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LONDON ELECTRICITY PLC

REPORT & ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1998

Registered Company number: 2366852

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LONDON ELECTRICITY PLC

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1998

Directors' Report

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

On 4 December 1998 Entergy Corporation Inc completed the sale of London Electricity plc to Electricité de France. The sale was formally cleared by the European Commission on 27 January 1999.

In December 1998 London Electricity plc paid the second installment of its liability in respect of the windfall tax, amounting to £70 million.

Following the commencement of open competition in the electricity and gas markets, London Electricity plc has aggressively defended its pre-existing customer base whilst successfully acquiring new electricity and gas customers. The final phase of opening the London area electricity market will take place in June 1999. The directors consider that the company is well placed to continue to grow as a significant participant in the UK energy sector.

RESULTS AND DIVIDENDS

The profit on ordinary activities of the Group before taxation amounted to £131.3 million (1997 £100.2 million) and after taxation to a profit of £131.8 million (1997 £98.6million). Dividends totalling £71.0 million (1997 £102.1million) were declared and paid during the period.

DIRECTORS

The directors of the Company who held office during the year ended 31 December 1998 or who are directors at the date of signing of this report are as follows :

		Appointed	Resigned
Edwin A. Lupberger (Chairman)	(NE)		26 May 1998
Alan V. Towers	(E)		25 August 1998
Charles Brown III	(NE)		8 December 1998
Robert von der Luft	(NE)	8 July 1998	8 December 1998
Michael B. Bemis	(E)		28 January 1999
Gerald L. Wingrove	(E)	1 August 1998	
Thomas J. Wright	(E)	17 August 1998	28 January 1999
Bruno Lescoeur (Chairman)	(E)	28 January 1999	
Yves Colliou	(NE)	28 January 1999	
Pierre Lederer	(NE)	28 January 1999	
Jack Cizain	(NE)	28 January 1999	
Ian R. Beament	(E)		
Martin R. Wenban	(E)		
Ronald Barnes	(E)		

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

DIRECTORS' INTERESTS

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

None of the directors have any interests in the share capital or share options of the company or any of its subsidiary companies.

RESEARCH AND DEVELOPMENT

The Group undertakes a programme of research covering operational efficiency, customer service and environmental impact in conjunction with EA Technology Limited at Capenhurst. ERA Technology and the National Grid Research Laboratories, both at Leatherhead, also carry out research work for the Group whilst product development work for specific London Electricity plc 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 £830,362 (1997 £635,102).

The group made a political donation of £2,000 to the Labour Party by way of event sponsorship (1997 £Nil).

DIFFERENCES BETWEEN MARKET AND BALANCE SHEET VALUE OF LAND

Land & buildings (including Network property assets) are carried in the historical cost accounts at a net book value of £ 113.6 million. The directors consider the market value of land & buildings is significantly in excess of this amount and that it is not practicable to disclose a precise difference in the year end financial statements.

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. The number of days represented by trade creditors falling due for payment within one year at the period end is 30 days.

EMPLOYEES

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

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

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

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

YEAR 2000

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

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

Compliance of our critical computer systems is planned to be completed by the end of March 1999, allowing sufficient time for testing. Compliance of embedded systems is planned progressively and the majority of testing will also be completed by March 1999.

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

We have already spent around £3.9 million to the end of 1998, associated with systems and equipment. We expect to spend a further £12 million before the end of 1999, which will be charged to the profit and loss account in the current year.

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.

DIRECTORS' RESPONSIBILITIES

The following statement sets out the responsibilities of the directors in relation to the financial statements. In respect of the historical cost accounts for the year ended 31 March 1998 the directors have followed the requirements for annual 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 presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, having prepared the historical cost accounts, 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.

AUDITORS

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

A resolution to re-appoint PricewaterhouseCoopers as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board

Company Secretary

26 **March 1999**

Auditors' Report

to the members of London Electricity plc

We have audited the financial statements on pages 7 to 28 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

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

Opinion

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

26 **March 1999**

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

		Note	12 months to December 1998 £m	9 months to December 1997 £m
Group Turnover	continuing operations	2,3	**1,260.0**	906.6
Cost of sales			**(803.5)**	(600.0)
Gross profit			**456.5**	306.6
Net operating expenses		1	**(234.0)**	(192.7)
Exceptional operating expenses		1,2	**(3.9)**	7.8
			(237.9)	(184.9)
Group operating profit	continuing operations	3,4	**218.6**	121.7
Share of operating profit of associates			**8.0**	2.6
Exceptional item: provision for impairment		2	**(69.7)**	-
			(61.7)	2.6
Operating profit including associates			**156.9**	124.3
Writeback/(creation) of provision against investments		2	**5.0**	(11.6)
Profit on ordinary activities before interest			**161.9**	112.7
Income from investments			**0.7**	0.6
Net interest payable		7	**(31.3)**	(13.1)
Profit on ordinary activities before taxation			**131.3**	100.2
Taxation on profit on ordinary activities		8	**0.5**	(1.6)
Profit on ordinary activities after taxation			**131.8**	98.6
Dividends		9	**(71.0)**	(102.1)
Retained profit/(loss) for the financial period			**60.8**	(3.5)

The Group had no recognised gains or losses other than the profits stated above and therefore no separate statement of total recognised gains and losses has been presented.

NOTE OF GROUP HISTORICAL COST PROFITS AND LOSSES
for the year ended 31 December 1998

	Note	12 months to Dec 1998 £m	9 months to Dec 1997 £m
Profit on ordinary activities before taxation		**131.3**	100.2
Realisation of revaluation surpluses on NGG investment		-	3.3
Historical cost profit on ordinary activities before taxation		**131.3**	103.5
Historical cost profit/(loss) for the period retained after taxation and dividends		**60.8**	(0.2)

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS
for the year ended 31 December 1998

	Note	12 months to Dec 1998 £m	9 months to Dec 1997 £m
Profit on ordinary activities after taxation		**131.8**	98.6
Dividends	9	**(71.0)**	(102.1)
Retained profit/(loss)		**60.8**	(3.5)
Shares issued to EdF London Investments plc	23	**5.0**	39.0
Shares issued under option & share save schemes		-	0.5
Share premium on issue on shares		-	3.0
		5.0	42.5
Net increase in equity shareholders' funds		**65.8**	39.0
Equity shareholders' funds at start of period		**474.2**	435.2
Closing equity shareholders' funds		**540.0**	474.2

LONDON ELECTRICITY PLC

BALANCE SHEETS

as at 31 December 1998

	Note	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
Fixed assets					
Intangible assets	10	**10.7**	-	-	-
Tangible assets	11	**967.2**	898.1	**894.4**	827.0
Investments	12	**9.8**	7.6	**113.9**	104.0
		987.7	905.7	**1,008.3**	931.0
Current assets					
Stocks	16	**10.7**	8.3	**7.8**	6.0
Debtors : amounts falling due:					
After more than one year	17	**59.4**	32.0	**59.4**	32.0
Within one year	17	**296.5**	301.9	**304.7**	309.9
Investments	18	**34.3**	27.4	**21.1**	14.8
		400.9	369.6	**393.0**	362.7
Creditors: amounts falling due within one year					
Borrowings	19	**(254.6)**	(153.3)	**(254.3)**	(153.0)
Other creditors	20	**(292.6)**	(395.6)	**(308.0)**	(399.4)
Net current liabilities		**(146.3)**	(179.3)	**(169.3)**	(189.7)
Total assets less current liabilities		**841.4**	726.4	**839.0**	741.3
Creditors: amounts falling due after more than one year					
Borrowings	19	**(198.2)**	(198.1)	**(198.2)**	(198.1)
Other creditors	20	**(5.4)**	(3.7)	**(5.2)**	(3.6)
		(203.6)	(201.8)	**(203.4)**	(201.7)
Provisions for liabilities and charges	21	**(97.8)**	(50.4)	**(93.3)**	(40.4)
Net assets		**540.0**	474.2	**542.3**	499.2
Capital and reserves					
Called up share capital	23	**146.5**	141.5	**146.5**	141.5
Share premium account	24	**13.9**	13.9	**13.9**	13.9
Capital redemption reserve	24	**11.0**	11.0	**11.0**	11.0
Profit and loss account	24	**368.6**	307.8	**370.9**	332.8
Equity shareholders' funds		**540.0**	474.2	**542.3**	499.2

The financial statements were approved by the Board of Directors on 26 March 1999 and were signed on its behalf by:

G.L. Wingrove

Gerald Wingrove *Finance Director*

Statement of Accounting Policies
for the year ended 31 December 1998

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 is set out below. Policies have been consistently applied except where specifically stated.

Basis of accounting

These financial statements have been prepared under the historical cost accounting convention.

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

Goodwill

Goodwill arising on acquisition has been capitalised and amortised over its expected economic life. Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired.

Associated undertakings

The Group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest unaudited financial statements of the undertakings concerned. These undertakings do not all have the same accounting reference date. Because the accounting policies of associated undertakings do not necessarily conform in all respects to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

Turnover

Turnover represents the value of electricity and gas sales during the period, including an estimate of the sales value of units and therms supplied to consumers between the date of the last meter reading and the period 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 to the profit and loss account and payments made to the schemes are treated as assets or liabilities in the balance sheet.

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

Tangible fixed assets

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

Fixed assets are depreciated from the date of commisioning 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:

		YEARS
Network assets (Depreciation is charged at 3% for 20 years followed by 2% for the remaining 20 years)		40
Freehold land		Not depreciated
Other buildings	-freehold	Up to 60
	-leasehold	Lower of lease period or 60
Vehicles and mobile plant		5-10
Fixtures & equipment including computer hardware and software		3-8

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

Consumers' contributions 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.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value except that listed investments are stated at market 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 the distribution of electricity, and supply to designated customers, are subject to a price control formula set out in London Electricity plc's Public Electricity Supply Licence.

Where there is an over recovery of distribution business revenues against the regulated maximum allowable amount, revenues are deferred equivalent to the over recovered amount. The deferred amount is deducted from turnover and included in provisions. Where there is an under recovery, 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.

Foreign currency translations

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

Cashflow statement

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

Notes to the Accounts
for the year ended 31 December 1998

1 Analysis of net operating expenses

	12 months to Dec 1998 £m	9 months to Dec 1997 £m
Net operating expenses		-
Distribution	112.4	92.4
Less: use of prior year provision	(1.3)	(3.1)
	111.1	89.3
Administrative	128.7	115.1
Less: use of prior year provision	(5.8)	(11.7)
	122.9	103.4
	234.0	192.7
Exceptional items (see Note 2)		
Distribution		
Distribution exceptional cost of restructuring	-	(6.0)
NGG exceptional item	-	(0.4)
	-	(6.4)
Administrative		
Exceptional Items	3.9	-
NGG exceptional item	-	(1.4)
	3.9	(1.4)
	3.9	(7.8)
	237.9	184.9

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

Administrative expenses
Administrative expenses include all other operating costs.

2 Exceptional items

	12 months to Dec 1998 £m	9 months to Dec 1997 £m
Revenue exceptionals		
Exceptional costs incurred with respect to delayed entry into open market competition	4.2	-
Operating exceptionals		
Exceptional cost of restructuring	-	(6.0)
Costs in respect of NGG	-	(1.8)
Costs incurred with respect to Year 2000 modifications	3.9	-
	3.9	(7.8)
Share of operating profit / (loss) of associates		
Provision for impairment against share of net liabilities of associate	69.7	-
Non operating exceptionals		
Increase/(Decrease) in provision against investments	(5.0)	11.6
Total exceptionals	72.8	3.8

The exceptional item of £69.7 million represents a charge for impairment of the Groups share of the assets of Barking Power Limited. The write down represents the net present value of the cash flows associated with a power purchase agreement with Barking Power Limited. The amount has been calculated by reference to the difference between the contract price, the estimated market (Pool) price and the projected returns from equity investment in Barking Power Limited. A corresponding write down has been made in the Company's accounts. Making this charge gives rise to net liabilities in respect of Barking Power Limited.

The non-operating exceptional items relate to the write back of a provision previously made against the Group's investment in London & Continental Railways Limited, owing to a change in economic conditions.

The £4.2 million exceptional revenue item represents the penalty incurred due to the delay in entry into open market competition.

3 Analysis of turnover, operating profit and net assets

	Turnover		Operating profit		Net assets	
	12 months to Dec 1998	9 months to Dec 1997	**12 months to Dec 1998**	9 months to Dec 1997	**31 Dec 1998**	31 Dec 1997
	£m	£m	**£m**	£m	**£m**	£m
Class of business						
Distribution	**348.2**	243.2	**176.1**	105.9	**866.6**	782.3
Supply	**1,125.1**	830.6	**20.4**	2.7	**(2.9)**	62.2
Private electrical distribution systems	**23.3**	14.4	**15.1**	10.6	**69.8**	64.2
Other	**75.5**	37.9	**7.0**	4.8	**7.4**	(6.7)
	1,572.1	1,126.1	**218.6**	124.0	**940.9**	902.0
Less: Inter business transactions	**(312.1)**	(219.5)	**-**	(2.3)	**-**	-
Unallocated net liabilities	**-**	-	**-**	-	**(400.9)**	(427.8)
Continuing operations	**1,260.0**	906.6	**218.6**	121.7	**540.0**	474.2

Reclassifications have been made to the 31 December 1997 comparative figures between the categories of turnover and cost of sales. At 31 December 1997 turnover was £892 million and cost of sales was £585.5 million. These changes are the result of improved management information allowing a more appropriate classification.

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 (Retail) business

This is the purchase and retail of electricity (with related services) as suppliers.

Private electrical distribution systems

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

Other

This includes the operations of contracting, generation, transport, property, insurance and natural gas retail 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 include other fixed asset investments, cash, borrowings, dividends receivable and payable, and taxation.

Geographical analysis

Turnover arises entirely in the United Kingdom.

4 Operating profit

	12 months to Dec 1998 £m	9 months to Dec 1997 £m
Operating profit is stated after charging:		
Staff costs (Note 5)	**71.3**	61.1
Depreciation (Note 11)	**50.0**	41.5
Operating lease rentals:		
Land and buildings	**6.0**	5.3
Plant and machinery	**1.5**	0.6
Research & development costs	**0.8**	0.5
Amounts paid to PricewaterhouseCoopers:		
Remuneration as Group auditors	**0.2**	0.3
Fees for other services in the United Kingdom	**0.3**	0.3
Amortisation of goodwill	**0.3**	-
Costs incurred with respect to Year 2000 modifications	**3.9**	-
and after crediting:		
Rental income	**2.0**	1.4
Profit on disposal of fixed assets	**1.0**	3.9

Auditors' remuneration includes £0.2 million (1997 £0.1million) for audit services provided to the company.

5 Staff costs

	12 months to Dec 1998 £m	9 months to Dec 1997 £m
Wages and salaries	**92.6**	71.1
Social security costs	**7.3**	5.6
Other pension costs (Note 25)	**(8.4)**	(0.7)
	91.5	76.0
Less: charged as capital expenditure	**(20.2)**	(14.9)
Charged to the profit and loss account	**71.3**	61.1

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

	12 months to Dec 1998 Number	9 months to Dec 1997 Number
Distribution	**989**	1,103
Supply	**1,099**	1,091
Private electrical distribution systems	**46**	44
Other	**1,732**	1,832
	3,866	4,070

6 Directors' emoluments

	12 months to Dec 1998 £'000	9 months to Dec 1997 £'000
Aggregate emoluments	**1,503**	960
Compensation for loss of office	**-**	1,108
Company contributions to money purchase pension schemes	**12**	-
	1,515	2,068

Emoluments payable to the highest paid director are as follows:

	12 months to Dec 1998 £	9 months to Dec 1997 £
Aggregate emoluments	**486,779**	519,777
Company pension contributions to money purchase schemes	**6,817**	5,727
	493,596	525,504

The highest paid director participates in Entergy Corporation's Retirement Income Plan and Pension Equalisation Plan which are both defined benefit schemes. His total accrued pension at 31 December 1998 from these two schemes is £140,667 (1997: £52,586).

In addition, he also participates in Entergy Corporation's Post-Retirement Plan, a defined benefit arrangement. His accrued annual benefit 31 December 1997 from this arrangement is £128,000 (1997: £61,493) for a maximum of 120 months.

Alternatively, at retirement, he may choose between all of the above and the retirement benefits under Entergy Corporation's System Executive Retirement Plan, a defined benefit scheme. His accrued pension at 31 December 1998 from this scheme is £191,697 (1997: £171,314).

Retirement benefits are accruing to two (1997: two) directors under money purchase schemes and to four (1997: six) directors under defined benefit schemes.

7 Net interest payable

	12 months to *Dec 1998* £m	9 months to *Dec 1997* £m
Interest receivable and similar income:		
Group	**4.7**	3.7
Associates	**0.6**	0.4
	5.3	4.1
Interest payable and similar charges:		
Bank loans and overdraft		
Group	**(13.5)**	(0.2)
Associates	**(6.2)**	(4.3)
Other loans (Group)	**(16.9)**	(12.7)
	(36.6)	(17.2)
Net interest payable	**(31.3)**	(13.1)

8 Taxation on profit on ordinary activities

	12 months to Dec 1998 £m	9 months to Dec 1997 £m
United Kingdom Corporation tax at 31% (1997: 31%)		
Current taxation on ordinary activities	**40.8**	18.2
Group relief	**(25.1)**	(21.1)
Deferred tax on exceptional costs	**(18.2)**	6.1
Deferred tax on other items	**1.0**	(0.5)
Tax overprovided in prior year	**-**	(1.8)
Share of associates tax	**1.0**	0.7
	(0.5)	1.6

The taxation credit has been increased by £7.8 million 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.

9 Dividends

	12 months to Dec 1998 £m	9 months to Dec 1997 £m
Interim dividend of 4.1p per 58 1/3p ordinary share (1997 12.3p per 58 1/3p ordinary share)	**10.0**	21.6
Interim dividend of 17.9p per 58 1/3p ordinary share (1997 11.1p per 58 1/3p ordinary share)	**45.0**	19.5
Interim dividend of 4.8p per 58 1/3p ordinary share (1997 14.2p per 58 1/3p ordinary share)	**12.0**	25.0
Interim dividend of 1.6p per 58 1/3p ordinary share (1997 17.2p per 58 1/3p ordinary share)	**4.0**	36.0
	71.0	102.1

10 Intangible assets

	Group £m
At 1 January 1998	-
Goodwill	11.7
less amortisation	(0.3)
less transfer to the profit & loss account	(0.7)
At 31 December 1998	10.7

Goodwill principally arose on the acquisition of an additional stake in PayPoint Ltd. The goodwill on PayPoint of £9.7 million represents the difference between the consideration of £6.8 million and the net liabilities of £2.9 million. The additions to goodwill are being written off over 20 years. PayPoint Ltd is an associate undertaking of London Electricity plc (Note 14).

The balance of goodwill arose on the acquisition of the remaining 50% share in London Electricity Gas Ltd (formerly London Total Energy Company Ltd).

11 Tangible fixed assets

Group	Network Assets	Other land and buildings	Fixtures and equipment	Vehicles & mobile plant	Deduct: consumers' contributions	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 1998	1,418.7	82.1	161.8	16.7	(237.9)	1,441.4
Additions	87.2	2.6	53.6	3.1	(23.5)	123.0
Disposals	-	(1.5)	(14.9)	(1.8)	-	(18.2)
At 31 December 1998	**1,505.9**	**83.2**	**200.5**	**18.0**	**(261.4)**	**1,546.2**
Depreciation						
At 1 January 1998	477.2	22.6	96.1	9.7	(62.3)	543.3
Charge for the year	39.2	1.9	13.6	2.0	(6.7)	50.0
Disposals	-	(0.5)	(12.2)	(1.6)	-	(14.3)
At 31 December 1998	**516.4**	**24.0**	**97.5**	**10.1**	**(69.0)**	**579.0**
Net book amounts						
At 31 December 1998	**989.5**	**59.2**	**103.0**	**7.9**	**(192.4)**	**967.2**
At 31 December 1997	941.5	59.5	65.7	7.0	(175.6)	898.1

Company	Network assets	Other land and buildings	Fixtures and equipment	Vehicles & mobile plant	Deduct: Consumers' contributions	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 1998	1,350.2	81.6	159.1	-	(237.9)	1,353.0
Additions	84.4	2.5	53.4	-	(23.5)	116.8
Disposals	-	(1.5)	(14.9)	-	-	(16.4)
At 31 December 1998	**1,434.6**	**82.6**	**197.6**	**-**	**(261.4)**	**1,453.4**
Depreciation						
At 1 January 1998	471.1	22.5	94.7	-	(62.3)	526.0
Charge for the year	37.4	1.9	13.1	-	(6.7)	45.7
Disposals	-	(0.5)	(12.2)	-	-	(12.7)
At 31 December 1998	**508.5**	**23.9**	**95.6**	**-**	**(69.0)**	**559.0**
Net book amounts						
At 31 December 1998	**926.1**	**58.7**	**102.0**	**-**	**(192.4)**	**894.4**
At 31 December 1997	879.1	59.1	64.4	-	(175.6)	827.0

The net book amount of other land and buildings comprises:

	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
Freehold	33.3	33.2	32.8	32.7
Long leasehold (over 50 years)	9.8	9.9	9.8	9.9
Short leasehold (50 years or less)	16.1	16.4	16.1	16.5
	59.2	59.5	58.7	59.1

Tangible fixed assets include the following:

	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
Assets in the course of construction	57.7	49.4	53.5	45.1
Land not depreciated	16.2	16.2	16.2	16.2
	73.9	65.6	69.7	61.3

During the year the Group revised the life of its franchise billing software to reflect an expected increase in its useful life. The useful life of the software has been increased from three to eight years. The effect of this revision is a decrease in the depreciation charge for the year of £3.7million.

12 Fixed asset investments

	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
Subsidiary undertakings (Note 13)	-	-	96.6	100.1
Associates (Note 14):				
Barking Power Ltd	-	3.0	-	-
Other associates	0.1	4.2	8.8	3.5
Other investments (Note 15)	9.7	0.4	8.5	0.4
	9.8	7.6	113.9	104.0

All investments are unlisted.

The net figure shown for the Barking Power Ltd associate is made up of as follows:

	31 Dec 98 £m	31 Dec 97 £m
Share of gross assets	88.3	84.0
Less: provision for impairment	(69.7)	-
	18.6	84.0
Share of gross liabilities	(85.3)	(81.0)
Share of net (liabilities)/assets	(66.7)	3.0

In line with the recommendations set out in Financial Reporting Standard FRS 9 "Associates, joint ventures and other joint arrangements" the company's share of net liabilities of its investment in Barking Power Limited at 31 December 1998 of £66.7 million has been included under other provisions (see Note 21).

13 Subsidiary undertakings - Company

	Shares £m	Loans £m	Total £m
Balance at 1January 1998	23.2	76.9	100.1
Additions	0.9	1.0	1.9
Transfer from associates	2.0	1.5	3.5
Repayments	-	(4.5)	(4.5)
Transfers to profit & loss account	(2.9)	(1.5)	(4.4)
At 31 December 1998	23.2	73.4	96.6

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
London Electricity Services Ltd	Ordinary £1	100%	Electricity distribution projects
London Electricity Enterprises Ltd	Ordinary £1	100%	Parent undertaking holding company for investments in commercial projects
London Electricity Contracting Ltd	Ordinary £1	100%	Electrical contracting
London Electricity Transport Services Ltd	Ordinary £1	100%	Provision and supply of transport services
Knight Debt Recovery Services Ltd	Ordinary £1	100%	Debt collection and tracing
Energy Communication Services Ltd	Ordinary £1	100%	Meter reading and related services
Berkeley Environmental Systems Ltd	Ordinary 5p	100%	Energy management systems
London Electricity Gas Ltd (formerly London Total Energy Company Ltd)	Ordinary £1	100%	Gas retailing
London Electricity Projects Ltd	Ordinary £1	100%	Project management
London Electricity Share Scheme Trustees Ltd	Ordinary £1	100%	Trustees of employee share and benefits funds

All of the above subsidiaries operate principally within the United Kingdom.

The remaining 50% interest in London Total Energy Company Ltd was purchased by London Electricity plc in January 1998 and the company's name was changed to London Electricity Gas Ltd. The business operations of London Electricity Gas Ltd were then transferred to London Electricity plc during July 1998, and are therefore now disclosed within the London Electricity plc figures. At 31 December 1998, the legal entity known as London Electricity Gas Ltd was a non-trading subsidiary.

14 Interest in associates

Group	Share of net assets / (liabilities) £m	Loans £m	Total £m
At 1 January 1998	2.7	4.5	7.2
Additions	-	2.0	2.0
Transfers from other investments	(2.9)	-	(2.9)
Transfers to subsidiary undertakings	1.6	(1.5)	0.1
Repayments	-	(0.5)	(0.5)
Share of losses in year	(2.8)	-	(2.8)
Provision for impairment	(3.0)	-	(3.0)
Balance at 31 December 1998	(4.4)	4.5	0.1

Company	Shares £m	Loans £m	Total £m
At 1 January 1998	2.0	1.5	3.5
Additions	1.8	2.0	3.8
Transfers to subsidiary undertakings	(2.0)	(1.5)	(3.5)
Transfers from other investments	5.0	-	5.0
Balance at 31 December 1998	6.8	2.0	8.8

Name of undertaking	Description of shares held	Proportion of nominal value of shares held	Principal activities
Thames Valley Power Ltd	Ordinary £1	50%	Generation and supply
PayPoint Ltd	Ordinary £0.01 F Class Shares £0.01	39.2% 16.1%	Cash collection services
Barking Power Ltd	Ordinary £1	13.50%	Construction & operation of a power station

All of the above associates operate principally within the United Kingdom.

Barking Power Ltd has been included in associates as the directors believe that London Electricity has a participating interest and exercises significant influence over the operating and financial policies of Barking Power Limited.

The amount in respect of the Group's share of net liabilities of Barking Power Limited has been included within provisions (see Note 21).

15 Other investments

Group	Shares £m	Loans £m	Total £m
At 1 January 1998	0.3	0.1	0.4
Additions at cost	4.9	2.2	7.1
Transfers to associates	(5.0)	-	(5.0)
Transfers from profit & loss account	5.1	2.2	7.3
Disposals	(0.1)	-	(0.1)
At 31 December 1998	5.2	4.5	9.7

Company	Shares £m	Loans £m	Total £m
Balance at 1 January 1998	0.3	0.1	0.4
Additions at costs	9.9	1.0	10.9
Transfers from profit & loss account	0.1	2.2	2.3
Transfers to associates	(5.0)	-	(5.0)
Disposals	(0.1)	-	(0.1)
At 31 December 1998	5.2	3.3	8.5

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

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

16 Stocks

	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
Raw materials and consumables	**1.7**	1.2	**1.6**	1.1
Work in progress	**9.0**	7.1	**6.2**	4.9
	10.7	8.3	**7.8**	6.0

17 Debtors

Amounts due within one year:	Group 31 Dec 98 £m	31 Dec 97 £m	Company 31 Dec 98 £m	31 Dec 97 £m
Trade debtors	**96.0**	84.6	**92.1**	82.7
Unbilled consumption	**156.3**	159.7	**156.3**	159.7
Amounts owed by other group companies	**-**	-	**15.1**	13.4
Amounts owed by associates	**0.6**	0.9	**-**	0.4
Other debtors	**20.5**	43.6	**20.4**	41.9
Prepayments and accrued income	**8.5**	8.2	**6.2**	6.9
Advance corporation tax recoverable	**10.8**	-	**10.8**	-
Deferred taxation recoverable (Note 22)	**3.7**	*4.8*	**3.7**	*4.8*
Dividends receivable	**0.1**	0.1	**0.1**	0.1
	296.5	301.9	**304.7**	309.9

Amounts due after more than one year:	Group 31 Dec 98 £m	31 Dec 97 £m	Company 31 Dec 98 £m	31 Dec 97 £m
Advance corporation tax recoverable	**6.9**	10.4	**6.9**	10.4
Deferred taxation recoverable (Note 22)	**18.3**	-	**18.3**	-
Pension scheme prepayment	**34.2**	21.6	**34.2**	21.6
	59.4	32.0	**59.4**	32.0

18 Current asset investments

	Group 31 Dec 98 £m	31 Dec 97 £m	Company 31 Dec 98 £m	31 Dec 97 £m
Listed				
UK - investments	**1.5**	1.2	**-**	-
Overseas - investments	**4.3**	4.0	**-**	
	5.8	5.2	**-**	-
Unlisted				
Money market investments	**28.5**	22.2	**21.1**	14.8
	34.3	27.4	**21.1**	14.8

19 Borrowings

Amounts falling due within one year:	Group 31 Dec 98 £m	31 Dec 97 £m	Company 31 Dec 98 £m	31 Dec 97 £m
Short term borrowings	**254.6**	153.3	**254.3**	153.0

Amounts falling due after more than one year:	Group 31 Dec 98 £m	31 Dec 97 £m	Company 31 Dec 98 £m	31 Dec 97 £m
8% Eurobonds repayable 28 March 2003	**99.2**	99.1	**99.2**	99.1
8 5/8 % Eurobonds repayable 26 October 2005	**99.0**	99.0	**99.0**	99.0
	198.2	198.1	**198.2**	198.1

The 8% Eurobonds may not be redeemed prior to 28 March 2003 except upon the occurrence of certain events (for example, a change in taxation law). In addition, the 8 5/8 % Eurobonds may be redeemed in full together with accrued interest by either the 'Issuer' or 'Bondholders' upon the occurrence of certain events.

Borrowing facilities

At 31 December 1998 the Group had bilateral committed borrowing facilities of £250 million of varying maturity dates. In addition, revolving credit facilities of £225 million are also available. The other facilities available to the Group were short term unsecured, uncommitted facilities of £145 million and a £150 million Sterling Commercial Paper programme.

20 Other creditors

	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
Amounts falling due within one year:				
Payments received on account	**18.1**	15.2	**15.1**	10.7
Amounts owing for purchase of electricity	**81.8**	103.0	**81.8**	103.0
Amounts owed to Group companies	-	-	**29.8**	19.4
Other trade creditors	**37.2**	42.1	**35.1**	40.5
Corporation tax	**21.5**	73.7	**20.8**	75.4
Other taxation and social security	**3.2**	3.3	**2.7**	2.8
Other creditors	**87.6**	90.2	**81.8**	81.7
Accruals and deferred income	**42.8**	33.4	**40.5**	31.2
Proposed dividends	**0.4**	34.7	**0.4**	34.7
	292.6	395.6	**308.0**	399.4
Amounts falling due after more than one year:				
Corporation tax	**3.5**	-	**3.5**	-
Other creditors	**1.9**	3.7	**1.7**	3.6
Accruals and deferred income	-	-	-	-
	5.4	3.7	**5.2**	3.6

Alterations have been made to the 31 December 1997 comparative figures between the categories of creditors and provisions for liabilities and charges. At 31 December 1997 the balances for accruals and deferred income: amounts falling due within one year were £18.9million (Group) and £16.7million (Company) and for accruals and deferred income: amounts falling due after more than one year were £5.1 million (Group). Provisions for liabilities and charges (see Note 21) were £59.8million (Group) and £54.9million (Company). These changes are the result of improved management information allowing a more appropriate classification of year end balances.

21 Provisions for liabilities and charges

Group

	Insurance £m	Restructuring costs £m	Other costs £m	Other Provisions: Share of net liabilities of Barking Power Ltd £m	Total £m
At 1 January 1998	14.1	14.9	21.4	-	50.4
Utilised in the period	(6.2)	(4.8)	(14.4)	-	(25.4)
Released in the period	(1.7)	(9.0)	(2.7)	-	(13.4)
Transferred from profit and loss account	4.5	-	15.0	66.7	86.2
At 31 December 1998	10.7	1.1	19.3	66.7	97.8

Company

	Insurance £m	Restructuring costs £m	Other costs £m	Other Provisions: Share of net liabilities of Barking Power Ltd	Total £m
At 1 January 1998	5.1	14.9	20.4	-	40.4
Utilised in the period	(1.0)	(4.8)	(13.7)	-	(19.5)
Released in the period	(0.7)	(9.0)	(2.5)	-	(12.2)
Transferred from profit and loss account	0.2	-	14.7	69.7	84.6
At 31 December 1998	3.6	1.1	18.9	69.7	93.3

Included in amounts transferred from the profit and loss account to other provisions is £4million relating to the over recovery of distribution revenues in accordance with the accounting policy stated on page 12.

The provision of £66.7 million represents a provision for impairment against the Group's share of net assets of its associate, Barking Power Limited. This amount, in conjunction with the £3 million included within the Group's interest in associates (Note 14) represents the net present value of the cash flows associated with a power purchase agreement with Barking Power Limited. The amount has been calculated by reference to the difference between the contract price, the estimated market (Pool) price and the projected returns from equity investment in Barking Power Limited. A corresponding provision has been made in the Company's accounts.

See Note 20 for details of a change to the comparative figures as at December 1997.

22 Deferred Taxation

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

Provided in accounts:	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
At 1 January 1998	**(4.8)**	(10.4)	**(4.8)**	(10.4)
Transfer from profit and loss	**(17.2)**	5.6	**(17.2)**	5.6
At 31 December 1998	**(22.0)**	(4.8)	**(22.0)**	(4.8)

The deferred tax asset at 31 December 1998 and 31 December 1997 relates to other timing differences.

Of the £22 million deferred taxation recoverable, £20.9 million relates to the Barking Power Ltd reserve.

Potential liability not provided:	Group 31 Dec 98 £m	Group 31 Dec 97 £m	Company 31 Dec 98 £m	Company 31 Dec 97 £m
Accelerated capital allowances	**215.1**	200.2	**201.6**	188.8
Other timing differences	**(5.2)**	(4.6)	**(4.8)**	(3.9)
	209.9	195.6	**196.8**	184.9

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

23 Share capital

	Group & Company 31 Dec 98 £m	Group & Company 31 Dec 97 £m
Authorised		
257,142,857 ordinary shares of 58 1/3 p each (1997: 257,142,857 ordinary shares of 58 1/3p each)	**150.0**	150.0
Allotted, called up and fully paid		
251,197,933 ordinary shares of 58 1/3 p each (1997: 242,626,505 ordinary shares of 58 1/3p each)	**146.5**	141.5

Share Issues

On 31 March 1998, 8,571,428 shares were issued to EdF London Investments plc (formerly Entergy London Investments plc) for a total consideration of £5 million.

24 Retained profit and reserves

	Group & Company £m
Share premium account	
Balance at 1 January 1998	13.9
At 31 December 1998	13.9
Capital redemption reserve	
Balance at 1 January 1998	11.0
At 31 December 1998	11.0

Profit and loss account	Group £m	Company £m
Balance at 1 January 1998	307.8	332.8
Retained profit for the period	60.8	38.1
At 31 December 1998	368.6	370.9
Total reserves at 31 December 1998	393.5	395.8

25 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 the London Electricity 1994 Retirement Plan, ('the plan'), a defined contribution scheme.

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

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 1998 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 2.25% and exceed future pension increases by 4.25% per annum.

At the valuation date, the actuarial value of the assets relating to London Electricity Group was £756.1 million, which represented 110.1% of the actuarial value of the accrued benefits. Accrued benefits include all benefits for pensioners and former members as well as benefits based on service to date for active members, allowing for future salary rises. The resultant surplus is being used to increase benefits to pensioners and to facilitate reductions in employer and employee contributions.

In order to calculate the pension charge in accordance with the Group's accounting policy as stated on page 10, a separate actuarial valuation was prepared by Bacon & Woodrow, consulting actuaries, as at 31 March 1998. This valuation was determined using the projected unit credit method, and resulted in a pension charge of 10.6% of pensioner pay. This regular cost has been reduced by the benefit of an accounting surplus arising, which is being spread over 11 years, being the average remaining service life of employees. The resulting credit to profit in the year was £9.1 million. A prepayment of £34.2 million *is included in debtors greater than one year, as a result of the spreading of the surplus. The directors have reviewed the recoverability of the prepayment of* £34.2 million and are of the opinion that the actuarial surplus which gives rise to the prepayment can be utilised under the rules of the scheme, within the foreseeable future.

Executive directors and certain senior employees were also entitled to join the London Electricity Executives pension scheme until 30 March 1998, from which further benefits based on final pensionable pay were available. On 30 March 1998 the liability for past and future service was transferred to the ESPS.

Under the London Electricity plc defined contribution scheme the charge to profit is the contribution paid by London Electricity plc. The amount paid for the year ended 31 December 1998 was £0.8 million.

The total net credit for pension schemes in the accounts for the year ended 31 December 1998 is £8.4 million (1997: £0.7 million).

26 Financial Commitments

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

		31 Dec 98		31 Dec 97	
		Land and buildings	Other	Land and buildings	Other
		£m	£m	£m	£m
Expiring within					
	One year	0.8	0.5	0.6	0.3
	Two to five years inclusive	0.1	0.7	0.2	1.0
	Over five years	7.0	-	5.9	-
		7.9	1.2	6.7	1.3

Capital commitments of the group and company were:

	Group		Company	
	31 Dec 98	31 Dec 97	31 Dec 98	31 Dec 97
	£m	£m	£m	£m
Contracted for but not provided for	88.0	71.0	83.3	68.0

27 Commitments and contingent liabilities

The Group expects to invest around £60 million in infrastructure costs for the Channel Tunnel Rail Link over the next ten years. This expenditure arises under agreements made with London & Continental Railways Ltd who have the concession to build the rail link. During the period it became necessary for London & Continental Railways Ltd to revise the plan, ownership structure and financing of the project in conjunction with the Government and to introduce new parties to the project. It is now envisaged that the project will proceed in two sections with rights to the section 1 infrastructure assets passing to Railtrack plc when a 'permit to use' is issued. Agreement to proceed with the restructuring was reached with relevant parties and legal documentation prepared for execution. As part of the restructuring it was proposed that a substantial part of the company's equity in London & Continental Railways Ltd would be swapped into Cumulative Redeemable Preference shares in Union Railways (South) Limited the company which would build and own the first phase of the new rail link .Also as part of the restructuring, shareholders in London & Continental Railways Ltd agreed to purchase the shares of a dissident shareholder, and London Electricity plc will acquire additional shares to the value of £1.4 million.

During the period the company has used its pension fund surplus to increase benefits to members and to facilitate reductions in employer and employee contributions. A High Court ruling on the use of pension surpluses upheld the use of surpluses by companies. However, a subsequent decision of the Court of Appeal has stated that in certain circumstances such use may be invalid if not achieved by appropriate rule changes (Note 28).
A subsequent appeal may be made on this decision. Should the decision be applied to it, the company may be required to make payments into the pension fund.

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

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

28 Post balance sheet events

Following completion of the sale of London Electricity plc to Electricité de France on 4 December 1998, clearance on the sale was given by the European Commission on the 27 January 1999.

The court of appeal gave judgement on 10 February 1999 in a pensions case related to National Grid Company plc and National Power plc. The decision reversed the previous decision of the High Court relating to those companies' use of pension surpluses. A further hearing will consider what order will be made against those companies and whether leave will be given to appeal to the House of Lords. It is not yet possible to assess the extent to which this litigation will affect the company.

On 18 February 1999 the restructuring of London & Continental Railways Ltd took place and Cumulative Redeemable Preference shares in Union Railways (South) Limited were issued to the company.

29 Related Party Transactions

In accordance with Financial Reporting Standard No. 8: 'Related Party Disclosures', the group is exempt from disclosing transactions with entities that are part of the group or investees of the group qualifying as related parties, as it is a wholly owned subsidiary of a parent publishing consolidated financial statements.

The group did have transactions with Entergy Corporation Inc of the US which are not covered by this exemption. Entergy Corporation charged London Electricity £2.2 million during the year with respect to management charges. At the year end London Electricity owed Entergy Corporation £0.4 million with respect to this charge.

30 Ultimate parent company

At 31 December 1998 London Electricity's immediate parent company was considered by the directors to be EdF London Investments plc (formerly Entergy London Investments plc).

At 31 December 1998 Electricité de France (EdF), a French state owned company was regarded by the directors as London Electricity plc's ultimate parent company following the completion of the sale of London Electricity plc by Entergy Corporation of the US to Electricité de France (EdF) at the close of business on 4 December 1998. Copies of that company's consolidated accounts may be obtained from Electricité de France, 2 rue Louis Murat, 75384, Paris Cedex, France.