	
	122	22	52	10	–	206	
R J Urwin	94	20	40	5	159	–	(2)
	184	31	79	10	–	304	
Total 1995/96	555	66	238	48	907		
Total 1994/95	610	85	255	52		1,002	
Non-executive directors:							
J C Hanratty	6	–	–	–	6	–	(3)
G M W Owen	21	–	–	–	21	21	
L W Priestley	21	–	–	–	21	21	
C A Prendergast	–	–	–	–	–	6	(3)
H G Robinson	–	–	–	–	–	6	(3)
	48	–	–	–	48	54	
Total	703	66	238	48	1,055	1,178	

The figures for pensions included above represent the contributions paid by the Company. Further guidance is awaited from the Institute of Actuaries on a more appropriate method of reporting this information.

Notes

1. J J Wilson

He resigned as Chairman on 31 March 1994 and the emoluments shown are in respect of a bonus for that year.

2. Chief Executive (Highest paid director)

During the year both R J Urwin and M J Kersey served as Chief Executive. Dr Urwin resigned on 29 September 1995 and Mr Kersey was appointed as his successor on 30 September 1995. On his appointment as Chief Executive, Mr Kersey received a salary increase of 11.4 per cent to reflect his additional duties.

3. Non-executive directors

Miss J C Hanratty was appointed as a non-executive director on 5 December 1995 and her fees are included from that date.

Mrs H G Robinson and Mr C A Prendergast resigned as directors on 5 August 1994.

Directors' interests in the issued ordinary share capital and share options of the Company

The interests of the directors of the Company at 31 March 1996 in the issued ordinary share capital and share options of the Company, as shown in the register kept by the Company, are given below. The interests are shown from 1 April 1995 or date of appointment where this is later.

All the interests are beneficial unless otherwise stated.

(a) Ordinary shares

	At 31/3/96	At 1/4/95
Sir Bob Reid	428	500
M J Kersey	428	500
I R Beament	15,774	9,905
M J Brown	6,013	3,356
J C Hanratty (appointed 5/12/95)	Nil	n/a
G M W Owen	857	1,000
L W Priestley	857	1,000
A V Towers	10,727	5,335
C A Prendergast (retired 5/8/94)	282	330
H G Robinson (retired 5/8/94)	Nil	150
R J Urwin (resigned 29/9/95)	94,419	7,121
Total	129,785	29,197

Shareholdings at 31 March 1996 take into account the share capital consolidation which took place on 18 January 1996 by means of which six new ordinary shares were issued to replace every seven existing shares.

None of the directors has a beneficial interest in the shares of any subsidiary company, nor in the debenture or loan stocks issued by the Company or any subsidiary.

(b) Share options

		Sharesave No. 1	Sharesave No. 2	Executive No. 1	Executive No. 2	Executive No. 3	Executive No. 5	Total
M J Kersey	31/3/96	–	–	–	–	–	75,077	75,077
	1/4/95	–	–	–	–	–	–	–
I R Beament	31/3/96	–	–	–	–	19,400	–	19,400
	1/4/95	5,571	–	–	14,000	19,400	–	38,971
M J Brown	31/3/96	–	990	–	–	14,400	–	15,390
	1/4/95	5,571	990	–	–	14,400	–	20,961
A V Towers	31/3/96	–	990	–	–	23,800	–	24,790
	1/4/95	5,571	990	100,000	28,000	23,800	–	158,361
R J Urwin	31/3/96	–	–	–	–	29,350	–	29,350
	1/4/95	5,571	–	120,000	35,000	29,350	–	189,921
Total	31/3/96	–	1,980	–	–	86,950	75,077	164,007
	1/4/95	22,284	1,980	220,000	77,000	86,950	–	408,214
Exercise price per share		£1.75	£3.03	£2.61	£3.00	£4.83	£5.92	
Earliest exercisable date		1/3/96	31/12/97	17/1/94	14/1/95	20/7/96	3/4/98	
Latest exercise date		1/9/96	30/6/98	17/1/2001	14/1/2002	20/7/2003	3/4/2005	

Options granted, exercised and sold during the year

	Shares granted	Price £	Shares exercised	Exercise price £	Market price at date of exercise £	Shares sold	Market price at date of sale £	Date of sale
M J Kersey	75,077	5.92	–	–	–	–	–	–
I R Beament	–	–	5,571	1.75	7.59	10,000	8.08	10/8/95
	–	–	14,000	3.00	8.08	2,000	8.70	10/10/95
			19,571					
M J Brown	–	–	5,571	1.75	7.59	2,434	7.43	7/3/96
			5,571					
A V Towers	–	–	5,571	1.75	7.59	118,335	8.08	10/8/95
	–	–	100,000	2.61	8.08	4,500	7.32	12/3/96
	–	–	28,000	3.00	8.08	3,200	7.12	30/1/96
			133,571					
R J Urwin	–	–	120,000	2.61	8.08	51,965	8.08	10/8/95
	–	–	35,000	3.00	8.08	–	–	–
			155,000					

The closing market price of the shares at 31 March 1996 was £7.43 (31 March 1995 £5.82).

The number of options lapsed unexercised was 5,571 shares in respect of Dr R J Urwin's option under the Sharesave Scheme which lapsed on his leaving the Company (1994/95 nil).

The following directors sold shares over which they held an interest after 31 March 1996:

	Shares sold	Market price at date of sale £
I R Beament	2,000	7.92
M J Brown	2,790	7.92
A V Towers	3,200	7.93

The other directors' interests in the shares of the Company remain unchanged between 31 March 1996 and 18 June 1996.

Board of Directors

CHAIRMAN

Sir Bob Reid (Age 62) is non-executive Chairman. He joined London Electricity as a non-executive Director on 1 December 1993 and became Chairman on 1 April 1994. Sir Bob joined Shell International Petroleum Company Limited in 1956 and after a distinguished career overseas became a Director in 1984, and Chairman and Chief Executive of Shell UK in 1985. He was Chairman of British Rail until 31 March 1995. He is currently Chairman of Sears plc and is Chairman of British Borneo Petroleum Syndicate plc.

CHIEF EXECUTIVE

Mike Kersey (Age 54) is Chief Executive and is a chartered engineer. He took up his present position with London Electricity in October 1995, having joined the Company in January 1994. He held a number of appointments in various parts of the world, latterly with Matthew Hall Ltd where he was appointed Managing Director in 1987. Following the acquisition of Matthew Hall in 1988 by AMEC plc, he became Chairman of the Mechanical and Electrical Sector. In 1992, he was appointed Chief Executive of AMEC Construction Pty Ltd based in Australia.

EXECUTIVE DIRECTOR

Ian Beament (Age 51) is an Executive Director and is a chartered engineer. He joined Eastern Electricity in 1962 and was appointed Area Engineering Manager in 1978. He joined London Electricity as Construction and Operations Engineer in 1983 and was appointed Director of Engineering in July 1984, and to his present position on 1 June 1993.

EXECUTIVE DIRECTOR

Mike Brown (Age 51) is an Executive Director and is a chartered secretary. He joined the industry in 1964 working for SEEBOARD and then the Electricity Council. He joined London Electricity in 1982 as Management Services Director and after successive senior line management appointments, he became Director of Customer Services in April 1989. He was appointed to his present position on 1 June 1993.

FINANCE DIRECTOR

Alan Towers (Age 54) is Finance Director and is a chartered accountant. Before joining London Electricity in December 1988, he held financial posts in a number of companies including, most recently, Group Finance Manager of GPG plc.

NON-EXECUTIVE DIRECTOR

Judith Hanratty (Age 52) was appointed a non-executive Director of London Electricity in December 1995. She is currently Company Secretary of The British Petroleum Company plc and a Director of various BP subsidiary companies. She is a Secretary of State nominee on The Insurance Brokers Regulation Council and a member of the Committee established by the London Stock Exchange to enquire into Private Share Ownership (the Weinburg Committee). She is also a Trustee of Lucy Cavendish College, Cambridge and the Waitangi Foundation. A barrister, she held Board positions associated with the privatisation of New Zealand Government assets before coming to the UK in 1986.

NON-EXECUTIVE DIRECTOR†

Gordon Owen CBE (Age 58) was appointed a non-executive Director of London Electricity in March 1990. Previously Group Managing Director of Cable and Wireless plc, he is currently Chairman of Energis Communications Limited and non-executive Chairman of Utility Cable plc. He is also a Director of Verity Group plc and Acorn Computer Group plc.

NON-EXECUTIVE DIRECTOR*

Leslie Priestley TD (Age 62) was appointed a non-executive Director of London Electricity in 1983. Having held senior positions in Barclays Bank plc, he became Chief Executive of TSB England and Wales plc. He is currently a member of the Monopolies and Mergers Commission and Chairman of the Civil Aviation Authority Pension Scheme and Caviapen Trustees Ltd. He is also a non-executive Director of Pearce Group Holdings Limited, Pinnacle Insurance plc and Expatriate Management Ltd.

† Chairman of the Audit Committee

* Chairman of the Remuneration Committee

Important Note This summary financial statement does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Company or of the Group.

For further information, the full Annual Accounts, the Auditors' Report on those accounts (which is unqualified) and the Directors' Report should be consulted.

Shareholders are entitled to receive on request a copy of the Group's latest full Annual Report and Accounts. This will be sent free of charge.

Summary Directors' Report

Principal Activities The principal activities of the Group throughout the year were the licensed distribution and supply of electricity to commercial, residential and industrial customers within the London area, the provision of services relating to energy and electrical contracting and the operation of private distribution networks.

Business Review The historical cost profit on ordinary activities of the Group before taxation amounted to £276.1 million and after taxation to £186.7 million. An interim dividend of 11.5 pence per share was paid on 26 January 1996 amounting to £22.9 million and a special dividend of £1 per share was also paid on 26 January 1996 amounting to £198.7 million. The directors recommend the payment of a final dividend in respect of the year ended 31 March 1996 of 27.0 pence per share payable on 6 August 1996, amounting to £47.3 million.

The main business of the Company has two aspects, the supply of electricity and its distribution. The business is regulated according to the terms of licences granted under Section 6 of the Electricity Act 1989. While the main business is the management's first priority, the Company is also expanding into areas of unregulated business which complement core activities and optimise the use of the skills and experience inherent in the Company.

Capital investment in the year amounted to £106.3 million.

Fixed Assets Land and buildings are carried in the historical cost accounts at a net book value of £107.0 million. The Directors consider that the market value of land and buildings is significantly in excess of this amount. On a current cost basis, land and buildings are valued at £209.1 million.

Directors The names of the directors at the date of this report are shown on page 14.

Dr R J Urwin who was also a director during the year resigned on 29 September 1995.

National Grid Demerger In December 1995, a distribution of National Grid Group shares was made to eligible shareholders of the Company and eligible residential electricity customers received a one-off discount on their bills in respect of the demerger.

Share Capital Consolidation At the Extraordinary General Meeting on 17 January 1996, shareholders approved a share capital consolidation as part of restructuring the Company's balance sheet. The basis of the share consolidation was 6 new ordinary shares of a nominal value of 58⅓ pence each for every 7 existing shares of a nominal value of 50 pence each. This resulted in the repurchase and cancellation of 839,573 fractional shares.

Share Repurchase Programme At the Company's Annual General Meeting held on 4 August 1995, shareholders gave approval for the Company to effect on-market purchases of up to 10 per cent of its shares. This authority was renewed at the Extraordinary General Meeting ('EGM') held on 17 January 1996 following the change in the nominal value of shares from 50 pence to 58⅓ pence per share. Other than the repurchase of the fractional shares arising from the share capital consolidation which was authorised at the EGM on 17 January 1996 under a separate resolution, no further share repurchases have taken place during the period under review and the amount of shares available remains at 10 per cent.

Corporate Governance and the Cadbury Code of Best Practice London Electricity supports the recommendations of the Cadbury Committee on the Financial Aspects of Corporate Governance and has complied throughout the accounting period with the Code of Best Practice, in all those aspects which have been brought into application, except for the requirements relating to the composition of the Audit Committee. Currently, the Committee comprises three non-executive directors in compliance with the Code. However, until the appointment of Miss J C Hanratty on 5 December 1995, the Committee consisted of two non-executive directors.

The Board is responsible for the Group's internal financial control systems. Following a review of the effectiveness of these systems by the Board, a Risk Management Policy Manual has been put in place which governs the activities of the Group as a whole. Key procedures are in place to enable the Board's responsibility to be discharged which include a detailed schedule of matters reserved for approval by the Board, covering strategic, financial, organisational and compliance issues; accountability of the responsible director for each business unit of the Group for internal financial controls within the business unit; a comprehensive annual budgeting and financial reporting system; defined procedures for the authorisation of capital and other expenditure, treasury operations and the purchase of contracts for the supply of electricity; and regular internal and external audit.

The Report of the Auditors on Corporate Governance matters is set out in the Annual Report and Accounts.

Going Concern The financial statements 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.

Group Profit and Loss Account

for the year ended 31 March 1996

	Excluding National Grid Group transactions 1995/96 £m	National* Grid Group transactions 1995/96 £m	Total 1995/96 £m	1994/95 £m
Turnover – continuing operations	1,278.6	(90.9)	1,187.7	1,209.4
Cost of sales	(842.8)	8.3	(834.5)	(740.1)
Gross profit	435.8	(82.6)	353.2	469.3
Net operating expenses	(253.9)	(14.4)	(268.3)	(273.8)
Exceptional cost of restructuring	(20.0)	–	(20.0)	(33.0)
Less: use of prior year provision	8.3	–	8.3	–
Operating profit – continuing operations	170.2	(97.0)	73.2	162.5
Share of losses of associated undertakings	(2.2)	–	(2.2)	(0.7)
Exceptional provision for losses in associated undertaking	(4.5)	–	(4.5)	–
Exceptional profit on sale of investment in pumped storage business	–	70.1	70.1	–
Profit on ordinary activities before interest	163.5	(26.9)	136.6	161.8
Income from investment in National Grid Group	–	144.4	144.4	21.2
Net interest payable	(4.9)	–	(4.9)	(1.1)
Exceptional item – premium on redemption of Government debt	–	–	–	(9.5)
Profit on ordinary activities before taxation	158.6	117.5	276.1	172.4
Taxation on profit on ordinary activities	(36.0)	(53.4)	(89.4)	(22.5)
Profit on ordinary activities after taxation	122.6	64.1	186.7	149.9
Dividends				
Distribution in specie	–	(350.4)	(350.4)	–
Special	(198.7)	–	(198.7)	–
Interim	(22.9)	–	(22.9)	(19.4)
Final proposed	(47.3)	–	(47.3)	(38.6)
Retained (loss)/profit for the financial year	(146.3)	(286.3)	(432.6)	91.9
Earnings per share			109.7p	83.3p
Dividends per share			38.5p	29.0p

*National Grid Group (NGG) transactions are associated with the demerger of NGG. A circular was sent to all shareholders in December 1995 describing these transactions.

The underlying figures quoted in the text and financial highlights exclude, for all years, all NGG income, and also adjust for exceptional costs and associated taxation.

Details of the directors' emoluments are contained in the Report of the Remuneration Committee on pages 10 to 13.

Shareholder Information

Shareholder enquiries
For all shareholder enquiries contact:

Lloyds Bank Registrars,
The Causeway,
Worthing,
West Sussex BN99 6DA.

Telephone Worthing
01903 502541

For enquiries about London Electricity contact:

London Electricity plc,
Shareholder Enquiry Service,
Templar House,
81-87 High Holborn,
London WC1V 6NU.

Telephone London
0171 404 9999

For enquiries about the share dealing service contact:

The Share Centre Ltd,
PO Box 1000,
Tring,
Herts HP23 4JR.

Telephone Tring
01442 890844

Analysis of share register

Shareholders by range	Shareholder accounts %	Shares %
100 and under	76.95	8.54
101 – 300	17.31	3.80
301 – 49,999	5.57	14.78
50,000 and above	0.17	72.88

Shareholders' interest

As at 31 March 1996, the number of shares in issue was 174,290,836 and the number of shareholder accounts was 222,423 of which 53.21 per cent were held by customers.

Shareholdings by category	Shares %
Pension funds	31.63
Insurance companies	17.59
Unit trusts	6.92
Investment trusts	2.57
Individuals	27.48
Overseas	9.23
Others	4.58

Annual General Meeting

The Annual General Meeting will be held on Friday 2 August 1996 at 11.00am at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

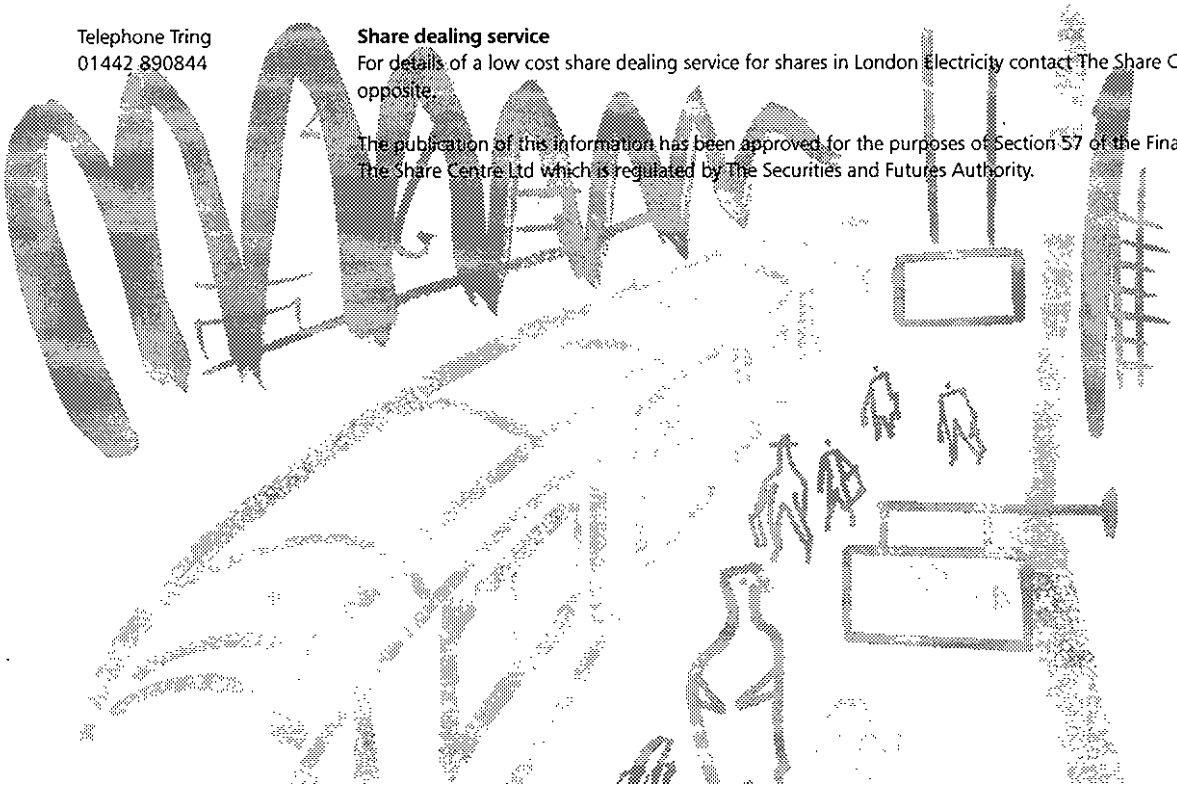
Shareholder calendar

Ex-dividend date	24 June 1996
Record date (qualifying date) for final dividend	2 July 1996
Payment of final dividend	6 August 1996
Announcement of half-year results	November/December 1996
Ex-dividend date	December 1996/January 1997
Record date (qualifying date) for interim dividend	December 1996/January 1997
Payment of interim dividend	January/February 1997
Preliminary announcement of results for the year ending 31 March 1997	June 1997

Share dealing service

For details of a low cost share dealing service for shares in London Electricity contact The Share Centre Ltd at the address opposite.

The publication of this information has been approved for the purposes of Section 57 of the Financial Services Act 1986 by The Share Centre Ltd which is regulated by The Securities and Futures Authority.



London Electricity plc
Registered Office
Templar House
81-87 High Holborn
London WC1V 6NU

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and Wales No. 2366852

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Balance Sheets

as at 31 March 1996

	Group 1996 £m	Group 1995 £m	Company 1996 £m	Company 1995 £m
Fixed assets				
Tangible assets	783.6	730.2	720.3	673.6
Investments	10.6	93.4	114.6	191.7
	794.2	823.6	834.9	865.3
Current assets				
Stocks	7.4	4.3	3.6	3.3
Debtors: amounts falling due:				
Within one year	388.8	263.0	387.2	266.0
After more than one year	29.4	20.5	35.3	20.5
Investments	29.3	49.3	19.2	40.7
Cash at bank and in hand	0.4	0.7	1.2	–
	455.3	337.8	446.5	330.5
Creditors: amounts falling due within one year				
Borrowings	(96.1)	(59.2)	(96.1)	(59.2)
Other creditors	(388.5)	(284.0)	(386.9)	(284.9)
Net current liabilities	(29.3)	(5.4)	(36.5)	(13.6)
Total assets less current liabilities	764.9	818.2	798.4	851.7
Creditors: amounts falling due after more than one year				
Borrowings	(197.7)	(98.6)	(197.7)	(98.6)
Other creditors	(13.3)	(16.1)	(9.3)	(11.6)
	(211.0)	(114.7)	(207.0)	(110.2)
Provisions for liabilities and charges	(54.2)	(45.7)	(49.9)	(42.6)
Net assets	499.7	657.8	541.5	698.9
Capital and reserves				
Called up share capital	101.7	98.8	101.7	98.8
Share premium account	9.6	2.9	9.6	2.9
Capital redemption reserve	11.0	11.0	11.0	11.0
Revaluation reserve	7.6	81.9	7.6	81.9
Profit and loss account	369.8	463.2	411.6	504.3
Equity shareholders' funds	499.7	657.8	541.5	698.9

This summary financial statement prepared on an historical cost basis was approved by the Board of Directors on 18 June 1996 and was signed on its behalf by:
Sir Bob Reid Chairman
Alan Towers Finance Director

Statement of the Auditors

to the shareholders of London Electricity plc on the summary financial statement
We have examined the summary financial statement set out on pages 15 to 17.

Respective responsibilities of directors and auditors
The summary financial statement is the responsibility of the directors. Our responsibility is to report our opinion on its preparation and consistency with the annual financial statements and directors' report.

Basis of opinion
We conducted our work in accordance with Auditing Guideline 'The auditors' statement on the summary financial statement' adopted by the Auditing Practices Board.

Opinion
In our opinion the summary financial statement is consistent with the annual financial statements and the directors' report of London Electricity plc for the year ended 31 March 1996 and complies with the requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

Coopers & Lybrand
Chartered Accountants and Registered Auditors, London, 18 June 1996

The Companies Act requires the Auditors to report if the accounting records are not properly kept or if the required information and explanations are not received. The report on the annual financial statements contained no such statement.