

the energy behind london

London Electricity plc

Annual Report and
Accounts 1994-95



 **LONDON**
ELECTRICITY

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Notice to Shareholders

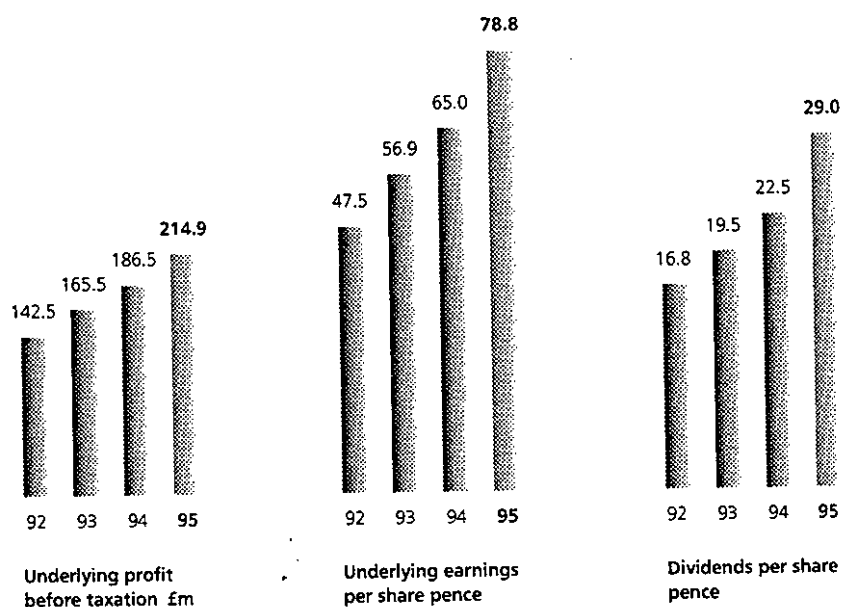
Regulatory Accounts

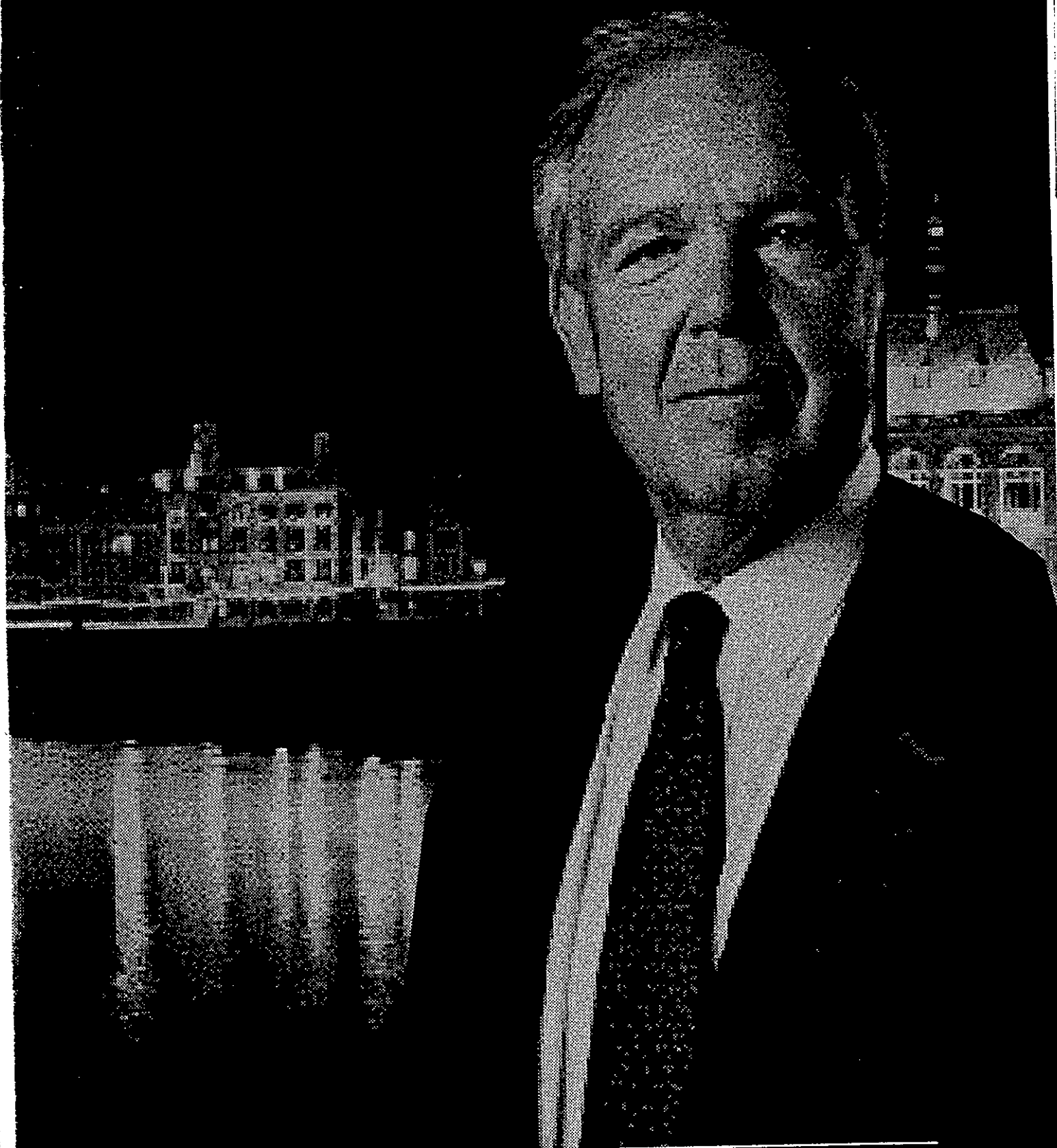
A set of accounts for regulatory purposes is required by the Office of Electricity Regulation. These accounts relate solely to the regulated utility businesses. Copies may be obtained free of charge on request from the Shareholder Enquiry Service at the Company's Registered Office.

	<u>1994-95</u>	<u>1993-94</u>
Turnover	£1,209.4m	£1,308.4m
Underlying profit before taxation (1)	£214.9m	£186.5m
Underlying earnings (2)	£165.5m	£142.0m
Underlying earnings per share	78.8p	65.0p
Dividends per share	29.0p	22.5p
Total dividend payable	£58.0m	£49.3m
Underlying dividend cover (3)	2.9 times	2.9 times
Ratio of (borrowings)/cash to net assets	(16.4%)	8.9%
Gross capital expenditure	£110.4m	£104.2m

Notes:

1. For 1994-95, exceptional items of £42.5m have been added back to the Profit before taxation figure of £172.4m giving underlying Profit before taxation of £214.9m
2. For 1994-95, the Profit after taxation figure of £149.9m has been adjusted by £42.5m referred to above, together with the associated taxation credit effect of £10.9m and a prior year taxation credit of £16.0m, giving underlying Earnings of £165.5m
3. Calculated by dividing the underlying Earnings (£165.5m in 1994-95) by the total dividend payable





London is a world-class city with world-class energy requirements; heading up the Company that distributes most of its electricity is an exciting challenge. It is also a major responsibility. Shareholders', customers' and investment needs must be met in a balanced way, not least by reacting imaginatively and proactively to an unusual combination of exacting regulatory demands and increasingly fierce competition.

It is a pleasure to be able to report that the Group is in excellent shape, with good progress on all fronts.

We have continued to improve margins and profits in our core business which reflects our sustained success in maximising efficiency and cost control.

Group profit before taxation and exceptional items of £42.5 million was £214.9 million. Underlying earnings per share at 78.8 pence show an increase of 21.2 per cent over last year, reflecting the gains from share repurchases. The directors recommend a final dividend of 19.5 pence per share, bringing the total dividend for the year to 29.0 pence (1993-94: 22.5 pence). The final dividend will be paid on 14 August.

Following the Distribution Review, the Board assessed the Company's prospects in the light of the outcome of that Review in August 1994. It also considered the level of dividend cover that would be appropriate given the nature of the Company's core business; the quality of profits from its other activities; the balance sheet position; and the capital expenditure required to maintain and develop current activities. In these circumstances, it concluded that it would be appropriate to make progressive reductions in dividend cover towards two times over the rest of the decade. Given the expected further reductions in costs and efficiency improvements, this provides a platform for strong dividend growth in the future. It is the Board's intention to pursue this course although this will obviously be subject to the outcome of the Regulator's reopening of the Review which was expected shortly after this report went to press.

It remains the intention of the Board to return to shareholders the entire stake in National Grid. The proposals will be put to shareholders but any recommendations will be delayed until the outcome of the re-investigations mentioned above are known. The Board also anticipates that when this is achieved it will include benefits for customers.

Our performance over the year depends on the combined efforts of management and staff and I want to take the opportunity here to thank everyone again, at every level of responsibility, for helping to make it possible.

The regulatory framework of our main businesses is designed so that customers also benefit from the Company's success. Since privatisation we have progressively reduced charges and raised standards of service. Price reductions for the third successive year were announced in March 1995. Prices are now at their lowest level for four years.

We are particularly proud that we have also achieved the high standards demanded by our customers. These were confirmed by OFFER during the year, putting us in the lead for service for the third year in succession. We are therefore setting the standards that others aspire to.

The year has been dominated by the debate about the effectiveness of the regulatory framework within which we have to operate and the issue became a matter of public interest and widespread media comment. The sector also saw the first round of corporate activity when Trafalgar House bid for Northern Electric, which only served to intensify the debate.

Having strongly defended his original proposals, the Regulator decided to intervene and announced that he intended to reconsider the pricing structure of the Regional Electricity Companies' distribution businesses which he had agreed only a few months earlier. In effect this created a temporary regulatory vacuum and share prices fell sharply. Trafalgar House withdrew its offer and the strategies carefully constructed by the Regional Electricity Companies on the basis of the Review were undermined.

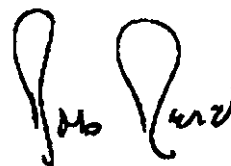
Quite apart from the problems created by introducing extreme volatility in the industry's share prices, uncertainty of this kind inevitably has an adverse impact on long-term planning. It also compromises operational consistency.

For the sake of the industry's competitive health and future, for investment and for the satisfaction of both shareholders and customers, it is therefore essential that an agreed stable framework is maintained.

As this report went to print, the outcome of the Regulator's Review was imminent. With the final four years of the five covered by OFFER's Distribution Review now subject to reconsideration, London Electricity has taken the opportunity to press as vigorously as ever for a balanced outcome that allows the Group to reward all its stakeholders fairly.

London Electricity's performance over the past year has once again provided outstanding evidence of the all-round benefits delivered since privatisation. Shareholders have seen their investment well rewarded. Customers have received services that are second to none and charges that have fallen yet again. Resources are being more effectively deployed and our financial strength ensures that we can invest in the long-term future of the Group for the benefit of shareholders and customers alike. By any measure, privatisation of London's electricity has been good for the capital.

Given a stable regulatory framework, I am confident our Group can build on these achievements. It is also preparing to take advantage of the increasing opportunities which greater competition will bring to the UK energy market. The Board foresees a growing contribution from non-core activities and it will seek to add new associated ventures as appropriate which build upon our core strengths. Together with an encouraging outlook for London's economy and even greater efficiencies to come, we look forward to the opportunity to deliver both shareholder value and customer service in the coming year.



Sir Bob Reid Chairman



The future of London Electricity depends on its ability to respond quickly and effectively in a new and increasingly competitive market. It is crucial to get the Company structure right, identify profitable opportunities early, ensure that efficiency increases, encourage flexibility and, above all, meet or exceed stakeholders' expectations – all this while ensuring that London Electricity becomes a byword for good customer service and fair prices.

Developing the framework of value

London Electricity ended the year a more effective and more service-dedicated organisation than ever before, its business objectives in even sharper focus.

The improvement of margins and increase in underlying profits have been driven more than ever by the need to achieve greater efficiency through further reductions in operating costs. As in previous years, disciplined management and rigorous financial control, as well as prudent investment, formed the basis of a performance which remains one of the best in our industry.

Reorganisation of the core businesses continued during the year. Our principal objective has been to create an operational structure best suited to meeting our strategic aims under a demanding regulatory regime. This requires us to apply our core skills even more effectively. In order to do this we have discarded our old geographically-based management structure in favour of one tightly focussed on clear business streams.

Complementing these changes and improvements, we continued to pursue our policy of devolving responsibility, giving management and staff better opportunities to develop more flexible, responsive approaches.

Improved systems and greater efficiency naturally lead to a reduced requirement for staff; during the year staff numbers fell again, all achieved through early retirement and voluntary severance.

Investment for excellence

Investment is crucial to ensuring that the Company continues to provide a secure and reliable electricity system for one of the world's most important capital cities. Gross capital expenditure increased to £110.4 million, the highest in London's history. This included £60 million on network replacement, an increase of £13 million over the previous year.

One of our largest investments, and probably the largest electrical distribution scheme in the country, is a £52 million project under way to replace parts of the electricity network of South and West London. This involves the creation of a 10km tunnel 2.5m in diameter between Wimbledon and Pimlico, including a section under the Thames, together with the refurbishment of several major substations. A notable feature has been the minimal impact of construction on the public – the intended consequence of digging a tunnel rather than a trench along already congested roads. Despite the size of the project, there has been no interference with road traffic, while along the route of the tunnel we have kept residents and businesses fully informed at all times in a planned and carefully managed public relations programme. Furthermore, future maintenance can be undertaken without the need to excavate the highway with all the disruption this can cause. The experience being gained on this project will be useful in formulating and implementing proposals for a similar tunnel in West London.



Breakthrough under London – the excavation of a 10km cable tunnel in Southwest London was completed during the year.



London Electricity uses almost 30,000 kilometres of cable to feed electricity to nearly 2 million customers. It's a distribution network that has to be kept in tip-top condition – that's one reason why our system has the best record in the country. It's mostly down to regular maintenance and quick response times. That means jointers have to be available right round the clock, come wind or rain. It also means renewing and updating the network: that cost £60 million last year.

It's a very competitive market now: London Electricity has to convince potential business customers it can do a better job at a better price than any of the other suppliers. That's why professional selling has a key role. It means listening very carefully to what businesses say they want and coming up with the best financial and technical packages and following through with superb service and value-added products.



Building the business

We continued to seek to enhance earnings through our efforts to exploit opportunities for our established skills beyond our core services. These will allow us to build a range of profitable energy services complementary to our main business.

Our first major initiative in this direction was taken two years ago when we acquired our first private distribution network from BAA – generally recognised as the best single investment by any Regional Electricity Company. This made us a facilities provider at Heathrow, Gatwick and Stansted Airports, allowing BAA to redeploy its skills and concentrate more on what it is good at. A £20 million, three year, investment programme is under way. At Heathrow this includes a £10 million project for expansion of the network, to improve system reliability and security and to meet BAA's developments there, including the requirements of the Paddington-Heathrow Express.

With another eye on the future, we are also associated with the London & Continental consortium bidding for the Channel Tunnel rail link into London; our role is specialist consultant on electrical distribution systems.

The Royal Docks is the last and largest area in the London Docklands Development

Corporation's property portfolio. London Electricity has won the tender to design and install a new heat and power distribution system to supply the numerous developments planned for the area; these include a 1500-home urban village and the London International Exhibition Centre.

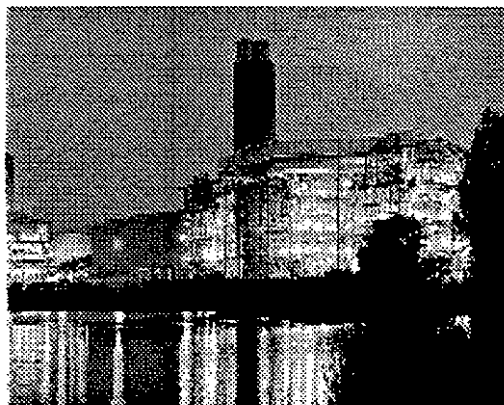
We regard the 100kW-plus market – deregulated at the start of the financial year 1994 – as an opportunity to expand our energy service. As was expected the London competitive market was a prime target for other suppliers and pricing was particularly aggressive in the early part of the year. Despite this, the Company retained 60 per cent of its customer base as well as winning a number of national contracts.

After assessing these developments we launched a campaign towards the end of 1994 to achieve greater market share. This involved a significant national advertising, public relations and direct marketing strategy of exceptional impact, offering businesses in this sector highly flexible packages. Recent business gains have already increased contract volumes by 25 per cent. Multi-million pound national contracts have been signed with leading businesses which include Cadbury Schweppes, British Airways, Novotel and Ibis Hotels, Mercury Communications, Safeway and Logica, helping us to establish a growing presence across the UK as well as to regain business in the capital.

London Total Gas (LTG) – a joint venture with the major French oil and gas group TOTAL – is another example of our increasing involvement in the provision of energy services. Currently supplying commercial and industrial markets in London, this has continued to perform profitably in a fiercely competitive market. We currently supply over 2,600 customers at 3,670 sites in the London area. Having demonstrated the excellence of its resources and skills, LTG looks forward to taking advantage of the increasing



Maintaining and developing electrical distribution networks – one of London Electricity's core skills.



Barking Power Station nearing completion – now being commissioned and generating electricity.

opportunities offered by prospective liberalisation of the gas supply market in 1998. A combined team of TOTAL and London Electricity staff is preparing for a pilot project in Southwest England next year.

London Electricity has naturally sought to stimulate greater competition in power generation. One means has been through a 13.5 per cent stake in Barking Power Limited, which is building an advanced 1000MW combined cycle gas turbine power station in East London. The station is one of the new generation of gas-fired plants with low emissions and will provide London Electricity with a steady stream of income for years to come.

People in London Electricity

In a rapidly changing business environment the contribution and well-being of an organisation's staff is vital for future business success.

Health and safety in the workplace are a prime concern, both for the sake of individuals themselves and for the greater efficiency of our business.

Our Occupational Risk Management programme is now well under way. Under the guidance of our company doctor and backed by specialist staff including a physiotherapist, it draws employees into a wide-ranging team approach. This is aimed at assessing and encouraging the development of a lifestyle and working methods which decrease the possibility of illness or other impairment, whether in the office or on site.

Our sustained approach to safety has helped to bring about dramatic reductions in accident rates in general, to the extent that London Electricity is now among the best in the industry rather than one of the worst. However, there has been a disappointingly small improvement in electrical injuries whereas reportable major injuries were nearly halved. Supervisory involvement and responsibility in the

application of safety strategies are seen as the key to further improvement and an awareness campaign of 'Toolbox Talks' was introduced early in the year as an additional means of improving two-way communication and reporting.

In times of change it is particularly important that people are equipped with the skills and competencies required to meet the challenges of their jobs, both now and in the future. Despite the demands of organisational restructuring, commitment to the development of staff continued. The Government's Investors in People scheme supports this aim by helping to realise the maximum potential of staff; London Electricity's Investors in People pilot project was launched during the year.

Developments on this front and right across the Group's businesses over the past year have strengthened the Group substantially and provided it with a firm basis for further progress.

Over a four-year period, London Electricity must implement schemes to produce a total saving of more than 450 million units of electricity – the equivalent to switching off the whole of London for eight days. A budget of almost £8 million has been agreed to finance these schemes. In this, our first year of the Standards of Performance scheme, we committed just over £1 million to ten projects. The approach taken has been to pilot a range of schemes and then increase the pace of the programme over the following three years.

A number of schemes to meet these targets have been developed by the Energy Saving Trust; London Electricity has supported all of them in addition to a number of its own. They range from giving away low-energy light bulbs to subsidising insulation measures in local authority housing. Many of the schemes to date have been aimed at residential customers but business is also receiving help, with subsidies for high frequency lighting and night blinds for refrigerated cabinets.

We continue to be involved in landmark schemes across the capital to demonstrate energy-efficient technology. In the Royal Borough of Kensington and Chelsea, for example, London Electricity designed and installed a central heat pump system – the first such application in the UK.

In concrete terms, all these energy saving initiatives mean reduced greenhouse gases, an improved environment inside and outside buildings, and lower bills especially helpful for households on low incomes.

Commitment to the environment and the Community

Supplying energy to all London's communities – residential, business and industrial – makes London Electricity keenly aware both of the environmental significance of its role and of its fundamental relevance to people's lives and living standards.

To demonstrate our commitment to public disclosure of our environmental performance we initiated work on our first Environment Report, to be published shortly.

At the beginning of the year OFFER put forward stringent new energy efficiency Standards of Performance for London Electricity and the other Regional Electricity Companies. These set out for the first time a formal energy saving target and a systematic method of evaluating and implementing energy-saving schemes.

Nearly 60 per cent of homes in London Electricity's area are flats – London Electricity has many years experience in developing energy efficiency schemes for this type of property.



London Electricity's Maths Fund gave dozens of East and South London schools a new chance to discover the power of numbers. One of the year's Fund prizewinners set out to discover what it was like to run its own bank. The school got together with some local banks and businesses for help and guidance. Given some computers and hands-on experience, the pupils soon saw why numbers are so important – and not really frightening. Their success not only won them a prize but some more money for their project!



Our environmental concerns merge with our community concerns in our efforts to reduce the disruptive impact of unearthing or installing our distribution network, which is virtually all underground. Our Streetworks Inspectors liaise closely with other utilities to set targets, screen sites and clean up properly afterwards. More tunnelling is being planned for major projects to provide long-term access without having to dig up the road.

Our commitment to London's environment is matched by our commitment to its communities. This can be seen in a remarkably wide range of different ways. Working with Business in the Community and within the framework of their "Aim High" initiative, London Electricity has invested £50,000 to help with the teaching of numeracy in East and South London schools – a future potential source of London Electricity staff.

Together with The Big Issue and Greater London Radio, we sponsored the London Awards, a programme which selects Londoners or London groups who have made an especially important contribution to the life and welfare

of the capital. This year's winners once again highlighted just how large is the capital's fund of personal goodwill.

Many of our projects involve our own staff. 300 members volunteered to operate our Bexleyheath switchboard when it was turned over to Comic Relief during their 1995 campaign; over 15,000 calls were fielded and over a quarter of a million pounds raised. "Challenge Ellie" started in 1993 and is a volunteering initiative undertaken by staff throughout London Electricity. In 1994 more than 250 took part, helping charities and voluntary organisations in a variety of practical ways: this year it included decorating classrooms and resurfacing playgrounds. Some of our staff help to run a programme of school visits and seminars which support the teaching of science and technology. Senior staff have been seconded to London First and Business In The Community's Opportunity 2000.

This year we continued our sponsorship of the London Schools Symphony Orchestra (LSSO). We also developed our involvement with the East London Partnership, an organisation which aims to help bring about economic regeneration in deprived areas in the London boroughs of Tower Hamlets, Newham and Hackney. On the strength of this experience we decided this year to join a similar organisation, the West London Leadership project.

These are just some of the community highlights of the year; the range and level of our involvement is even greater than this, extending to many of the people of London.

London Electricity's commitment to London is implicit in its business; its aims and activities coincide with those of business in general, of the community and the environment. During the year the Company has continued to strengthen those links and commitments.

300 staff donned red noses to help raise money for Comic Relief.



Full page St Paul's Picture to be inserted here

The Financial Highlights set out on page 1 show the underlying results of the Group for the year. There are a number of features which have reduced the final profits and earnings of the Group. These are described before commenting in detail on the underlying profits and earnings which are more representative of the continuing improvement in the performance of the Group. The Five Year Record and Statistical Review set out on pages 53 to 55 gives a substantial level of detail about the operating performance and costs and the customer service levels achieved by the Group's main businesses.

Operating results

The Company announced at the time of its Interim results that it had made a charge of £33 million to cover the cost of a planned programme of restructuring over the next few years following the outcome of the Distribution Review of last August. Good progress has been made in implementing the plans with over £14 million being spent before the end of the financial year and the balance has been carried forward to next year. The amount of £33 million has been shown as an exceptional item in accordance with Financial Reporting Standard 3 and tax relief has been taken into account. £30 million has been allocated against the Distribution business and £3 million against the Supply business based on the historical allocation of operating costs between the two businesses. The operating results shown in the following table are before this exceptional item.

St. Paul's Cathedral,
one of London's world
famous landmarks -
floodlit by London
Electricity

Analysis of operating profit

	1994-95	1993-94
	£m	£m
Distribution	166.0	153.9
Supply	16.9	6.4
Private electrical distribution systems	11.0	10.6
Other	1.6	1.6
Retail closure	-	(1.0)
	195.5	171.5

These results show an increase of 14 per cent for the year.

Distribution business turnover increased by £12.5 million although the increase in regulated revenue was only 2.2 per cent. Distribution sales volume grew only 0.4 per cent which was principally due to a fall in domestic volume of 1.4 per cent as a result of the mild winter. The turnover figures continue the pattern of the period since privatisation with no increase in the real level of regulated revenue. Increased real returns from this business have been achieved solely through cost efficiency.

Following further cost savings, Distribution operating profit increased by 7.9 per cent to £166.0 million. Staff numbers have continued to fall significantly with a reduction in the last year of 11 per cent across the electricity businesses. The Company has continued to reinvest savings in programmes which will further improve the effectiveness of operations in the future. It is vital to future levels of service and reliability that regulated revenues are sufficient to encourage these measures rather than resulting in short term cost reduction alone.

Gross capital expenditure across the electricity businesses increased from £102.5 million to £105.8 million, including over £60 million of network replacement expenditure compared to £47 million in the previous year. It is

fundamental that Distribution returns remain sufficient to sustain these necessary levels of investment over the coming years.

The Supply business has had a successful year despite the difficulties and volatility associated with the extension of competition from 1 April 1994 to customers with a demand of 100kW or more. Overall Supply operating profit has increased from £6.4 million to £16.9 million despite total volume falling by 10.5 per cent.

The Chief Executive's Review outlines the developments in the new competitive market, the particular emphasis on London by other suppliers and the marketing initiative taken by the Company.

An acceptable margin has been achieved in the competitive market without taking undue risks and despite a year on year reduction of 27 per cent in the volume supplied. This result and the improved market position have been achieved without an exposure to losses as electricity pool prices rose from October onwards and exhibited unexpected price spikes from time to time. Difficulties were experienced with the new metering and settlement arrangements giving rise to additional costs and a higher level of working capital at the year end than would normally be expected. Good progress is being made in resolving the remaining difficulties.

The regulated franchise supply business for customers with demand of less than 100kW has also increased operating profit. This has been achieved despite falling volume through lower operating costs including a further reduction in bad debts. The tight control of working capital continued and debtor days were again reduced. Last year's overrecovery of regulated revenue has been returned to customers through lower prices in 1994-95 and there is a small underrecovery of £1 million carried forward to next year. Of the £44 million of prepayments associated with

the extension of VAT received last year, £28 million was returned to customers through settlement of their bills.

The airport networks have again contributed the bulk of the operating profit from the private electrical distribution systems. Additional capital expenditure of £2.7 million during the year and strong growth in unit volume will enhance turnover next year. Further significant capital expenditure is expected over the next few years, particularly at Heathrow.

Electrical contracting increased its contribution, despite curtailed business in the domestic sector, through emphasis on larger projects and with a useful level of referrals from the London airports. An operating profit of £1 million on turnover of £17 million is a commendable margin and the business is now taking on competitive connections work. The contributions from other businesses were small overall.

London Total Gas, a 50 per cent associate, contributed an unchanged £0.2 million of operating profit and has increased volume by 50 per cent over the last year in an increasingly competitive market. Combined Power Systems, a 30 per cent associate which supplies combined heat and power units, had a poor year with low market demand and the Company equity accounted a loss of £0.9 million. The nature of the market is changing significantly and continuing investment by the Company in this market is currently under review.

Profit and dividends

Profit before taxation is shown at £172.4 million. The previous section on operating profit added back the exceptional restructuring charge of £33 million before commenting on the underlying operating performance.

A further appropriate adjustment at the profit before taxation level is to add back the premium of £9.5 million arising on the redemption of Government debt, which is shown as an exceptional item after net interest payable in accordance with Financial Reporting Standards 3 and 4. After this further adjustment, underlying profit before taxation of £214.9 million is an increase of 15.2 per cent over the result for 1993-94 of £186.5 million.

Profit after taxation is shown at £149.9 million. The taxation charge includes a credit of £16.0 million for the writing back of prior year tax provisions no longer required. It is also reduced by tax relief of £10.9 million on the £33 million exceptional charge. After adjusting the taxation charge for both these items, the underlying profit after taxation is £165.5 million, an increase of 16.5 per cent over the result for 1993-94 of £142.0 million. The effective underlying Group taxation rate has fallen from 23.9 per cent for 1993-94 to 23 per cent.

The underlying earnings per share based on the adjusted profit after taxation of £165.5 million are 78.8 pence, an increase of 21.2 per cent. This reflects the benefit of the share repurchases carried out during the year. The recommended final dividend of 19.5 pence per share gives a total for the year of 29.0 pence per share, an increase of 28.9 per cent over the previous year. The dividends payable by the Company total £58.0 million for the year, an increase of 17.6 per cent. The higher rate of increase in the dividend per share reflects the benefit of the share repurchases. The total dividend payable is covered 2.9 times by underlying earnings.

Over the last four years the compound growth rate in dividends per share has been 20 per cent per annum and cover has been maintained at just under three times. The level of future real

dividend growth will depend on the outcome of the further Distribution Review and the future of the investment in National Grid but it is anticipated that the level of dividend cover will be reduced over the next few years to about two times.

Treasury and cash

The Group net cash inflow from operating activities before movements in working capital was £195.6 million (1993-94 £211.5 million). There was an increase of £40.5 million in working capital compared to a reduction of £87.7 million in 1993-94. £27.8 million of the increase arose from customer prepayments for VAT being used to settle bills and there is a temporary increase of £20.6 million for Advanced Corporation Tax because of share repurchases. Electricity debtors have temporarily increased by £19.8 million because of the delay in resolving the difficulties in the non-franchise markets.

Payments for the purchase of fixed assets increased to £105.0 million (1993-94 £94.8 million) and the repurchase of shares cost £150.4 million (including expenses).

At 31 March 1995 the Group had net borrowings of £107.8 million, giving a ratio to net assets of 16.4 per cent. At 31 March 1994 the Group had net cash of £64.1 million.

The Group has a £100 million 8 per cent Eurobond in issue and repayable in 2003. During the year it was decided that market conditions were favourable to replace its revolving credit facility of £250 million which was due to expire in September 1995. A series of bilateral committed borrowing facilities, of varying maturities up to seven years, totalling £160 million were negotiated with leading international banks. These were considered adequate taken together with the Company's extensive uncommitted borrowing facilities.

Borrowing requirements will be continually reviewed as the implications of the re-opened Distribution Review become clearer and the outcome of the National Grid demerger proposals is known. Any further repurchase of shares would also need to be reflected in borrowing plans.

The Company has a diversity of sources from which to fund its borrowing requirements. Besides its committed and uncommitted borrowing lines, it maintains its £150 million commercial paper programme. The programme has seen use recently as rates have become more attractive in this market.

Short term borrowing at fine rates remains available to the Company which enjoys a short term credit rating of A1 + /P1. The Company continues to be the only Regional Electricity Company to hold both AA+ and Aa1 ratings on its long term debt. Concern about the impact of regulation has prompted Moody's to regard the outlook as negative for all Regional Electricity Companies' long term debt to reflect the uncertainties facing the sector. Despite this, sentiment in the markets remains receptive to further issuance; and many still regard the existence of a regulatory regime as an enhancement of credit.

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

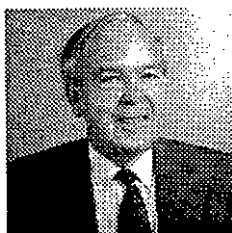
Initiatives were taken during the year to restructure the Company's balance sheet with the intention of introducing a level of borrowing more appropriate to the underlying nature of the business.

The Company had taken powers at its last AGM to repurchase up to 10 per cent of its own shares on the market provided this was in the interests of shareholders. The power was exercised in October 1994 and again in January 1995, when a total of 21,900,292 shares were repurchased for a total consideration of £150.4 million (including expenses). These transactions will improve earnings per share by about 5 per cent and were achieved without a disadvantage to those shareholders not in a position to participate. The 10 per cent power is proposed for renewal at the forthcoming AGM although no further steps will be taken until the Distribution Review is concluded and the outcome of the National Grid demerger proposal is clear.

Last summer the Government launched an auction of some of its portfolio of utility debt stock; London Electricity successfully bid to repurchase its £70 million of 12.661 per cent Government Debt due 1999. The debt paid a high coupon, costing the Company £8.86 million per annum. In order to release the Company from this high interest burden and improve earnings, it was necessary to bid a premium. Under the terms of the auction an adjustment was made to take account of the adverse tax consequences of repurchasing the high coupon debt. The debt was repurchased and cancelled for £79.5 million plus the interest that had accrued to the date of cancellation on 23 August 1994.

These transactions have had a significant effect on the structure of the balance sheet, reducing shareholders' equity and increasing borrowings. Opportunities to restructure further to create shareholder value will be kept under review, along with the appropriate maturity of borrowings and interest rate strategy. The Company is presently satisfied with its level of fixed rate borrowing through its Eurobond which remains the cheapest financing of this nature in the sector.

The results of the Distribution Review and the planned demerger of the 10.5 per cent investment in National Grid will both have an impact on the balance sheet and dividend policy of the Company but it is not possible to predict the outcome at this stage.

Chairman**Sir Bob Reid**

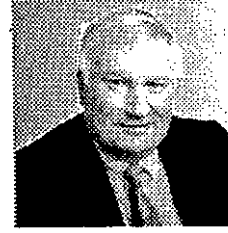
(age 61) is non-executive Chairman. He joined London Electricity as a non-executive Director on 1 December 1993 and became Chairman on 1 April 1994. Sir Bob joined Shell International Petroleum Company Limited in 1956 and after a distinguished career overseas became a Director in 1984 and Chairman and 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**Roger Urwin**

(age 49) is Chief Executive and is a chartered engineer. He joined the industry in 1971. After a number of appointments in the CEB, he joined Midlands Electricity in 1985 as Director of Engineering. He joined London Electricity in February 1990 as Deputy Chairman and was subsequently appointed Managing Director. He was appointed Chief Executive in April 1992. He is also a non-executive Director of the Foreign and Colonial Special Utilities Investment Trust Plc and Total Oil Marine plc.

Network Services Director**Ian Beament**

(age 50) is Network Services 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.

Customer Services Director**Mike Brown**

(age 50) is Customer Services 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.

Energy Services Director**Mike Kersey**

(age 53) is Energy Services Director and is a chartered engineer. He took up his present position with London Electricity 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.

Finance Director**Alan Towers**

(age 53) 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**§ Gordon Owen CBE**

(age 57) 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 61) 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 Civil Aviation Authority and the Monopolies and Mergers Commission. He is also a non-executive Director of Pearce Group Holdings Limited and Pinnacle Insurance plc.

§Chairman of the Audit Committee

*Chairman of the Remuneration Committee

The directors present their report and financial statements for the year ended 31 March 1995.

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 electrical 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 2 to 19 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 £172.4 million and after taxation to £149.9 million. An interim dividend of 9.5 pence per share was paid on 2 February 1995 amounting to £19.4 million. The directors recommend the payment of a final dividend in respect of the year ended 31 March 1995 of 19.5 pence per share payable on 14 August 1995 amounting to £38.6 million.

After payment of the recommended dividend, the directors propose to transfer the retained profit of £91.9 million to reserves.

Fixed assets

Land and buildings are carried in the historical cost accounts at a net book value of £110.0 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 £206.0 million. Note 13 to the accounts details changes in tangible fixed assets during the year on an historical cost basis.

Directors

The names of the directors at the date of this report together with brief biographical details are listed on pages 20 and 21.

Sir Bob Reid who was appointed on 1 December 1993 became non-executive Chairman on 1 April 1994 following the resignation of Mr J J Wilson on 31 March 1994.

Mrs H G Robinson and Mr C A Prendergast retired from the Board on 5 August 1994 following the Annual General Meeting of the Company.

In accordance with the Articles of Association Mr I R Beament and Mr G M W Owen retire from the Board by rotation and being eligible, offer themselves for re-election.

None of the executive directors have service contracts with a notice period exceeding 2 years.

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 Note 6 to the accounts.

Substantial shareholdings

As at 29 June 1995 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 5.13 per cent, Standard Life Assurance 3.16 per cent, Norwich Union Investment Management 3.03 per cent.

Share repurchase programme

At the Company's Annual General Meeting held on 5 August 1994, shareholders gave approval for the Company to effect on-market purchases of up to 10 per cent of its shares.

On 7 October 1994, the Company purchased for cancellation 15,350,292 shares at £6.72 per share representing 7 per cent of the issued ordinary share capital and on 20 January 1995, a further 6,550,000 shares at a price of £7.05

per share representing 3 per cent of issued ordinary share capital. Further details may be found in Note 24 to the accounts.

The share repurchase was an effective way of increasing future earnings per share and promoting shareholder value in general.

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 £547,000 [1994 £495,000].

There were no political donations.

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 people with disabilities 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 25 to the accounts.

Annual General Meeting

Full details of the Annual General Meeting to be held on Friday 4 August 1995 and explanations of the resolutions appear in the Notice of Annual General Meeting circulated separately to shareholders.

Taxation status

The Company is not a close company under the provisions of the Income and Corporation Taxes Act 1988.

Insurance for officers of the Company

The Company maintained insurance for directors and officers of the Company indemnifying them against certain liabilities which might be incurred by them whilst acting as officers of the Company.

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
29 June 1995

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 two non-executive directors, whereas the Code of Best Practice requires a minimum of three non-executive directors. The Board is satisfied that the duties of the Audit Committee are being discharged effectively. However, a further non-executive director will be appointed to the Committee when the appropriate Board appointment is made. The Committee is chaired by Mr G M W Owen.

The Cadbury Committee has recently issued guidance for directors, concerning the effectiveness of internal financial controls. London Electricity is currently assessing the internal financial controls in place throughout the Group in relation to this guidance and will report in accordance with the requirements of the Code in next year's report and accounts.

The Cadbury Committee has also issued guidance for directors on the requirements for a "going concern" statement. The relevant statement is included as a separate statement on page 24.

The Board is responsible for the Group's internal financial control systems. The key procedures in place to enable this 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 departments in the Group are reviewed by the Audit Committee, together with the management letters prepared by the external auditors, Coopers & Lybrand.

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.

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.

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.

**Report of the Auditors
to the Members of London Electricity plc**

We have audited the financial statements on pages 26 to 49.

Respective responsibilities of directors and auditors

As described on page 24 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 1995 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 50 and 52 has been properly prepared in accordance with the accounting policies described on page 51.


Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
29 June 1995

**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' statement on page 23 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.

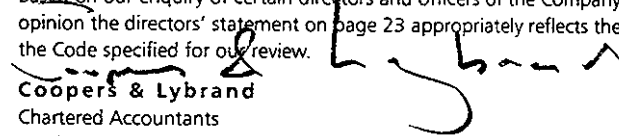
Basis of opinion

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 either 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 23 and on going concern on page 24, in our opinion the directors have provided the going concern disclosures required by paragraph 4.6 of the Code and have explained the extent of their compliance with the disclosures on internal financial control required by paragraph 4.5 of the Code (both as supplemented by the related guidance for directors). Their statements in respect of both 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' statement on page 23 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.


Coopers & Lybrand
Chartered Accountants
London
29 June 1995

group profit and loss account

London Electricity plc

for the year ended 31 March 1995

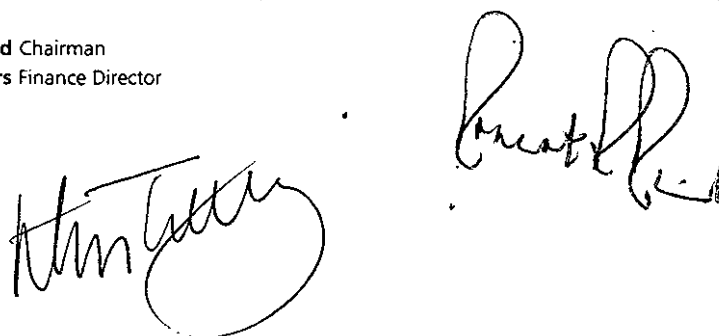
	Note	1994-95 £m	1993-94 £m	1993-94 £m
Turnover	1,2			
Continuing operations		1,209.4		1,292.4
Discontinued electrical retailing		—		16.0
		<u>1,209.4</u>		<u>1,308.4</u>
Cost of sales		(740.1)		(862.4)
Gross profit		<u>469.3</u>		<u>446.0</u>
Net operating expenses	1			
Continuing and discontinued operations		(273.8)		(274.5)
Exceptional costs of restructuring		(33.0)		—
Operating profit				
Continuing operations	1	162.5	172.5	
Discontinued electrical retailing		—	(8.0)	
Less: use of prior year provision		—	7.0	
		<u>162.5</u>		<u>171.5</u>
Share of profits/(losses) of associated undertakings		(0.7)		0.3
Profit on ordinary activities before interest		<u>161.8</u>		<u>171.8</u>
Income from investment in National Grid Holding plc		21.2		19.8
Net interest payable	7	(1.1)		(5.1)
Exceptional item – premium on redemption of Government debt	8	(9.5)		—
Profit on ordinary activities before taxation	3	<u>172.4</u>		<u>186.5</u>
Taxation on profit on ordinary activities	9	(22.5)		(44.5)
Profit on ordinary activities after taxation	10	<u>149.9</u>		<u>142.0</u>
Dividends	11	(58.0)		(49.3)
Retained profit for the financial year	26	<u>91.9</u>		<u>92.7</u>
Earnings per share	12	71.4p		65.0p
Dividends per share	11	29.0p		22.5p

as at 31 March 1995

	Note	1995 £m	Group 1994 £m	1995 £m	Company 1994 £m
Fixed assets					
Tangible assets	13	730.2	676.5	673.6	628.4
Investments	14	93.4	92.1	191.7	183.8
		<u>823.6</u>	<u>768.6</u>	<u>865.3</u>	<u>812.2</u>
Current assets					
Stocks	18	4.3	4.6	3.3	3.2
Debtors: amounts falling due:					
Within one year	19	263.0	196.3	266.0	196.8
After more than one year	19	20.5	16.9	20.5	16.9
Investments	20	49.3	224.9	40.7	217.2
Cash at bank and in hand		0.7	10.5	-	10.0
		<u>337.8</u>	<u>453.2</u>	<u>330.5</u>	<u>444.1</u>
Creditors: amounts falling due within one year					
Borrowings	21	(59.2)	(2.9)	(59.2)	(2.9)
Other creditors	22	(284.0)	(262.4)	(284.9)	(261.9)
Net current assets		<u>(5.4)</u>	<u>187.9</u>	<u>(13.6)</u>	<u>179.3</u>
Total assets less current liabilities		818.2	956.5	851.7	991.5
Creditors: amounts falling due after more than one year					
Borrowings	21	(98.6)	(168.4)	(98.6)	(168.4)
Other creditors	22	(16.1)	(21.3)	(11.6)	(16.5)
		<u>(114.7)</u>	<u>(189.7)</u>	<u>(110.2)</u>	<u>(184.9)</u>
Provisions for liabilities and charges	23	<u>(45.7)</u>	<u>(50.1)</u>	<u>(42.6)</u>	<u>(47.9)</u>
Net assets		<u>657.8</u>	<u>716.7</u>	<u>698.9</u>	<u>758.7</u>
Capital and reserves					
Called up share capital	24	98.8	109.5	98.8	109.5
Share premium account	26	2.9	2.0	2.9	2.0
Capital redemption reserve	26	11.0	-	11.0	-
Revaluation reserve	26	81.9	81.9	81.9	81.9
Profit and loss account	26	463.2	523.3	504.3	565.3
Shareholders' funds		<u>657.8</u>	<u>716.7</u>	<u>698.9</u>	<u>758.7</u>

The financial statements were approved by the Board of Directors on 29 June 1995 and were signed on its behalf by:

 Sir Bob Reid Chairman
 Alan Towers Finance Director



group cash flow statement

London Electricity plc

for the year ended 31 March 1995

	Note	1994-95 £m	1993-94 £m
Net cash inflow from operating activities	27	<u>155.1</u>	<u>299.2</u>
Returns on investments and servicing of finance			
Interest received		14.4	10.9
Interest paid		(13.8)	(18.1)
Exceptional item – Premium on redemption of Government debt		(9.5)	–
Dividends received from fixed asset investments		16.4	14.0
Dividends paid		(52.5)	(46.6)
Net cash outflow from returns on investments and servicing of finance		<u>(45.0)</u>	<u>(39.8)</u>
Taxation			
UK corporation tax paid		<u>(43.0)</u>	<u>(24.7)</u>
Investing activities			
Consumer contributions received		17.4	13.0
Purchase of tangible fixed assets		(105.0)	(94.8)
Proceeds from sale of tangible fixed assets		4.6	4.5
Investment in associated undertaking		(1.7)	–
Repayment of loan from other investments		0.5	–
Repayment of loan from associated undertaking		–	0.2
Purchase of fixed asset investments		(2.6)	(5.0)
Decrease/(increase) in fixed term deposits greater than 3 months		112.7	(140.2)
Net cash inflow/(outflow) from investing activities		<u>25.9</u>	<u>(222.3)</u>
Net cash inflow before financing		93.0	12.4
Financing			
Eurobond issue		–	98.2
Repayment of Government debt		(70.0)	–
Shares issued under option schemes		1.2	2.1
Purchase of own shares		(150.4)	–
Net cash (outflow)/inflow from financing		<u>(219.2)</u>	<u>100.3</u>
(Decrease)/increase in cash and cash equivalents	28	<u>(126.2)</u>	<u>112.7</u>

statement of total recognised gains and losses

Annual Report & Accounts 1994-95

for the year ended 31 March 1995

All gains and losses for the period have been recognised in arriving at the profit for the year.

There is no difference between the profit reported and that calculated under the historical cost convention.

reconciliation of movement in shareholders' funds

	1994-95 £m	1993-94 £m
Profit on ordinary activities after taxation	149.9	142.0
Dividends	(58.0)	(49.3)
Retained Earnings	91.9	92.7
Share capital issued	1.2	2.1
Purchase of own shares	(150.4)	-
Goodwill on acquisition deducted from reserves	(1.6)	-
Net increase/(decrease) in shareholders' funds	(58.9)	94.8
Shareholders' funds at start of year	716.7	621.9
Closing shareholders' funds	657.8	716.7

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 Holding plc at prospectus 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 Financial Reporting Standards 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, has a long term interest, and controls from 20% to 50% of the voting rights. 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 pension cost in respect of defined benefit pension schemes is charged to the profit and loss account so that it is spread over employees' working lives. Pension cost is assessed in accordance with the advice of qualified actuaries.

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 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 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:-

	<u>Years</u>
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

The investment in The National Grid Holding plc is at the valuation shown in the Prospectus dated 21 November 1990 containing listing particulars of London Electricity plc.

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

Current asset investments

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

Stocks

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

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

Deferred taxation

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

Under/over recoveries of allowable revenue

The regulatory regime under which the Group operates 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 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.

for the year ended 31 March 1995

1 Analysis of profit and loss account

	1994-95			1993-94
	Total	Continuing	Discontinued	Total
	£m	£m	£m	£m
Turnover	1,209.4	1,292.4	16.0	1,308.4
Cost of sales	(740.1)	(849.0)	(13.4)	(862.4)
Gross profit	469.3	443.4	2.6	446.0
Net operating expenses:				
Distribution	(114.2)	(115.5)	—	(115.5)
Distribution – Exceptional cost of restructuring	(6.8)	—	—	—
Administrative	(159.6)	(155.4)	(10.6)	(166.0)
Administrative – Exceptional cost of restructuring	(26.2)	—	—	—
Less: use of prior year provision	—	—	7.0	7.0
Operating profit/(loss)	162.5	172.5	(1.0)	171.5

Exceptional cost of restructuring

This relates to the restructuring of the regulated electricity businesses which will continue for the next two years. Actual restructuring costs incurred in 1994-95 were £14.3m; expected restructuring costs over the next two years are £18.7m.

Operating expenses

Distribution costs are the cost of maintaining the network including appropriate depreciation, rates and The National Grid Company plc exit charges. Administrative expenses include all other operating costs. Other charges from The National Grid Company plc are included in cost of sales.

2 Analysis of turnover, operating profit and net assets

	Turnover		Operating profit		Net assets	
	1994-95	1993-94	1994-95	1993-94	1994-95	1993-94
	£m	£m	£m	£m	£m	£m
Class of business						
Distribution	379.1	366.6	136.0	153.9	621.9	589.5
Supply	1,113.6	1,227.5	13.9	6.4	37.7	(12.9)
Private electrical distribution systems	14.8	14.2	11.0	10.6	52.8	47.5
Other	29.6	21.3	1.6	1.6	(1.0)	2.2
	1,537.1	1,629.6			711.4	626.3
Less: inter business sales	(327.7)	(337.2)				
Unallocated net assets/(liabilities)					(53.6)	90.4
Continuing operations	1,209.4	1,292.4	162.5	172.5	657.8	716.7
Discontinued electrical retailing				(1.0)		
Operating profit			162.5	171.5		
Share of profits/(losses) of associated undertaking			(0.7)	0.3		
Income from investment in NGH plc			21.2	19.8		
Net interest payable (Note 7)			(1.1)	(5.1)		
Exceptional item – premium on redemption of Government debt (Note 8)			(9.5)	—		
Profit on ordinary activities before taxation			172.4	186.5		

The exceptional cost of restructuring shown in Note 1 has been charged to the Distribution business (£30m) and Supply business (£3m).

for the year ended 31 March 1995

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 assets/(liabilities) includes other fixed asset investments, cash, borrowings, dividends receivable and payable and taxation.

Geographical analysis

Turnover arises entirely in the United Kingdom.

3 Profit on ordinary activities before taxation is stated after charging:

	1994-95 £m	1993-94 £m
Staff costs (Note 4)	110.5	117.7
Depreciation (Note 13)	38.3	34.6
Operating lease rentals:		
land and buildings	6.5	9.3
plant and machinery	0.7	0.2
Auditors' remuneration		
audit services	0.2	0.2
other services	0.7	0.7

Auditors' remuneration includes £0.1m (1993-94 £0.1m) for audit services provided to the parent company.

4 Staff costs

	1994-95 £m	1993-94 £m
Wages and salaries	104.1	113.7
Social security costs	8.5	9.1
Other pension costs (Note 30)	16.9	10.8
	<u>129.5</u>	<u>133.6</u>
Less: charged as capital expenditure	(19.0)	(15.9)
Charged to the profit and loss account	<u>110.5</u>	<u>117.7</u>
The average number of employees (including executive directors) during the year was:		
Staff grades	3,059	3,499
Industrial staff grades	1,849	2,033
	<u>4,908</u>	<u>5,532</u>

5 Directors' remuneration

Remuneration policy

Directors' remuneration is set by the Remuneration Committee of the Board, comprised of the non-executive directors. 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 advisers 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 which include earnings per share, customer service and other operating targets. The bonuses included in the emoluments on page 35 are those paid in 1994-95 in respect of the performance for the previous financial year to the current directors and the previous Chairman.

The Company performance criteria for 1994-95 for executive directors were as follows:

Maximum bonus achievable is 25% of basic salary and comprises the following;

Relative yield. A 5% bonus is paid for performance at the REC sector average with a 1% increase or decrease for each 1% that London Electricity lies below or above the sector average, subject to a maximum of 15%.

Customer service. The standards of customer service as published by OFFER are the basis for the calculation. A maximum bonus of 5% can be earned. This is eroded by 0.5% for each overall standard not met. There is also a 0.5% increase or decrease in bonus for each position above or below No. 3 in the OFFER league table for guaranteed standards.

Earnings per share. A maximum bonus of 5% is paid for achieving the budgeted growth in EPS as approved by the Board of Directors in the annual operating plan. This is eroded by 1% for each 1% shortfall in the growth.

Share option schemes

Executive share option scheme

Executive directors participated in the executive share option scheme during the

year. No new share options were granted during the year to directors. In accordance with an agreement reached at the time of his recruitment to London Electricity, Mr M J Kersey was granted share options on 3 April 1995. The Company does not presently intend to make any further grants of share options to directors under the existing executive share option scheme.

SAYE scheme

The Company also operates a Save As You Earn (SAYE) scheme which offers employees the opportunity to buy shares in London Electricity. There are approximately 2,300 members of staff participating in this scheme.

Pensions

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

Service contracts

All of the executive directors have service contracts, none of which would require the Company to give notice exceeding two years.

notes to the accounts

for the year ended 31 March 1995

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

	1994-95 £	1993-94 £
Fees to non-executive directors		
Executive directors:	154,493	119,000
fixed remuneration	610,287	577,642
annual bonus payments	106,285	109,585
pension contributions	255,079	246,801
benefits in kind	51,754	53,440
	1,177,898	1,106,468
Compensation for loss of office	-	165,700
	1,177,898	1,272,168

	Basic Remuneration £000	Bonus £000	Pensions £000	Benefits £000	1994-95 Total £000	1993-94 Total £000
Chairman:						
Sir Bob Reid	100	-	-	-	100	(i) 6
J J Wilson	-	22	-	-	22	(i) 213
	100	22	-	-	122	219
Executive directors:						
R J Urwin	184	31	79	10	304	(ii) 274
A V Towers	122	22	52	10	206	212
M J Kersey	123	1	47	12	183	41
I R Beament	92	16	39	10	157	112
M J Brown	89	15	38	10	152	108
C L Myers	-	-	-	-	-	(iii) 230
	610	85	255	52	1,002	977
Non-executive directors:						
G M W Owen	21	-	-	-	21	20
L W Priestley	21	-	-	-	21	20
H G Robinson	6	-	-	-	(iv) 6	18
C A Prendergast	6	-	-	-	(iv) 6	18
	54	-	-	-	54	76
Total	764	107	255	52	1,178	1,272

(i) Chairman

Sir Bob Reid became non-executive Chairman on 1 April 1994 and received fees of £6,000 as a non-executive director in 1993-94. Mr J J Wilson who resigned as Chairman on 31 March 1994 received a salary as an executive director until 30 September 1993 of £92,525, fees as non-executive Chairman from 1 October 1993 to 31 March 1994 of £37,500, bonus of £36,146, pension of £28,960 and benefits of £18,099.

(ii) Chief Executive

The salary of the Chief Executive, who is also the highest paid director, was adjusted to £180,000 from 1 October 1993 to reflect additional responsibilities following the change in the role of the Chairman outlined in Note (i). Since that adjustment the Chief Executive received a 2.9% salary increase effective 1 July 1994. The emoluments of the Chief Executive for 1994-95 shown above reflect the performance of this increased role for the complete year. He received emoluments for 1993-94 as follows: salary of £162,500, bonus of £29,750, pension of £72,637 and benefits of £8,895.

(iii) Mr C L Myers

Mr Myers resigned from the Company on 31 July 1993. His total remuneration for 1993-94 shown above includes £165,700 paid as compensation for loss of office.

(iv) Non-executive directors

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

for the year ended 31 March 1995

6 Directors' interests in ordinary shares and options of the Company

The interests of the directors of the Company at 31 March 1995 in the 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 1994 or date of appointment where this is later.

All the interests are beneficial unless otherwise stated.

(a) Ordinary shares

	At 31 March 1995	At 1 April 1994
R J Urwin	7,121	7,121
A V Towers	5,335	5,335
I R Beament	9,905	9,905
M J Brown	3,356	7,356
M J Kersey	500	-
Sir Bob Reid	500	500
G M W Owen	1,000	1,000
L W Priestley	1,000	1,000
C A Prendergast (retired 5/8/94)	330	330
H G Robinson (retired 5/8/94)	150	900
Total	29,197	33,447

(b) Executive share options (Eso)

		Sharesave Number 1	Sharesave Number 2	Eso Number 1	Eso Number 2	Eso Number 3	Total
R J Urwin	31/3/95	5,571	-	120,000	35,000	29,350	189,921
	1/4/94	5,571	-	120,000	35,000	29,350	189,921
A V Towers	31/3/95	5,571	990	100,000	28,000	23,800	158,361
	1/4/94	5,571	990	100,000	28,000	23,800	158,361
I R Beament	31/3/95	5,571	-	-	14,000	19,400	38,971
	1/4/94	5,571	-	-	14,000	19,400	38,971
M J Brown	31/3/95	5,571	990	-	-	14,400	20,961
	1/4/94	5,571	990	-	14,000	14,400	34,961
M J Kersey	31/3/95*	-	-	-	-	-	-
	1/4/94	-	-	-	-	-	-
Total	31/3/95	22,284	1,980	220,000	77,000	86,950	408,214
	1/4/94	22,284	1,980	220,000	91,000	86,950	422,214
Exercise price per share		£1.75	£3.03	£2.61	£3.00	£4.83	
Earliest exercisable date		01/03/96	31/12/97	17/01/94	14/01/95	20/07/96	
Latest exercisable date		01/09/96	30/06/98	17/01/2001	14/01/2002	20/07/2003	

* Mr M J Kersey was granted an option on 3 April 1995 of 75,077 shares at an option price of £5.92 per share exercisable from 3 April 1998 to 3 April 2005.

For a description of each scheme see Note 25 on page 46.

for the year ended 31 March 1995

Options granted and exercised during the year

	Granted	Price £	Exercised	Price £	Market price at date of exercise £
M J Brown	—	—	14,000	3.00	7.28

The closing market price of the shares at 31 March 1995 was £5.82 (31 March 1994 £6.22).

The number of options lapsed unexercised was nil (1993-94 3,594 in respect of Mr C L Myers).

The grant of options under the Executive Share Option Scheme is made by the Remuneration Committee which consists solely of non-executive directors who do not participate in the Scheme.

The Remuneration Committee grants options with regard to both individual and Company performance. The grant of options is entirely at the discretion of the Committee.

Between 31 March 1995 and 29 June 1995 the following changes have taken place in the interests of the Directors in the shares of the Company:

03/04/95 M J Kersey was granted an option of 75,077 shares at an option price of £5.92.

The other directors' interests in the shares of the Company remain unchanged.

7 Net interest payable

	1994-95 £m	1993-94 £m
Interest receivable and similar income	13.0	13.2
Interest payable and similar charges:		
On bank loans, overdrafts and other borrowings wholly repayable within 5 years	(2.4)	(1.8)
8% Eurobond due 2003	(8.2)	(7.6)
12.661% Bonds due 1999	(3.5)	(8.9)
	<u>(14.1)</u>	<u>(18.3)</u>
Net interest payable before exceptional item	<u>(1.1)</u>	<u>(5.1)</u>

8 Exceptional item – premium on redemption of Government debt

	1994-95 £m	1993-94 £m
12.661% Bonds due 1999 repaid 23 August 1994	<u>(9.5)</u>	<u>—</u>

for the year ended 31 March 1995

9 Taxation on profit on ordinary activities

	1994-95	1993-94
	£m	£m
United Kingdom Corporation tax at 33% (1993-94 33%)		
Current taxation on ordinary activities	46.9	37.9
Tax credit on franked investment income	4.2	4.1
Deferred tax on provisions	(1.7)	2.5
	<u>49.4</u>	<u>44.5</u>
Tax effect of exceptional restructuring charge:		
Current tax	(4.7)	-
Deferred tax	(6.2)	-
	<u>(10.9)</u>	<u>-</u>
	38.5	44.5
Tax over-provided in prior years	(16.0)	-
	<u>22.5</u>	<u>44.5</u>

The taxation charge has been reduced by £14.2m (1993-94 £17.8m) 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.

10 Profit on ordinary activities after taxation

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

	1994-95	1993-94
	£m	£m
Dealt with in the accounts of the holding company	147.4	137.4
Retained by subsidiary undertakings	3.4	4.5
Retained by associated undertakings	(0.9)	0.1
	<u>149.9</u>	<u>142.0</u>

11 Dividends

	1994-95	1993-94
	£m	£m
Ordinary shares:		
Interim paid of 9.5p per share (1993-94 7.4p)	19.4	16.2
Final proposed of 19.5p per share (1993-94 15.1p)	38.6	33.1
	<u>58.0</u>	<u>49.3</u>

12 Earnings per share

Earnings per share are calculated by dividing profit on ordinary activities after taxation of £149.9m (1993-94 £142.0m) by the weighted average number of ordinary shares in issue during the period of 210,033,834 (1993-94 218,489,809).

for the year ended 31 March 1995

13 Tangible fixed assets

Group	Network assets £m	Other land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Deduct: Consumers' contributions £m	Total £m
Cost						
At 1 April 1994	1,064.4	72.9	90.5	17.7	(174.7)	1,070.8
Additions	87.6	4.4	16.4	2.0	(14.6)	95.8
Disposals	(1.0)	(2.6)	(1.7)	(3.4)	-	(8.7)
At 31 March 1995	<u>1,151.0</u>	<u>74.7</u>	<u>105.2</u>	<u>16.3</u>	<u>(189.3)</u>	<u>1,157.9</u>
Depreciation						
At 1 April 1994	359.3	16.8	51.7	7.6	(41.1)	394.3
Charge for the year	28.1	1.7	10.0	3.6	(5.1)	38.3
Disposals	(1.0)	(0.3)	(1.5)	(2.1)	-	(4.9)
At 31 March 1995	<u>386.4</u>	<u>18.2</u>	<u>60.2</u>	<u>9.1</u>	<u>(46.2)</u>	<u>427.7</u>
Net book amounts						
At 31 March 1995	<u>764.6</u>	<u>56.5</u>	<u>45.0</u>	<u>7.2</u>	<u>(143.1)</u>	<u>730.2</u>
At 31 March 1994	<u>705.1</u>	<u>56.1</u>	<u>38.8</u>	<u>10.1</u>	<u>(133.6)</u>	<u>676.5</u>
Company						
Cost						
At 1 April 1994	1,016.5	72.4	89.3	17.6	(174.7)	1,021.1
Additions	85.1	4.4	16.3	-	(14.6)	91.2
Transfer to subsidiary	-	-	(0.1)	(17.6)	-	(17.7)
Disposals	(1.0)	(2.6)	(1.7)	-	-	(5.3)
At 31 March 1995	<u>1,100.6</u>	<u>74.2</u>	<u>103.8</u>	<u>-</u>	<u>(189.3)</u>	<u>1,089.3</u>
Depreciation						
At 1 April 1994	358.1	16.8	51.4	7.5	(41.1)	392.7
Charge for the year	26.9	1.6	9.9	-	(5.1)	33.3
Transfer to subsidiary	-	-	-	(7.5)	-	(7.5)
Disposals	(1.0)	(0.3)	(1.5)	-	-	(2.8)
At 31 March 1995	<u>384.0</u>	<u>18.1</u>	<u>59.8</u>	<u>-</u>	<u>(46.2)</u>	<u>415.7</u>
Net book amounts						
At 31 March 1995	<u>716.6</u>	<u>56.1</u>	<u>44.0</u>	<u>-</u>	<u>(143.1)</u>	<u>673.6</u>
At 31 March 1994	<u>658.4</u>	<u>55.6</u>	<u>37.9</u>	<u>10.1</u>	<u>(133.6)</u>	<u>628.4</u>

for the year ended 31 March 1995

The net book amount of other land and buildings comprises:

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Freehold	36.5	34.9	36.1	34.4
Long leasehold (over 50 years)	9.2	8.4	9.2	8.4
Short leasehold (50 years or less)	10.8	12.8	10.8	12.8
	<u>56.5</u>	<u>56.1</u>	<u>56.1</u>	<u>55.6</u>

Tangible fixed assets include the following:

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Assets in the course of construction	76.5	73.5	74.1	72.5
Land not depreciated	16.2	15.2	16.2	15.2
	<u>92.7</u>	<u>88.7</u>	<u>90.3</u>	<u>87.7</u>

14 Fixed asset investments

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Subsidiary undertakings (Note 15)	—	—	108.9	100.5
Associated undertakings (Note 16)	1.4	0.6	0.7	—
Other investments (Note 17)	92.0	91.5	82.1	83.3
	<u>93.4</u>	<u>92.1</u>	<u>191.7</u>	<u>183.8</u>

All investments are unlisted.

15 Subsidiary undertakings

	Shares	Loans	Company Total
	£m	£m	£m
At 1 April 1994	14.1	86.4	100.5
Additions	2.8	12.5	15.3
Transfer to amounts owed by subsidiary undertakings	—	(4.4)	(4.4)
Repayments	—	(2.5)	(2.5)
At 31 March 1995	<u>16.9</u>	<u>92.0</u>	<u>108.9</u>

for the year ended 31 March 1995

The principal operating subsidiaries included in the consolidated accounts are listed below:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of shares held	Principal activities
The London Power Company Ltd	England	Ordinary £1	100%	Investment in electricity generation
London Power Insurance Ltd	Guernsey	Ordinary £1	100%	Insurance
Berkeley Environmental Systems Plc	England	Ordinary 5p	100%	Building energy management systems
London Electricity Services Ltd	England	Ordinary £1	100%	Electricity distribution projects
London Electricity Contracting Ltd	England	Ordinary £1	100%	Electrical contracting
London Electricity Transport Services Ltd	England	Ordinary £1	100%	Provision and supply of transport services

16 Interests in associated undertakings

Group	Shares £m	Loans £m	Share of post acquisition reserves £m	Total £m
At 1 April 1994	0.7	—	(0.1)	0.6
Transfer from other investments	1.0	0.7	—	1.7
Additions	1.6	—	—	1.6
Goodwill written off to reserves	(1.6)	—	—	(1.6)
Share of retained profits in year	—	—	(0.9)	(0.9)
At 31 March 1995	<u>1.7</u>	<u>0.7</u>	<u>(1.0)</u>	<u>1.4</u>

Company	Shares £m	Loans £m	Total £m
At 1 April 1994	—	—	—
Additions	—	—	—
Transfer from other investments	—	0.7	0.7
At 31 March 1995	<u>—</u>	<u>0.7</u>	<u>0.7</u>

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of shares held	Principal activities
London Total Gas Ltd	England	Ordinary £1	50%	Gas Supply
Combined Power Systems (Southern) Ltd	England	Ordinary £1	50%	Supply of combined heat and power units
Combined Power Systems Ltd	England	Ordinary £1	30.83%	Supply of combined heat and power units
		Preference £1	33.33%	

for the year ended 31 March 1995

17 Other investments

	Shares £m	Group Loans £m	Total £m
At 1 April 1994	83.0	8.5	91.5
Additions at cost	0.1	2.6	2.7
Repayment of loan	—	(0.5)	(0.5)
Transfer to associated undertakings	(1.0)	(0.7)	(1.7)
At 31 March 1995	82.1	9.9	92.0

	Shares £m	Company Loans £m	Total £m
At 1 April 1994	82.1	1.2	83.3
Additions at cost	—	—	—
Repayment of loan	—	(0.5)	(0.5)
Transfer to associated undertakings	—	(0.7)	(0.7)
At 31 March 1995	82.1	—	82.1

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

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of shares held
The National Grid Holding plc	England	Ordinary 10p	10.5%
Barking Power Ltd	England	Ordinary £1	13.5%

18 Stocks

	1995 £m	Group 1994 £m	1995 £m	Company 1994 £m
Raw materials and consumables	1.8	1.7	1.6	1.5
Work in progress	2.4	2.8	1.7	1.7
Finished goods and goods for resale	0.1	0.1	—	—
	4.3	4.6	3.3	3.2

19 Debtors

	1995 £m	Group 1994 £m	1995 £m	Company 1994 £m
Amounts due within one year:				
Trade debtors	106.1	86.3	103.8	83.8
Unbilled consumption	68.8	68.3	68.8	68.3
Amounts owed by subsidiary undertakings	—	—	6.3	3.5
Amounts owed by associated undertakings	0.4	0.2	0.5	0.2
Credit sales instalments not yet due	—	0.1	—	0.1
Other debtors	21.1	16.6	20.6	16.5
Prepayments and accrued income	3.7	4.6	3.2	4.2
Advance corporation tax recoverable	43.6	9.4	43.6	9.4
Deferred taxation recoverable	7.9	—	7.8	—
Dividends receivable	11.4	10.8	11.4	10.8
	263.0	196.3	266.0	196.8

for the year ended 31 March 1995

	1995	Group	1995	Company
	£m	1994	£m	1994
	£m	£m	£m	£m
Amounts due after more than one year:				
Advance corporation tax recoverable	6.7	5.6	6.7	5.6
Pension scheme prepayment	9.2	6.8	9.2	6.8
Amounts owed by associated undertakings	4.6	4.5	4.6	4.5
	<u>20.5</u>	<u>16.9</u>	<u>20.5</u>	<u>16.9</u>

20 Current asset investments

	1995	Group	1995	Company
	£m	1994	£m	1994
	£m	£m	£m	£m
Listed investments – UK	2.5	12.1	–	9.6
Listed investments – overseas	0.4	0.4	–	–
	<u>2.9</u>	<u>12.5</u>	<u>–</u>	<u>9.6</u>
Unlisted				
Money market investments	46.4	209.6	40.7	204.8
Tax certificates of deposit	–	2.8	–	2.8
	<u>46.4</u>	<u>212.4</u>	<u>40.7</u>	<u>207.6</u>
	<u>49.3</u>	<u>224.9</u>	<u>40.7</u>	<u>217.2</u>
Market value at 31 March was:				
Listed investments	3.0	12.6		
Unlisted investments	46.4	212.4		

21 Borrowings

	1995	Group	1995	Company
	£m	1994	£m	1994
	£m	£m	£m	£m
Amounts falling due within one year:				
Short term borrowings	<u>59.2</u>	<u>2.9</u>	<u>59.2</u>	<u>2.9</u>
Amounts falling due after more than one year:				
12.661% Bonds due 1999	–	70.0	–	70.0
8% Eurobonds repayable 28 March 2003	<u>98.6</u>	<u>98.4</u>	<u>98.6</u>	<u>98.4</u>
	<u>98.6</u>	<u>168.4</u>	<u>98.6</u>	<u>168.4</u>

The Eurobonds may not be redeemed prior to 28 March 2003 except upon the occurrence of certain events.

The £70m 12.661% Bonds due 1999 were redeemed on 23 August 1994 for £79.5m.

Borrowing facilities

The Group had at 31 March 1995 bilateral committed borrowing facilities of £160m of varying maturities up to seven years.

The other facilities available to the Group were short term unsecured, uncommitted facilities of £200m and the company has a £150m Sterling Commercial Paper programme.

for the year ended 31 March 1995

22 Creditors

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Amounts falling due within one year:				
Payments received on account	7.5	8.1	6.1	6.0
Amounts owing for purchase of electricity	66.5	69.7	66.5	69.7
Amounts owed to subsidiary undertakings	-	-	7.6	4.9
Other trade creditors	38.1	34.9	36.9	33.0
Corporation tax	55.4	54.4	54.1	53.9
Advance corporation tax	20.9	6.2	20.9	6.2
Other taxation and social security	3.8	3.7	3.4	3.3
Other creditors	20.8	17.3	20.4	17.2
Advance payments on extension of VAT	14.5	28.4	14.5	28.4
Accruals and deferred income	17.9	6.6	15.9	6.2
Proposed dividends	38.6	33.1	38.6	33.1
	<u>284.0</u>	<u>262.4</u>	<u>284.9</u>	<u>261.9</u>
Amounts falling due after more than one year:				
Trade creditors	1.0	0.5	1.0	0.5
Other creditors	8.4	-	8.4	-
Accruals and deferred income	4.6	4.8	0.1	-
Advance payments on extension of VAT	2.1	16.0	2.1	16.0
	<u>16.1</u>	<u>21.3</u>	<u>11.6</u>	<u>16.5</u>

23 Provisions for liabilities and charges

Group	Insurance £m	Restructuring costs £m	Revenue over recovery £m	Other £m	Total £m
At 1 April 1994	12.7	16.0	14.1	7.3	50.1
Utilised in the year	(2.0)	(14.7)	(14.1)	(1.0)	(31.8)
Transferred from profit and loss account	5.6	17.4	-	4.4	27.4
At 31 March 1995	<u>16.3</u>	<u>18.7</u>	<u>-</u>	<u>10.7</u>	<u>45.7</u>
Company	Insurance £m	Restructuring costs £m	Revenue over recovery £m	Other £m	Total £m
At 1 April 1994	11.3	16.0	14.1	6.5	47.9
Utilised in the year	(1.3)	(14.7)	(14.1)	(0.6)	(30.7)
Transferred from profit and loss account	3.7	17.4	-	4.3	25.4
At 31 March 1995	<u>13.7</u>	<u>18.7</u>	<u>-</u>	<u>10.2</u>	<u>42.6</u>

Deferred taxation

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

	Group		Company	
	1995	1994	1995	1994
	£m	£m	£m	£m
Provided in accounts:				
Accelerated capital allowances	-	-	-	-
Other timing differences (Note 9, 19)	(7.9)	-	(7.8)	-
	<u>(7.9)</u>	<u>-</u>	<u>(7.8)</u>	<u>-</u>

for the year ended 31 March 1995

Note 23 continued

	1995	Group 1994	1995	Company 1994
Potential liability not provided:	£m	£m	£m	£m
Accelerated capital allowances	173.5	145.2	169.5	145.2
Other timing differences	(11.2)	(11.5)	(11.6)	(11.5)
	<u>162.3</u>	<u>133.7</u>	<u>157.9</u>	<u>133.7</u>

Total potential deferred taxation liability is computed at a Corporation tax rate of 33%. (31 March 1994 33%).

24 Share capital

	Group and Company	
	1995	1994
	£m	£m
Authorised		
300,000,000 ordinary shares of 50p	150.0	150.0
One special rights redeemable preference share of £1	—	—
	<u>150.0</u>	<u>150.0</u>
Allotted, called up and fully paid		
197,695,699 (1993-94, 219,082,592) ordinary shares of 50p	98.8	109.5
One special rights redeemable preference share of £1	—	—
	<u>98.8</u>	<u>109.5</u>

Share options

During the year options were exercised on 513,399 (1993-94, 846,114) ordinary shares at £3.03, £2.61 and £1.75 and that number of shares was issued for a total consideration of £1.2m (1993-94 £2.1m).

Share repurchases

The following share repurchases took place during the year:

On 7 October 1994, 15,350,292 shares at a price of £6.72.

On 20 January 1995, 6,550,000 shares at a price of £7.05.

These shares were subsequently cancelled and resulted in a decrease of £11m in share capital.

The total repurchase cost including expenses was £150.4m, which has been charged against profit and loss reserves. These repurchases, represent in aggregate, 10 per cent of the issued share capital and were in accordance with the shareholders' resolution approved at the 1994 Annual General Meeting.

Special rights redeemable preference share

The Special Redeemable Preference Share was redeemed at par on 31 March 1995 and cancelled. 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.

A resolution will be put to the AGM, to be held on 4 August 1995, to remove the restriction from owning or casting on a poll more than 15% of the voting rights prior to 31 March 2000 contained in Article 40.

for the year ended 31 March 1995

25 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 were eligible to participate.

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

Options granted and outstanding at 31 March 1995 were:	Date options granted	Subscription price per share £	Period within which options are exercisable	Number of shares for which rights are exercisable	
				1995	1994
Executive share option scheme					
1	Jan 1991	2.61	17/1/94-17/1/2001	280,000	370,000
2	Jan 1992	3.00	14/1/95-14/1/2002	356,000	497,500
3	July 1993	4.83	20/7/96-20/7/2003	512,800	520,100
4	Mar 1994	5.71	28/3/97-28/3/2004	22,767	22,767
Sharesave					
1	Dec 1990	1.75	1/3/96-1/9/96	4,896,557	5,334,082
2	Sept 1992	3.03	31/12/97-30/6/98	992,658	1,062,102

26 Reserves

Group	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m
At 1 April 1994	2.0	-	81.9	523.3
Premium on options exercised	0.9	-	-	-
Shares repurchased during the year	-	-	-	(150.4)
Nominal value of shares repurchased	-	11.0	-	-
Goodwill written off on investment in associated undertaking	-	-	-	(1.6)
Retained profit for the year	-	-	-	91.9
At 31 March 1995	2.9	11.0	81.9	463.2

The cumulative amount of goodwill charged to reserves is £48.1m (1993-94 £46.5m)

for the year ended 31 March 1995

Note 26 continued

Company	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m
At 1 April 1994	2.0	-	81.9	565.3
Premium on options exercised	0.9	-	-	-
Shares repurchased during the year	-	-	-	(150.4)
Nominal value of shares repurchased	-	11.0	-	-
Retained profit for the year	-	-	-	89.4
At 31 March 1995	<u>2.9</u>	<u>11.0</u>	<u>81.9</u>	<u>504.3</u>

The revaluation reserve is in respect of The National Grid Holding plc investment which is included in the totals in Note 17.

27 Reconciliation of profit on ordinary activities before interest to net cash inflow from operating activities

	1994-95 £m	1993-94 £m
Profit on ordinary activities before interest	161.8	171.8
Depreciation	38.3	34.6
Increase/(decrease) in provisions and liabilities	(4.4)	8.3
Gain on sale of tangible fixed assets	(0.8)	(2.9)
Share of (profit)/loss of associated undertakings	0.7	(0.3)
	<u>195.6</u>	<u>211.5</u>
Movements in working capital	0.3	6.3
Decrease/(increase) in stocks	(20.3)	16.9
Decrease/(increase) in trade debtors	(7.6)	21.7
Decrease/(increase) in other debtors	(4.9)	17.9
Increase/(decrease) in trade creditors	(19.3)	31.6
Increase/(decrease) in other creditors	0.1	0.2
Increase/(decrease) in other taxation and social security	11.2	(6.9)
Increase/(decrease) in accruals and deferred income	(40.5)	87.7
Total working capital movements	<u>155.1</u>	<u>299.2</u>
Net cash inflow from operating activities	<u>155.1</u>	<u>299.2</u>

28 Analysis of cash and cash equivalents

	1994-95 £m	1993-94 £m	1992-93 £m	1994-95 Movement £m	1993-94 Movement £m
Cash at bank and in hand	0.7	10.5	2.1	(9.8)	8.4
Current asset investments	49.3	224.9	28.2	(175.6)	196.7
Less:					
Tax certificates of deposit	-	(2.8)	(3.8)	2.8	1.0
Short term investments greater than 3 months	(31.3)	(144.0)	(3.8)	112.7	(140.2)
Short term borrowings	(59.2)	(2.9)	(49.7)	(56.3)	46.8
	<u>(40.5)</u>	<u>85.7</u>	<u>(27.0)</u>	<u>(126.2)</u>	<u>112.7</u>

The movement in current asset investments excludes items of greater than 3 months duration and tax certificates of deposit.

for the year ended 31 March 1995

29 Analysis of changes in financing

	Share capital £m	Share premium account £m	Capital redemption reserve £m
At 1 April 1994	109.5	2.0	—
Nominal value of shares repurchased and cancelled	(11.0)	—	11.0
Shares issued under option schemes	0.3	0.9	—
At 31 March 1995	<u>98.8</u>	<u>2.9</u>	<u>11.0</u>

Cash flow movements

Shares were issued under option schemes for a total consideration of £1.2m (1993-94 £2.1m). Shares were repurchased for a total cost of £150.4m (Note 24).

Borrowings

	1994-95 £m	1993-94 £m	1992-93 £m	1994-95 Movement £m	1993-94 Movement £m
12.661 per cent Bonds due 1999	—	70.0	70.0	(70.0)	—
8 per cent Eurobonds due 2003	98.6	98.4	—	0.2	98.4
Issue costs amortised	(0.4)	(0.2)	—	(0.2)	(0.2)
	<u>98.2</u>	<u>168.2</u>	<u>70.0</u>	<u>(70.0)</u>	<u>98.2</u>

30 Pension commitments

The principal pension scheme which has been available to employees of London Electricity plc is the Electricity Supply Pension Scheme (ESPS), although new employees are now 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 (Groups). The most recent formal actuarial valuation of the London Electricity Group was carried out at 31 March 1992 by Bacon & Woodrow, consulting actuaries. The valuation method adopted was the attained age method.

The principal assumptions applicable to the valuation of the London Electricity Group were that the investment return would exceed salary increases by 2 per cent and exceed future pension increases by 4 per cent.

At the valuation date, the actuarial value of the assets relating to the London Electricity Group was £626.7 million, which represented 107.3 per cent 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 spread over 13 years, the average remaining service lives of members. It is being used to provide modest improvements in scheme benefits, facilitate a 1 per cent reduction in the employer's contributions rate with effect from 1 April 1993, and fund certain pension costs arising from early retirements.

A full actuarial valuation of the scheme at 31 March 1995 is in progress.

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.

Costs for the year under the various schemes were:

	1994-95 £m	1993-94 £m
Normal pension costs	12.2	12.5
Credit resulting from spreading pension fund surplus	(3.4)	(3.8)
	<u>8.8</u>	<u>8.7</u>

A prepayment of £9.2m (31 March 1994 £6.8m) is included in debtors greater than one year, as a result of spreading the surplus.

Contributions payable by the Company during the year arising from ex-gratia pensions and early retirements were £8.1m (1993-94 £2.1m).

31 Lease obligations

	1995		1994	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
The annual commitments of the Group under non-cancellable operating leases are as follows:				
Expiring within:				
One year	—	0.2	0.1	—
Two to five years inclusive	0.1	0.5	0.1	0.2
Over five years	5.7	—	5.6	—
	<u>5.8</u>	<u>0.7</u>	<u>5.8</u>	<u>0.2</u>

32 Capital commitments and contingent liabilities

	1995 £m	Group 1994 £m	1995 £m	Company 1994 £m
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>58.1</u>	<u>70.6</u>	<u>57.1</u>	<u>70.6</u>
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<u>69.5</u>	<u>16.1</u>	<u>56.3</u>	<u>12.9</u>

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 £2.9m over a period of one year for subordinated loan stock and equity.

At 31 March 1995 there were no contingent liabilities or guarantees other than those arising in the ordinary course of the Group's business.

**Group profit and loss account
for the year ended 31 March 1995**

	1994-95	1993-94
	£m	£m
Historical cost profit on ordinary activities before interest	161.8	171.8
Less current cost adjustments:		
Depreciation	(43.6)	(44.7)
Cost of sales	(0.2)	—
Monetary working capital	(1.7)	(1.6)
Profit on disposal of assets	(0.8)	(2.8)
Current cost of profit on ordinary activities before interest	115.5	122.7
Gearing adjustment	2.6	1.9
Income from investment in National Grid Holding plc	21.2	19.8
Net interest payable before exceptional item	(1.1)	(5.1)
Exceptional item – Premium on redemption of Government debt	(9.5)	—
Current cost profit on ordinary activities before taxation	128.7	139.3
Taxation on profit on ordinary activities	(22.5)	(44.5)
Current cost profit on ordinary activities after taxation	106.2	94.8
Dividends	(58.0)	(49.3)
Current cost retained profit for the year	48.2	45.5
Earnings per share	50.6p	43.4p

**Summary group balance sheet
as at 31 March 1995**

	Note	1995	1994
		£m	£m
Tangible fixed assets	a	1,275.8	1,215.1
Investments	b	341.1	339.8
Net current assets		(5.4)	187.9
Creditors: amounts falling due after more than one year		(114.7)	(189.7)
Provisions for liabilities and charges		(45.7)	(50.1)
Net assets		1,451.1	1,503.0
Capital and reserves			
Called up share capital and share premium account		101.7	111.5
Reserves		1,349.4	1,391.5
Shareholders' funds		1,451.1	1,503.0

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 1994-95 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 Holding plc is at directors' 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.

for the year ended 31 March 1995

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	5,017.4	77.6	128.6	19.6	(382.6)	4,860.6
Depreciation	(3,660.1)	(2.7)	(81.1)	(11.3)	170.4	(3,584.8)
Net book amount						
At 31 March 1995	<u>1,357.3</u>	<u>74.9</u>	<u>47.5</u>	<u>8.3</u>	<u>(212.2)</u>	<u>1,275.8</u>
At 31 March 1994	<u>1,283.5</u>	<u>76.7</u>	<u>39.7</u>	<u>11.2</u>	<u>(196.0)</u>	<u>1,215.1</u>

The depreciation charge for the year is £81.9m (1993-94 £79.3m).

The net book amount of other land and buildings comprises:

	1995 £m	1994 £m
Freehold	62.9	58.3
Long leasehold	9.0	12.4
Short leasehold	3.0	6.0
	<u>74.9</u>	<u>76.7</u>

B. Fixed asset investments

	1995 £m	1994 £m
Associated undertakings	1.4	0.6
Other investments	<u>339.7</u>	<u>339.2</u>
	<u>341.1</u>	<u>339.8</u>

Fixed asset investments include a trade investment in The National Grid Holding plc. This investment is stated at valuation of £329.6 million calculated by reference to the dividend yield of the Regional Electricity Companies with an appropriate allowance being made for non-marketability of the shares.

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 disposals took place at current cost valuations.

Financial information
for the year ended 31 March

	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m
Historical cost profit & loss account					
Turnover					
Distribution	319.0	374.1	360.7	366.6	379.1
Supply	1,145.6	1,262.2	1,266.0	1,227.5	1,113.6
Private electrical distribution systems	—	—	0.2	14.2	14.8
Other	63.4	67.4	86.1	37.3	29.6
Inter business sales	(304.0)	(356.6)	(345.6)	(337.2)	(327.7)
Total	1,224.0	1,347.1	1,367.4	1,308.4	1,209.4
Profit on ordinary activities before interest					
Distribution	97.2	158.3	152.0	153.9	166.0
Supply	9.8	5.8	6.7	6.4	16.9
Private electrical distribution systems	—	—	0.1	10.6	11.0
Other	(1.8)	(26.8)	(6.7)	0.9	0.9
Total before exceptional items	105.2	137.3	152.1	171.8	194.8
Exceptional items	—	—	(20.0)	—	(33.0)
Total	105.2	137.3	132.1	171.8	161.8
Profit on ordinary activities before taxation	141.8	142.5	145.5	186.5	172.4
Profit on ordinary activities after taxation	101.0	103.5	108.0	142.0	149.9
Dividends payable	22.8	36.6	42.5	49.3	58.0
Balance sheet					
Fixed assets	593.9	625.3	708.7	768.6	823.6
Net current assets	41.6	83.3	28.3	187.9	(5.4)
Creditors:					
amounts falling due after more than one year	(71.7)	(72.4)	(73.3)	(189.7)	(114.7)
Provisions for liabilities and charges	(28.2)	(35.6)	(41.8)	(50.1)	(45.7)
Net assets	535.6	600.6	621.9	716.7	657.8
Financial ratios					
Earnings per share	p/share 46.3	p/share 47.5	p/share 49.5	p/share 65.0	p/share 71.4
Underlying earnings per share (Notes 1 & 2)	34.7	47.5	56.9	65.0	78.8
Dividends per share (Note 3)	14.9	16.8	19.5	22.5	29.0
Underlying dividend cover (Note 4)	2.3	2.8	2.9	2.9	2.9
Ratio of net debt/(cash) to equity	26.5%	16.1%	14.4%	(8.9)%	16.4%

Notes:

- 1990-91 earnings per share have been calculated on a pro-forma basis (as if the capital structure introduced before flotation had been in place since 1 April 1990).
- 1992-93 and 1994-95 underlying earnings per share have been calculated after adding back exceptional items (1992-93 £20m, 1994-95 £42.5m) less associated tax credits (1992-93 £3.9m, 1994-95 £10.9m) and after deducting a prior year tax credit of £16.0m for 1994-95.
- 1990-91 dividend on a pro-forma basis (actual dividend 10.45 pence).
- Underlying dividend cover has been calculated by dividing the underlying earnings by the total dividend payable. (1990-91 figures calculated on a pro-forma basis).

Other information
for the year ended 31 March

	1991	1992	1993	1994	1995
Average number of employees					
Core business	5,378	5,329	5,182	4,597	4,590
Other	1,313	1,252	1,076	935	318
Total	6,691	6,581	6,258	5,532	4,908
Employment costs	£m	£m	£m	£m	£m
Salaries	109.8	116.6	117.8	113.7	104.1
Social security costs	8.6	9.2	9.5	9.1	8.5
Other pension costs	23.5	24.8	9.7	10.8	16.9
Total	141.9	150.6	137.0	133.6	129.5
Charged to:					
Capital expenditure	17.4	18.2	18.3	15.9	19.0
Profit and loss account	124.5	132.4	118.7	117.7	110.5
Distribution and supply operating costs					
Historical cost	230.4	232.2	223.9	229.1	226.4
Current cost	268.8	280.4	270.3	274.4	271.0
Over/(under) recovery of revenues permitted by price control formulae					
Distribution	(20.1)	(0.9)	4.4	0.7	(1.0)
Supply	5.1	0.1	5.1	13.4	(1.2)
Historical cost per unit distributed (p)					
At outturn prices	1.21	1.19	1.16	1.17	1.15
At 1994-95 prices	1.36	1.28	1.21	1.20	1.15
Current cost per unit distributed (p)					
At outturn prices	1.41	1.44	1.40	1.40	1.38
At 1994-95 prices	1.59	1.55	1.46	1.44	1.38
Rates (Distribution business)	27.9	26.9	22.7	19.9	21.4
NGC exit charges	18.0	23.1	23.8	24.7	24.8
Rechargeable work	18.3	11.8	12.1	10.4	14.2

Notes:

1. Distribution and supply operating costs exclude the costs of statutory and other rechargeable work and The National Grid Company plc exit charges.
2. Cost per unit distributed figures have been calculated by dividing distribution and supply operating costs by total units distributed (page 55).
3. Cost per unit at 1994-95 prices have been calculated using the average Retail Price Index for the year.

	£m	£m	£m	£m	£m
Capital expenditure					
Distribution network	74.0	57.7	63.3	74.8	87.6
Other	17.6	18.3	23.6	29.4	22.8
Gross capital expenditure	91.6	76.0	86.9	104.2	110.4
Less consumer contributions	(12.9)	(15.6)	(11.3)	(13.0)	(14.6)
Net capital expenditure	78.7	60.4	75.6	91.2	95.8

**Customer Services
for the year ended 31 March**

	1991 GWh	1992 GWh	1993 GWh	1994 GWh	1995 GWh
Units distributed					
Domestic	6,167	6,235	6,219	6,321	6,230
Commercial including farms and public lighting	10,810	11,252	11,188	11,383	11,621
Industrial including traction	2,081	2,028	1,919	1,874	1,815
Total	19,058	19,515	19,326	19,578	19,666
Analysed by regulatory categories					
LV1	605	642	658	693	717
LV2	956	1,034	1,048	1,034	1,025
LV3	14,312	14,314	13,905	13,958	13,891
HV	2,954	3,275	3,482	3,638	3,776
Regulated units	18,827	19,265	19,093	19,323	19,409
EHV	231	250	233	255	257
Total	19,058	19,515	19,326	19,578	19,666
Number of customers connected at year end					
Domestic	1,682,833	1,689,335	1,686,421	1,692,962	1,705,898
Commercial including farms and public lighting	239,958	237,534	234,657	231,064	231,621
Industrial including traction	13,626	12,389	11,508	10,755	10,283
Total	1,936,417	1,939,258	1,932,586	1,934,781	1,947,802
Net simultaneous maximum demand (MW)	4,203	4,073	3,823	4,005	3,935
Units supplied (GWh)	18,019	17,724	17,614	17,584	15,746
(Units distributed and supplied exclude the Company's own use and sales to other RECs)					
Typical annual bill for residential customer	295.15	296.71	282.94	282.52	276.59
At 1994-95 prices	330.19	319.07	298.58	291.44	276.59
Note: Typical annual bill based on a residential customer consuming 3300kWh per annum (excluding VAT). Included in the amount for 1993 is the October 1993 rebate of £7.50					
Average minutes lost per customer	51.3	67.3	52.8	52.6	57.8
Domestic disconnections	10,955	8,019	526	139	0
Customer complaints to OFFER	1,245	1,775	1,152	640	400
Guaranteed service standards					
Number of payments to customers	-	150	90	72	22
Number of payments per 10,000 services	-	2.5	1.6	0.6	0.2
Number of payments per 100,000 customers	-	7.8	4.7	3.7	1.1
Methods of payment					
Direct debit customers	163,885	200,563	256,712	312,417	392,623
Powerkey customers	114,673	155,000	225,834	298,815	348,259

Shareholder enquiries

For all shareholder enquiries contact:

**Lloyds Bank Registrars,
PO Box 1996,
54 Pershore Road South,
Birmingham B30 3ER.**

**Telephone Birmingham
0121 433 8000**

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

Shareholdings by range

100 and under
101 - 300
301 - 49,999
50,000 and above

Shareholder accounts %	Shares %
50.52	5.91
43.61	6.99
5.71	12.20
0.16	74.90

Shareholders' interest

As at 31 March 1995, the number of shares in issue was 197,695,699 and the number of shareholder accounts was 234,601 of which 55.21 per cent were held by customers.

Shareholdings by category

Pension funds
Insurance companies
Unit trusts
Investment trusts
Individuals
Overseas
Others

Shares %
30.92
16.36
6.15
3.80
25.73
11.61
5.43

Annual General Meeting

The Annual General Meeting will be held on Friday 4 August 1995 at 11.00am at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Shareholder calendar

Ex-dividend date	10 July 1995
Record date (qualifying date) for final dividend	18 July 1995
Payment of final dividend	14 August 1995
Announcement of half-year results	November/December 1995
Ex-dividend date	December 1995
Record date (qualifying date) for interim dividend	January 1996
Payment of interim dividend	January/February 1996
Preliminary announcement of results for the year ending 31 March 1996	June 1996

Share dealing service

For details of a low cost share dealing service for shares in London Electricity and any other UK company traded on the London Stock Exchange 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, a member of 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



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and Loss Account
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Notice to Shareholders

**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 Reports

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 utility businesses. Copies may be obtained free of charge on request from the Shareholder Enquiry Service at the Company's Registered Office.

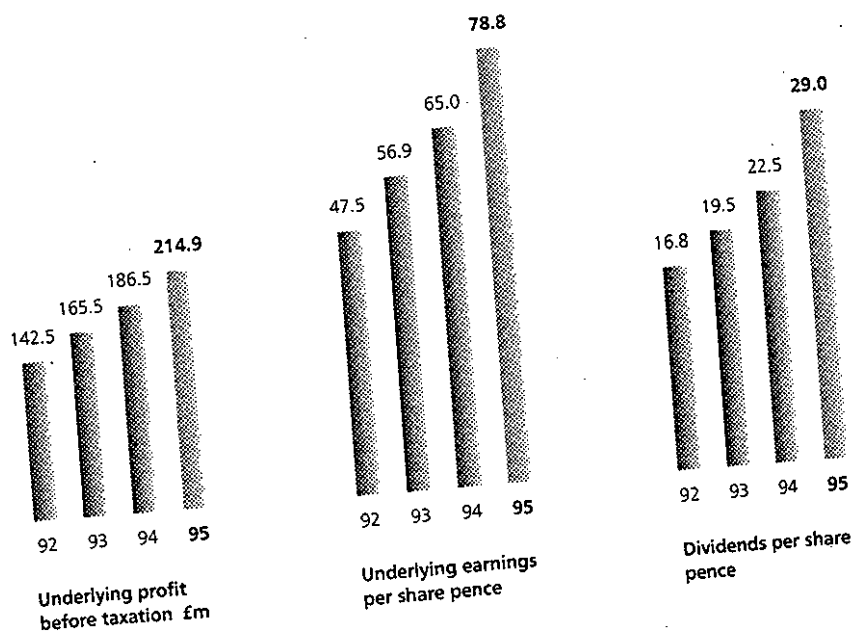
financial highlights

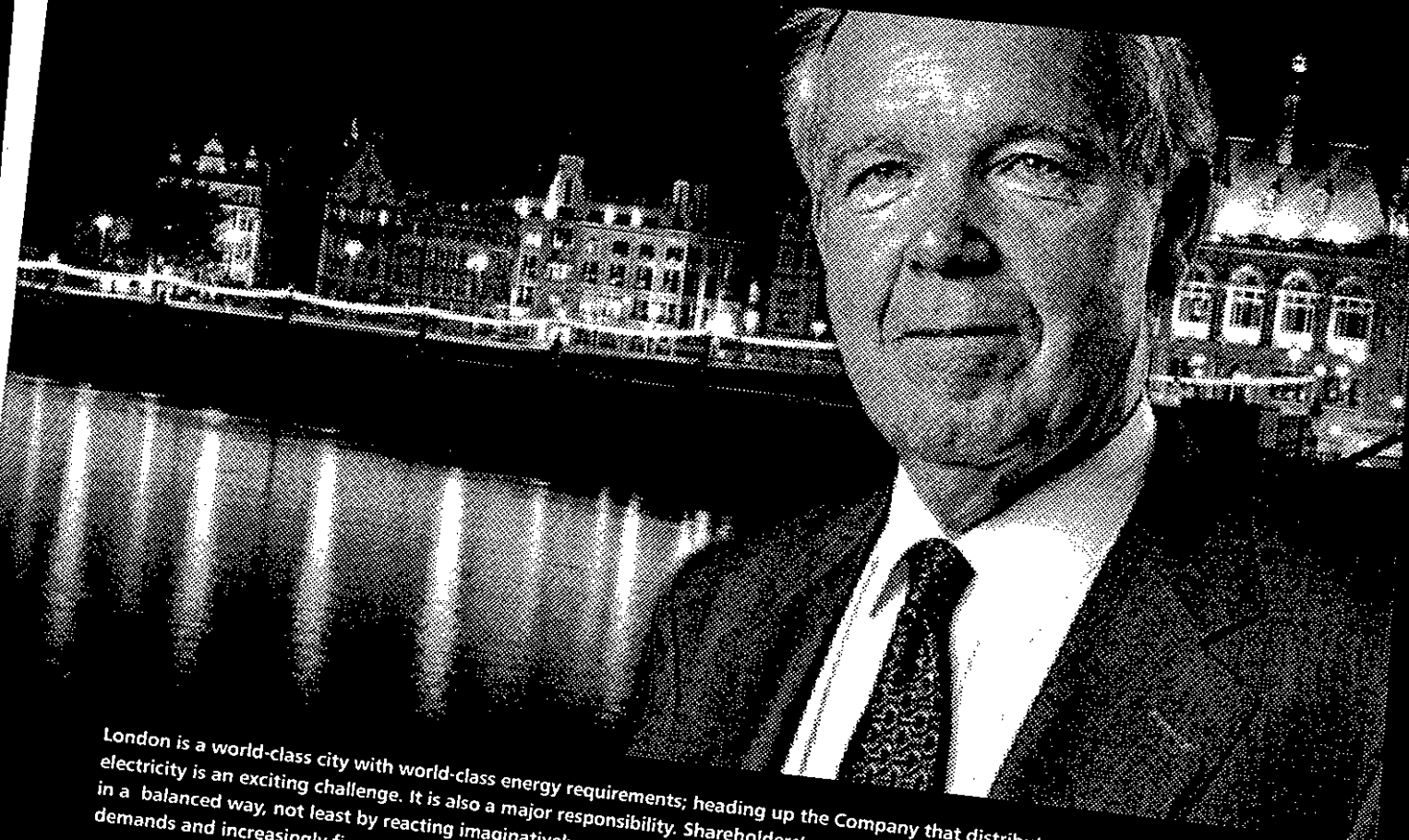
Annual Review & Summary Accounts 1994-95

	1994-95	1993-94
Turnover	£1,209.4m	£1,308.4m
Underlying profit before taxation (1)	£214.9m	£186.5m
Underlying earnings (2)	£165.5m	£142.0m
Underlying earnings per share	78.8p	65.0p
Dividends per share	29.0p	22.5p
Total dividend payable	£58.0m	£49.3m
Underlying dividend cover (3)	2.9 times	2.9 times
Ratio of (borrowings)/cash to net assets	(16.4%)	8.9%
Gross capital expenditure	£110.4m	£104.2m

Notes:

1. For 1994-95, exceptional items of £42.5m have been added back to the Profit before taxation figure of £172.4m giving underlying Profit before taxation of £214.9m
2. For 1994-95, the Profit after taxation figure of £149.9m has been adjusted by £42.5m referred to above, together with the associated taxation credit effect of £10.9m and a prior year taxation credit of £16.0m, giving underlying Earnings of £165.5m
3. Calculated by dividing the underlying Earnings (£165.5m in 1994-95) by the total dividend payable





London is a world-class city with world-class energy requirements; heading up the Company that distributes most of its electricity is an exciting challenge. It is also a major responsibility. Shareholders' and customers' needs must be met in a balanced way, not least by reacting imaginatively and proactively to an unusual combination of exacting regulatory demands and increasingly fierce competition.

chairman's statement

It is a pleasure to be able to report that the Group is in excellent shape, with good progress on all fronts.

We have continued to improve margins and profits in our core business which reflects our sustained success in maximising efficiency and cost control.

Group profit before taxation and exceptional items of £42.5 million was £214.9 million. Underlying earnings per share at 78.8 pence show an increase of 21.2 per cent over last year, reflecting the gains from share repurchases. The directors recommend a final dividend of 19.5 pence per share, bringing the total dividend for the year to 29.0 pence (1993-94: 22.5 pence). The final dividend will be paid on 14 August.

Following the Distribution Review, the Board assessed the Company's prospects in the light of the outcome of that Review in August 1994. It also considered the level of dividend cover that would be appropriate given the nature of the Company's core business; the quality of profits from its other activities; the balance sheet position; and the capital expenditure required to maintain and develop current activities. In these circumstances, it concluded that it would be appropriate to make progressive reductions in dividend cover towards two times over the rest of the decade.

Above: Sir Bob Reid, Chairman

Given the expected further reductions in costs and efficiency improvements, this provides a platform for strong dividend growth in the future. It is the Board's intention to pursue this course although this will obviously be subject to the outcome of the Regulator's reopening of the Review which was expected shortly after this report went to press.

It remains the intention of the Board to return to shareholders the entire stake in National Grid. The proposals will be put to shareholders but any recommendations will be delayed until the outcome of the re-investigations mentioned above are known. The Board also anticipates that when this is achieved it will include benefits for customers.

Our performance over the year depends on the combined efforts of management and staff and I want to take the opportunity here to thank everyone again, at every level of responsibility, for helping to make it possible.

The regulatory framework of our main businesses is designed so that customers also benefit from the Company's success. Since privatisation we

have progressively reduced charges and raised standards of service. Price reductions for the third successive year were announced in March 1995. Prices are now at their lowest level for four years.

We are particularly proud that we have also achieved the high standards demanded by our customers. These were confirmed by OFFER during the year, putting us in the lead for service for the third year in succession. We are therefore setting the standards that others aspire to.

The year has been dominated by the debate about the effectiveness of the regulatory framework within which we have to operate and the issue became a matter of public interest and widespread media comment. The sector also saw the first round of corporate activity when Trafalgar House bid for Northern Electric, which only served to intensify the debate.

Having strongly defended his original proposals, the Regulator decided to intervene and announced that he intended to reconsider the pricing structure of the Regional Electricity Companies' distribution businesses which he had agreed only a few months earlier. In effect this created a temporary regulatory vacuum and share prices fell sharply. Trafalgar House withdrew its offer and the strategies carefully constructed by the Regional Electricity Companies on the basis of the Review were undermined.

Quite apart from the problems created by introducing extreme volatility in the industry's share prices, uncertainty of this kind inevitably has an adverse impact on long-term planning. It also compromises operational consistency.

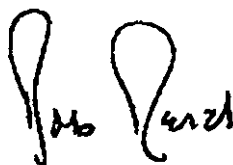
For the sake of the industry's competitive health and future, for investment and for the satisfaction of both shareholders and customers, it is therefore essential that an agreed stable framework is maintained.

As this report went to print, the outcome of the Regulator's Review was imminent. With the final four years of the five covered by OFFER's Distribution Review now subject to reconsideration, London Electricity has taken the opportunity to press as vigorously as ever for

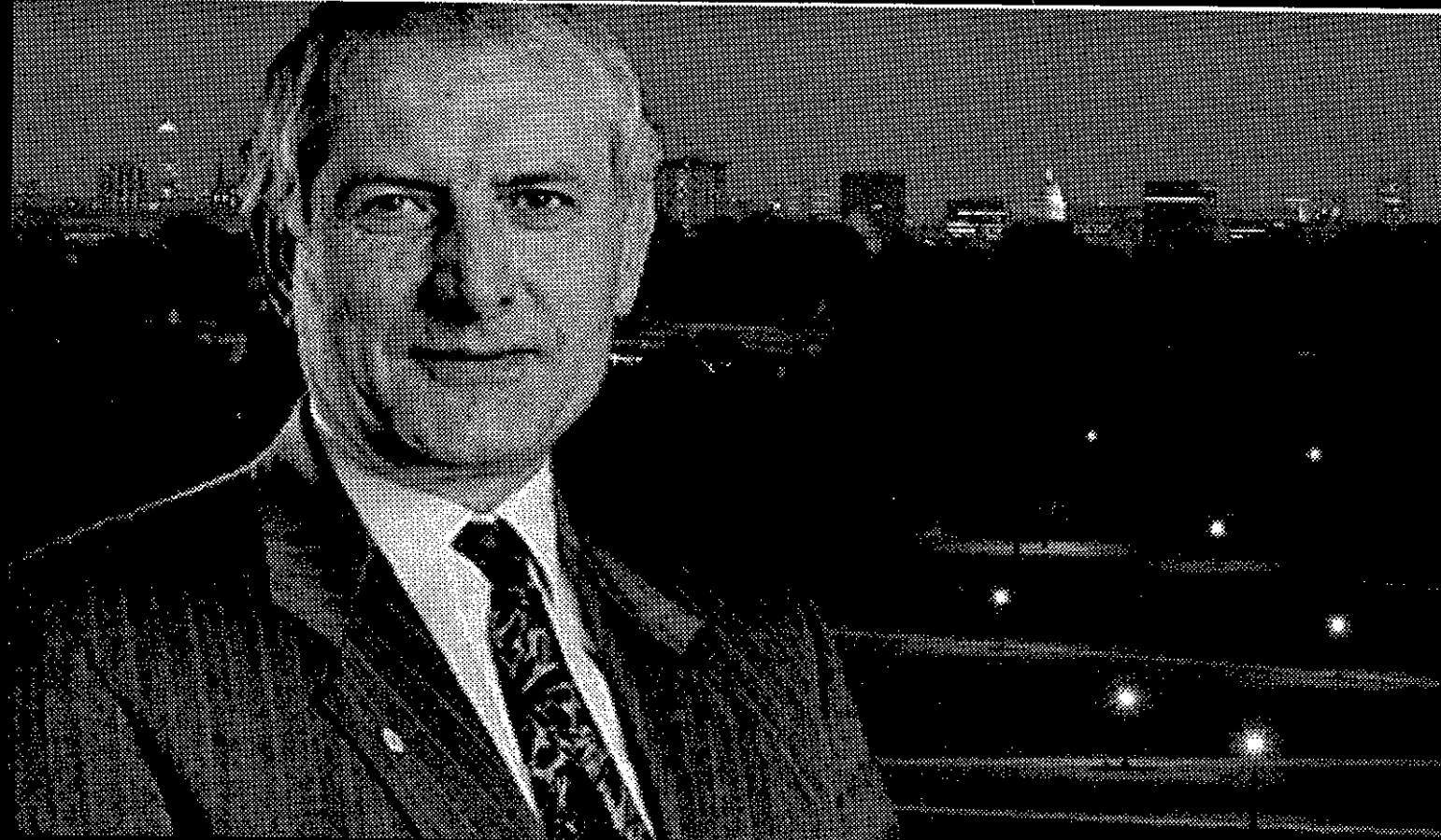
a balanced outcome that allows the Group to reward all its stakeholders fairly.

London Electricity's performance over the past year has once again provided outstanding evidence of the all-round benefits delivered since privatisation. Shareholders have seen their investment well rewarded. Customers have received services that are second to none and charges that have fallen yet again. Resources are being more effectively deployed and our financial strength ensures that we can invest in the long-term future of the Group for the benefit of shareholders and customers alike. By any measure, privatisation of London's electricity has been good for the capital.

Given a stable regulatory framework, I am confident our Group can build on these achievements. It is also preparing to take advantage of the increasing opportunities which greater competition will bring to the UK energy market. The Board foresees a growing contribution from non-core activities and it will seek to add new associated ventures as appropriate which build upon our core strengths. Together with an encouraging outlook for London's economy and even greater efficiencies to come, we look forward to the opportunity to deliver both shareholder value and customer service in the coming year.



Sir Bob Reid Chairman



The future of London Electricity depends on its ability to respond quickly and effectively in a new and increasingly competitive market. It is crucial to get the Company structure right, identify profitable opportunities early, ensure that efficiency increases, encourage flexibility and, above all, meet or exceed stakeholders' expectations – all this while ensuring that London Electricity becomes a byword for good customer service and fair prices.

chief executive's review

London Electricity ended the year a more effective and more service-dedicated organisation than ever before, its business objectives in even sharper focus.

Main picture:
Roger Urwin, Chief Executive

Breakthrough under London – the excavation of a 10km cable tunnel in Southwest London was completed during the year.



Reorganisation of the core businesses continued during the year based on discarding our old geographically-based management structure in favour of one tightly focussed on clear business streams.

Investment for excellence

Investment is crucial to ensuring that the Company continues to provide a secure and reliable electricity system for one of the world's most important capital cities. Gross capital expenditure increased to £110.4 million, the highest in London's history. This included £60 million on network replacement, an increase of £13 million over the previous year.

One of our largest investments, and probably the largest electrical distribution scheme in the country, is a £52 million project under way to replace parts of the electricity network of South and West London. This involves the creation of a 10km tunnel 2.5m in diameter between Wimbledon and Pimlico, including a section under the Thames, together with the refurbishment of several major substations. The construction of the tunnel has had a minimal impact on the public and averted additional difficulties on already congested roads. Furthermore, future maintenance can be

undertaken without the need to excavate the highway with all the disruption this can cause.

In its aim to be the industry pacesetter, London Electricity is involved in a comprehensive modernisation programme to take advantage of the latest computer and communications hardware and software. A number of projects were completed or are nearing completion, including a new Customer Information System and a Network Control Centre.

To be productive, our investment in capital resources has to go hand-in-hand with investment in our people. Most notable was an advanced new Systems Development Centre at Bexleyheath in South London. The Centre uses the latest training techniques, including role-playing and video assessment, and is in demand from other major organisations.

Delivering more for less

Ours is an industry vital to the economy and, alongside our responsibilities to shareholders, it is imperative that our customers are assured of reliable and secure supply, that prices are competitive and service standards the highest possible. Our achievements during the year were reflected in a number of ways:



When customers need help, they come through to us in the new Customer Enquiry Centre in South London. Whatever the customer's query, our team's got the knowledge, the skills and the hi-tech equipment to respond accurately and consistently, all in a matter of seconds and all from one place. Our team of around 150 people handles 1.7 million calls each year.

- Residential customer satisfaction with our service was the best amongst utilities in the capital.
- The level of complaints referred to OFFER was the lowest of all the electricity companies in the UK.
- Residential disconnections were reduced to zero, this largely as the result of the rapid and successful expansion of our Powerkey network.
- Against the increasingly stringent Guaranteed Service Standards, we scored higher than any other electricity company in the country.

More important still is that excellence in service has again been delivered together with lower prices. In March 1995 we announced further reductions. Together with those in previous years, this means that since April 1991 prices have been cut by over 16 per cent in real terms, an amount now worth about £50 per year to the average residential customer. This brings bills in the capital to just below the average for England and Wales.

Building the business

We continued to seek to enhance our earnings through our efforts to exploit opportunities for our established skills beyond our core services.

Our first major initiative in this direction was taken two years ago when we acquired our first private distribution network from BAA, making us a facilities provider at Heathrow, Gatwick and Stansted Airports and allowing BAA to make better use of its skills. A £20 million, three year, investment programme is under way, including a £10 million project at Heathrow for network expansion, to improve system reliability and security and meet BAA's developments there, including the requirements of the Heathrow Express.

With another eye on the future, we are also associated with the London & Continental consortium bidding for the Channel Tunnel rail link into London; and have won the tender to design and install a new heat and power distribution system to supply numerous developments planned for London's massive former Royal Docks area.

We regard the 100kW-plus market - deregulated at the start of the financial year 1994 - as an opportunity to expand our energy services. After assessing the development of the new market, we launched a highly effective marketing campaign towards the end of 1994, offering businesses in this sector



Modern technology combined with quality training ensures our customers receive top-class service when they contact our Customer Enquiry Centre.

Main Picture:
Jane Roberts, Customer Enquiry Centre

highly flexible packages and associated value-added services.

Multi-million pound contracts have been signed with leading businesses, helping us to establish a growing presence across the UK as well as to regain business in the capital.

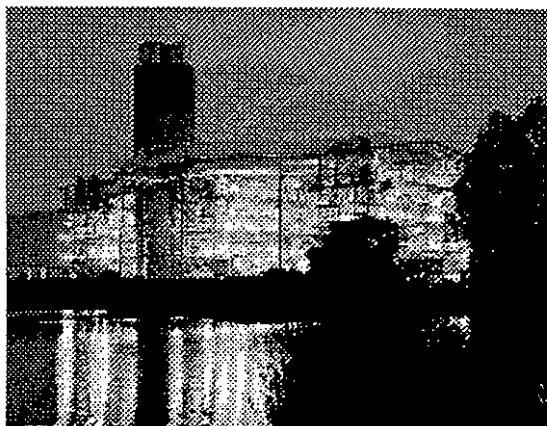


London Electricity uses almost 30,000 kilometres of cable to feed electricity to nearly 2 million customers. It's a distribution network that has to be kept in tip-top condition – that's one reason why our system has the best record in the country. It's mostly down to regular maintenance and quick response times. That means jointers have to be available right round the clock, come wind or rain. It also means renewing and updating the network; that cost £60 million last year.

London Total Gas – a joint venture with the major French oil and gas group TOTAL – is another example of our increasing involvement in the provision of energy services. Currently supplying commercial and industrial markets in London, this has continued to perform profitably in a fiercely competitive market and promises more from the increasing opportunities

Main Picture:
John Roche, Network Services

Barking Power Station nearing completion – now being commissioned and generating electricity.



offered by prospective liberalisation of the gas supply market in 1998.

Barking Power Station, an advanced 1000MW combined cycle gas turbine power station in East London, in which London Electricity has a 13.5 per cent stake, is now generating electricity.

People in London Electricity

Health and safety in the workplace are a prime concern, both for the sake of individuals themselves and for the greater efficiency of our business.

Our Occupational Risk Management programme became well established and aims to reduce the causes of illness or other impairment, whether in the office or on site.

Our sustained approach to safety has helped to make us among the safest in the industry. An awareness campaign of "Toolbox Talks" was introduced early in the year while greater supervisory involvement and responsibility in the application of safety strategies are seen as the key to further improvement.

Despite the demands of organisational restructuring, commitment to the development

of staff continued and London Electricity's Investors in People pilot project was launched during the year.

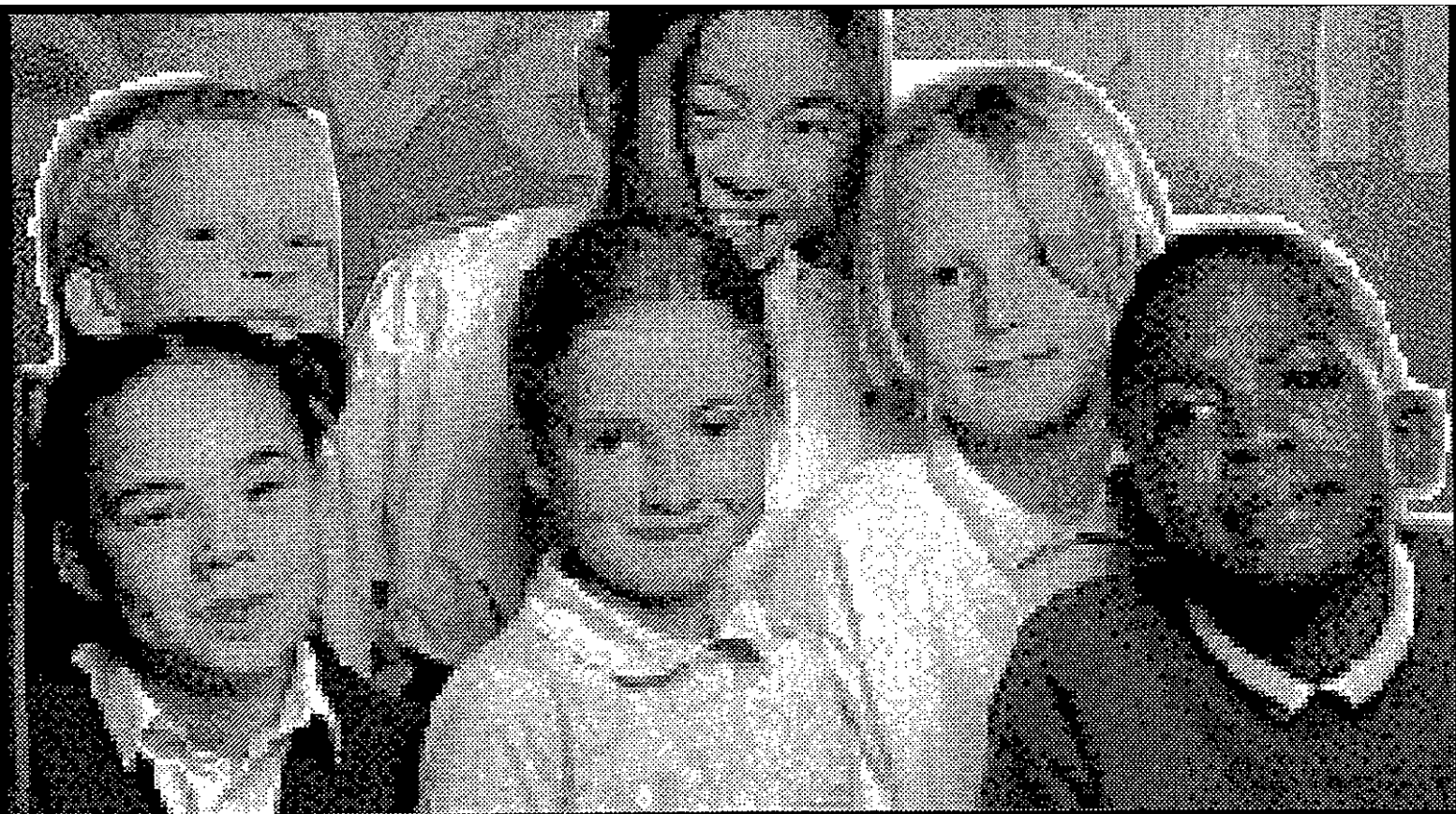
Developments on this front and right across our business over the past year have strengthened the Group substantially and provided it with a firm basis for further progress.

Commitment to the environment and community

Supplying energy to all London's communities – residential, business and industrial – makes London Electricity keenly aware both of the environmental significance of its role and of its fundamental relevance to people's lives and living standards.

To demonstrate our commitment to public disclosure of our environmental performance we began work on our first Environment Report to be published shortly.

At the beginning of the year OFFER put forward stringent new energy efficiency Standards of Performance for London Electricity and the other Regional Electricity Companies. These set out for the first time a systematic method of implementing and evaluating energy-saving schemes.



London Electricity's Maths Fund gave dozens of East and South London schools a new chance to discover the power of numbers. One of the year's Fund prizewinners set out to discover what it was like to run its own bank. The school got together with some local banks and businesses for help and guidance. Given some computers and hands-on experience, the pupils soon saw why numbers are so important -and not really frightening. Their success not only won them a prize but some more money for their project!

Over a four-year period London Electricity must implement schemes to produce a total saving of more than 450 million units of electricity – equivalent to switching off the whole of London for eight days. A budget of nearly £8 million has been agreed to finance these schemes.

In concrete terms, all these energy-saving initiatives mean reduced greenhouse gases, an improved environment inside and outside buildings, and lower bills especially helpful for households on low incomes.

Our environmental concerns merge with our community concerns in our efforts to reduce the disruptive impact of unearthing or installing our distribution network; increased use of tunnelling is a major aim.

Our commitment to London's environment is matched by our commitment to its communities. For instance, working with Business in the Community and within the framework of their "Aim High" initiative, London Electricity has invested £50,000 to help with the teaching of numeracy in East and South London schools.

Together with The Big Issue and Greater London Radio, we sponsored the London

Awards, a programme which selects Londoners or London groups who have made an especially important contribution to the life and welfare of the capital.

Many of our projects involve our own staff, eg: – 300 members volunteered to operate our Bexleyheath switchboard for Comic Relief: over £250,000 raised.

- "Challenge Ellie": an initiative undertaken by more than 250 staff throughout London Electricity helping charities and voluntary organisations in a variety of practical ways, such as resurfacing school playgrounds.
- Supporting science and technology teaching in schools through visits and seminars.
- Secondment of senior staff to London First and Business In The Community's Opportunity 2000.

This year we continued our sponsorship of the London Schools Symphony Orchestra (LSSO); developed our involvement with the East London Partnership, an organisation which aims to help bring about economic regeneration in deprived areas of Tower Hamlets, Newham and Hackney; and joined a similar organisation, the West London Leadership project.

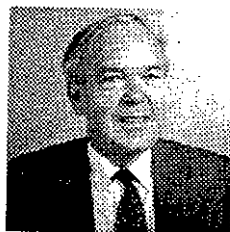


300 staff donned red noses to help raise money for Comic Relief.

Main Picture:
Children from the Seven Mills Primary School, Docklands.

London Electricity's commitment to London is implicit in its business; its aims and activities coincide with those of business in general, of the community and the environment. During the year the Company has continued to strengthen those links and commitments.

Chairman



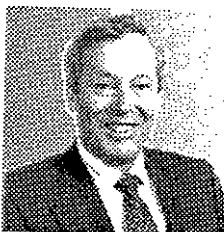
Sir Bob Reid (age 61) is non-executive Chairman. He joined London Electricity as a non-executive Director on 1 December 1993 and became Chairman on 1 April 1994. Sir Bob joined Shell International Petroleum Company Limited in 1956 and after a distinguished career overseas became a Director in 1984 and 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



Roger Urwin (age 49) is Chief Executive and is a chartered engineer. He joined the industry in 1971. After a number of appointments in the CEB, he joined Midlands Electricity in 1985 as Director of Engineering. He joined London Electricity in February 1990 as Deputy Chairman and was subsequently appointed Managing Director. He was appointed Chief Executive in April 1992. He is also a non-executive Director of the Foreign and Colonial Special Utilities Investment Trust Plc and Total Oil Marine plc.

Finance Director



Alan Towers (age 53) 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.

Energy Services Director



Mike Kersey (age 53) is Energy Services Director and is a chartered engineer. He took up his present position with London Electricity 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.

Network Services Director



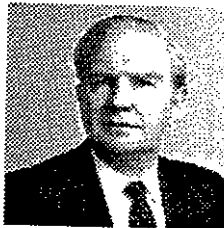
Ian Beament (age 50) is Network Services Director and is a chartered engineer. He joined Eastern Electricity in 1962 and was appointed Area Engineering Manager in 1978. He joined London Electricity as Construction and Operations Engineer in 1983 and was appointed Director of Engineering in July 1984 and to his present position on 1 June 1993.

Customer Services Director



Mike Brown (age 50) is Customer Services 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.

Non-executive Director



***Leslie Priestley TD** (age 61) 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 Civil Aviation Authority and the Monopolies and Mergers Commission. He is also a non-executive Director of Pearce Group Holdings Limited and Pinnacle Insurance plc.

Non-executive Director



§Gordon Owen CBE (age 57) 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.

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 electrical distribution networks.

Business review

The historical cost profit on ordinary activities of the Group before taxation amounted to £172.4 million and after taxation to £149.9 million. An interim dividend of 9.5 pence per share was paid on 2 February 1995 amounting to £19.4 million. The directors recommend the payment of a final dividend in respect of the year ended 31 March 1995 of 19.5 pence per share payable on 14 August 1995 amounting to £38.6 million.

After payment of the recommended dividend, the directors propose to transfer the retained profit of £91.9 million to reserves.

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 Group is also expanding into areas of unregulated business which complement core activities and optimise the use of the skills and experience inherent in the Group.

Capital investment in the year amounted to £110.4 million.

Fixed assets

Land and buildings are carried in the historical cost accounts at a net book value of £110.0 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 £206.0 million.

Directors

The names of the directors at the date of this report are shown on page 8. In addition, Mrs H G Robinson and Mr C A Prendergast retired as directors with effect from 5 August 1994.

Share repurchase programme

At the Company's Annual General Meeting held on 5 August 1994, shareholders gave approval for the Company to effect on-market purchases of up to 10 per cent of its shares.

On 7 October 1994, the Company purchased for cancellation 15,350,292 shares at £6.72 per share representing 7 per cent of the issued ordinary share capital and on 20 January 1995, a further 6,550,000 shares at a price of £7.05 per share representing 3 per cent of issued ordinary share capital.

The share repurchase was an effective way of increasing future earnings per share and promoting shareholder value in general.

Corporate Governance and the Cadbury Code of Best Practice

As is more fully explained in the Directors' Report in the Annual Report and Accounts, 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 two non-executive directors, whereas the Code of Best Practice requires a minimum of three non-executive directors. The Board is satisfied that the duties of the Audit Committee are being discharged effectively. However, a further non-executive director will be appointed to the Committee when the appropriate Board appointment is made.

The Cadbury Committee has recently issued guidance for directors, concerning the effectiveness of internal financial controls. London Electricity is currently assessing the internal financial controls in place throughout the Group in relation to this guidance and will report in accordance with the requirements of the Code in next year's report and accounts.

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

Directors' remuneration**Remuneration policy**

Directors' remuneration is set by the Remuneration Committee of the Board, comprised of the non-executive directors. 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 advisers when setting pay levels. These surveys include data on comparable companies as well as more general trends in the market place.

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 which include earnings per share, customer service and other operating targets. The bonuses included in the emoluments on page 11 are those paid in 1994-95 in respect of the performance for the previous financial year to the current directors and the previous Chairman.

The Company performance criteria for 1994-95 for executive directors were as follows:

Maximum bonus achievable is 25 per cent of basic salary and comprises the following:

Relative yield. A 5 per cent bonus is paid for performance at the Regional Electricity Company sector average with a 1 per cent increase or decrease for each 1 per cent that London Electricity lies below or above the sector average, subject to a maximum of 15 per cent.

Customer service. The standards of customer service as published by OFFER are the basis for the calculation. A maximum bonus of 5 per cent can be earned. This is eroded by 0.5 per cent for each overall standard not met. There is also a 0.5 per cent

increase or decrease in bonus for each position above or below No. 3 in the OFFER league table for guaranteed standards.

Earnings per share. A maximum bonus of 5 per cent is paid for achieving the budgeted growth in EPS as approved by the Board of Directors in the annual operating plan. This is eroded by 1 per cent for each 1 per cent shortfall in the growth.

Share option schemes**Executive share option scheme**

Executive directors participated in the executive share option scheme during the year. No new share options were granted during the year to directors. In accordance with an agreement reached at the time of his recruitment to London Electricity, Mr M J Kersey was granted share options on 3 April 1995. The Company does not presently intend to make any further grants of share options to directors under the existing executive share option scheme.

SAYE scheme

The Company also operates a Save As You Earn (SAYE) scheme which offers employees the opportunity to buy shares in London Electricity. There are approximately 2,300 members of staff participating in this scheme.

Pensions

Executive directors are entitled to a pension of up to two thirds of basic salary on retirement at age 60. In the event of an executive director's death during employment, his 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, none of which would require the Company to give notice exceeding two years.

Remuneration of the Chairman and directors was as follows:

	Basic Remuneration £000	Bonus £000	Pensions £000	Benefits £000	1994-95 Total £000	1993-94 Total £000
Chairman:						
Sir Bob Reid	100	-	-	-	100	(i) 6
J J Wilson	-	22	-	-	22	(i) 213
	<u>100</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>122</u>	<u>219</u>
Executive directors:						
R J Urwin	184	31	79	10	304	(ii) 274
A V Towers	122	22	52	10	206	212
M J Kersey	123	1	47	12	183	41
I R Beament	92	16	39	10	157	112
M J Brown	89	15	38	10	152	108
C L Myers	-	-	-	-	-	(iii) 64
	<u>610</u>	<u>85</u>	<u>255</u>	<u>52</u>	<u>1,002</u>	<u>811</u>
Non-executive directors:						
G M W Owen	21	-	-	-	21	20
L W Priestley	21	-	-	-	21	20
H G Robinson	6	-	-	-	(iv) 6	18
C A Prendergast	6	-	-	-	(iv) 6	18
	<u>54</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54</u>	<u>76</u>
Total	<u>764</u>	<u>107</u>	<u>255</u>	<u>52</u>	<u>1,178</u>	<u>(v) 1,106</u>

(i) Chairman

Sir Bob Reid became non-executive Chairman on 1 April 1994 and received fees of £6,000 as a non-executive director in 1993-94. Mr J J Wilson who resigned as Chairman on 31 March 1994 received a salary as an executive director until 30 September 1993 of £92,525, fees as non-executive Chairman from 1 October 1993 to 31 March 1994 of £37,500, bonus of £36,146, pension of £28,960 and benefits of £18,099.

(ii) Chief Executive

The salary of the Chief Executive, who is also the highest paid director, was adjusted to £180,000 from 1 October 1993 to reflect additional responsibilities following the change in the role of the Chairman outlined in Note (i). Since that adjustment the Chief Executive received a 2.9% salary increase effective 1 July 1994. The emoluments of the Chief Executive for 1994-95 shown above reflect the performance of this increased role for the complete year. He received emoluments for 1993-94 as follows: salary of £162,500, bonus of £29,750, pension of £72,637 and benefits of £8,895.

(iii) Mr C L Myers

Mr Myers resigned from the Company on 31 July 1993.

(iv) Non-executive directors

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

(v) Total remuneration for 1993-94 excludes compensation for loss of office of £165,700 paid to C L Myers.

group profit and loss account

for the year ended 31 March 1995

	1994-95 £m	1993-94 £m	1993-94 £m
Turnover			
Continuing operations	1,209.4		1,292.4
Discontinued electrical retailing	—		16.0
	<u>1,209.4</u>		<u>1,308.4</u>
Cost of sales	(740.1)		(862.4)
Gross profit	<u>469.3</u>		<u>446.0</u>
Net operating expenses			
Continuing and discontinued operations	(273.8)		(274.5)
Exceptional costs of restructuring	<u>(33.0)</u>		<u>—</u>
Operating profit			
Continuing operations	162.5	172.5	
Discontinued electrical retailing	—	(8.0)	
Less: use of prior year provision	—	7.0	
	<u>162.5</u>		<u>171.5</u>
Share of profits/(losses) of associated undertakings	(0.7)		0.3
Profit on ordinary activities before interest	<u>161.8</u>		<u>171.8</u>
Income from investment in National Grid Holding plc	21.2		19.8
Net interest payable	(1.1)		(5.1)
Exceptional item – premium on redemption of Government debt	(9.5)		—
Profit on ordinary activities before taxation	<u>172.4</u>		<u>186.5</u>
Taxation on profit on ordinary activities	(22.5)		(44.5)
Profit on ordinary activities after taxation	<u>149.9</u>		<u>142.0</u>
Dividends	(58.0)		(49.3)
Retained profit for the financial year	<u>91.9</u>		<u>92.7</u>
Directors' emoluments (£'000)	1,178		1,106
Earnings per share	71.4p		65.0p
Interim dividend per share	9.5p		7.4p
Final dividend per share	19.5p		15.1p

summary group balance sheet

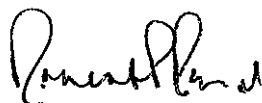
as at 31 March 1995

Annual Review & Summary
Accounts 1994-95

	31 March 1995 £m	31 March 1994 £m
Tangible fixed assets	730.2	676.5
Investments	93.4	92.1
Fixed assets	823.6	768.6
Current assets	337.8	453.2
Creditors: amounts falling due within one year	(343.2)	(265.3)
Net current assets	(5.4)	187.9
Total assets less current liabilities	818.2	956.5
Creditors: amounts falling due after more than one year	(114.7)	(189.7)
Provisions for liabilities and charges	(45.7)	(50.1)
Net assets	657.8	716.7
Share capital	101.7	111.5
Reserves	556.1	605.2
Shareholders' funds	657.8	716.7

This summary financial statement prepared on an historical cost basis was approved by the Board of Directors on 29 June 1995 and signed on its behalf by:

Sir Bob Reid Chairman
Alan Towers Finance Director



Statement of the Auditors

to the shareholders of London Electricity plc

We have audited the summary financial statement on pages 9 to 13.

Respective responsibilities of directors and auditors

The summary financial statement is the responsibility of the directors. Our responsibility is to report to you our opinion as to whether the statement is consistent with the annual financial statements and directors' report.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. The audit of a summary

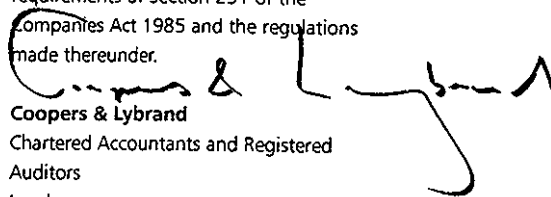
financial statement comprises an assessment of whether the statement contains all information necessary to ensure consistency with the annual financial statements and directors' report and of whether the detailed information required by law has been properly extracted from those documents and included in the summary statement.

Our report on the Company's annual financial statements includes information on the responsibilities of directors and auditors relating to the preparation and audit of financial statements and on the basis of our opinion on the financial statements.

Opinion

In our opinion the summary financial statement on pages 9 to 13 is consistent with the annual

financial statements and the directors' report of London Electricity plc for the year ended 31 March 1995 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
29 June 1995

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.

Shareholder enquiries

For all shareholder enquiries
contact:

**Lloyds Bank Registrars,
PO Box 1996,
54 Pershore Road South,
Birmingham B30 3ER.**

**Telephone Birmingham
0121 433 8000**

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

Shareholdings by range

100 and under
101 – 300
301 – 49,999
50,000 and above

Shareholder accounts %	Shares %
50.52	5.91
43.61	6.99
5.71	12.20
0.16	74.90

Shareholders' interest

As at 31 March 1995, the number of shares in issue was 197,695,699 and the number of shareholder accounts was 234,601 of which 55.21 per cent were held by customers.

Shareholdings by category

	Shares %
Pension funds	30.92
Insurance companies	16.36
Unit trusts	6.15
Investment trusts	3.80
Individuals	25.73
Overseas	11.61
Others	5.43

Annual General Meeting

The Annual General Meeting will be held on Friday 4 August 1995 at 11.00am at
The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Shareholder calendar

Ex-dividend date	10 July 1995
Record date (qualifying date) for final dividend	18 July 1995
Payment of final dividend	14 August 1995
Announcement of half-year results	November/December 1995
Ex-dividend date	December 1995
Record date (qualifying date) for interim dividend	January 1996
Payment of interim dividend	January/February 1996
Preliminary announcement of results for the year ending 31 March 1996	June 1996

Share dealing service

For details of a low cost share dealing service for shares in London Electricity and any other UK company traded on the London Stock Exchange 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, a member of 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