EDF ENERGY NETWORKS (SPN) PLC
(DISTRIBUTION BUSINESS)

Regulatory Accounts

for the year ended 31 March 2010

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OPERATING AND FINANCIAL REVIEW

This Operating and Financial Review sets out the main trends and factors underlying the development and performance of EDF Energy Networks (SPN) plc ('the Company') during the year ended 31 March 2010, as well as those matters which are likely to affect its future development and performance.

The Directors, in preparing the Operating and Financial review, have sought to comply with the Accounting Standard Board's 2006 Reporting statement 'Operating and Financial Review', so far as it is applicable to the circumstances of the Company.

The business, its objectives and strategy

The Company distributes electricity to approximately 2.2 million customers in the South East of England via a network of underground cables and overhead lines, taking power from the National Grid at high voltage and transforming it down before delivery to customer premises.

The Company is wholly owned by its ultimate parent Electricité de France SA ('EDF SA'). The future ownership of the Company is dependent on the current review process by the EDF SA group to evaluate ownership options for its electricity distribution business in the United Kingdom which includes this Company.

The Company employs no staff (2009: nil). Staff are employed by EDF Energy Networks Ltd, which operates the Network on the Company's behalf.

The EDF Energy Networks Business incorporates three electricity distribution businesses (EDF Energy Networks (EPN) plc, EDF Energy Networks (SPN) plc, EDF Energy Networks (LPN) plc), a management business (EDF Energy Networks Ltd) and a transport provider business (EDF Energy (Transport Services) Ltd), as well as managing via subsidiary and joint venture companies of EDF Energy plc, a number of private networks and infrastructures.

The Company is regulated by the Office of Gas and Electricity Markets ('Ofgem').

The EDF Energy Networks Business aims to be the leading electricity network business in the UK. To achieve this, the Business is focusing on:

- improving customer satisfaction;
- developing strong leadership and a high performing workforce;
- achieving excellence and innovation in managing and operating assets;
- seeking significant productivity improvements; and most importantly
- achieving our key objective of zero harm.

The Company's overall focus is on operational efficiency and the efficient delivery of capital and replacement expenditure programmes within the five-year regulatory framework. Financial policies are therefore designed to ensure the regulatory targets are achieved or outperformed.

The Company's financing objective is to ensure an efficient capital structure that mitigates interest rate risk.

Stakeholders

The Company has a range of external stakeholders including electricity customers, suppliers and contractors, the industry regulator Ofgem, local governments and communities. The Company adopts an open constructive approach in terms of the way it operates, the services it provides and the impact that its activities have on each of its stakeholders.

Risks

The Company is exposed to both normal business risks and specific industry risks which include:

- regulatory price controls, treatment of costs and the allowed regulatory rate of return on investments (the latest five-year period of regulatory controls came into effect on 1 April 2010);
- changes in or breaches of, laws or regulation affecting the business;
- failure of the network or other critical non network operations. The network is vulnerable to the effects of weather; this may include wind damage, flooding, snow and lightning strike. In addition, the network is vulnerable to damage through the actions of the construction industry, other utilities, road traffic accidents and theft, as well as general wear; and
- pension scheme funding requirements.

There are a variety of mechanisms in place to minimise these risks.

EDF Energy Networks Ltd has an embedded risk awareness culture to understand and manage significant business risks in order to increase certainty of achieving strategic goals. This leads to a high level of risk management assurance for the Distribution Business Executive Team and the Board of Directors.

The Business operates a risk and control self-assessment regime facilitated by a Key Risk Committee ('KRC'). The KRC aids in monitoring, anticipating and responding to business risks by checking, challenging and monitoring the progress of the business in managing their risks.

External and regulatory environment

The EDF Energy Networks Business operates within a framework governed by legislation and regulation. This includes;

- the regulatory licence conditions adopted by each licensed entity; and
- the price control allowance agreed with the regulator applicable every five years.

The Business is subject to environmental legislation and company law that is not specific to the electricity industry. It is also subject to health and safety regulations which are enforced by the Health and Safety Executive (HSE) in the UK. The programs and procedures adopted by the Business are detailed below.

Health, Safety and Environment

Programmes under the Health, Safety and Environment activities of the Business give rise to projects and initiatives designed to improve health and safety or reduce environmental impacts. Some of the more important programmes are:

- Reducing pollution through replacement of oil-filled cables, provision of oil bunds at large substations and the reduction in use of herbicides;
- Behavioural Safety Programme – developing further our initiative to make safety a value;
- a harmonised approach to the management of Health Safety and the Environment across all Networks;
- Public safety and Education in electricity – schemes to educate school children, business and the public on dangers of a live network;
- Risk Assessment review – carrying out a review of the risks we face in all our activities;
- Fit for work and health surveillance – occupational health programme;
- a risk based audit programme, supporting the move towards a certified combined SHEQT management system; and
- a commitment to amenity under-grounding.

These measures are specifically attributed to Health, Safety and the Environment. In addition to the specific measures a significant element of the capital investment programme contributes to these areas.

The health and safety of employees of EDF Energy Networks Ltd, customers and the public at large is the first consideration in each and every investment decision taken. Also vital is consideration for the environment which includes the protection of the climate, natural resources, natural habitats, wildlife and the amenity value of living and working environments.

Network development and operation

The electrical network is managed by condition monitoring and risk assessment that, together with local development plans, enables the Company to determine the appropriate areas in which to invest. This ensures that the network delivers a reliable and safe supply cost effectively. The Company is involved in new connections extending the network to provide supply to new commercial, industrial and domestic premises; diversions where, for example, it is necessary to move cables to allow for new developments; reinforcement of the network to increase the capacity of certain areas of the network to meet increased load demand; and asset replacement to replace equipment which is at the end of its serviceable life.

The Company is focused on being a responsible neighbour with a care for the environment. Equipment is constantly monitored to ensure that it is operating as intended without detriment to the surrounding area.

Financial review

Resources
The Company's principal resources are its network assets and its access to the skilled workforce of EDF Energy Networks Ltd, which operates the network on the Company's behalf. The Business's principal policies with regard to training its employees are detailed on page 6.

Key performance indicators
The Company measures the achievement of its objectives through the use of quantitative assessments and (where quantitative means are less relevant) through the use of qualitative assessments. The principal key performance indicators ('KPIs') are set below:

Key performance indicator	Year end March 2010 £m	Year end March 2009 £m	Change %
Earnings before interest, tax, depreciation and amortisation (EBITDA)	171.1	152.2	12%
Capital expenditure net of customer contributions	190.6	170.3	12%
Net debt	695.9	610.8	14%
Regulatory asset value (RAV)	1,086.7	940.7	16%
Ratio of net debt to RAV	64%	65%	

Comparison to price control

The Company is subject to a price control which sets total regulated revenue for each year over a five year period. At the previous price control, the Company submitted projections of the levels of operating and capital expenditure considered necessary to maintain a safe and reliable network. This formed the basis of negotiation with Ofgem but was not accepted by Ofgem. Instead, the Company was set challenging targets for the levels of operating and capital expenditure which were accepted by the Company as a package, rather than as individual components. As a consequence any comparisons between actual performance and the price control are made at a total level only.

The price control allows a rate of return on a notional valuation of the network referred to as the Regulatory Asset Value ('RAV'). The original RAV was based on a valuation of the Company derived from share prices following the flotation of the Company of which the Distribution business was a part. This valuation has been increased through capital expenditure, re-valued to current prices using RPI and reduced by a depreciation charge on the opening valuation and subsequent expenditure. The rate of return allowed is low to reflect Ofgem's view that Distribution businesses are very low risk.

Comparison to price control continued

Tariffs are set to recover allowed revenues with any under or over recovery carried forward to a later regulatory period. However, as tariffs are set up to five months in advance and generally apply for the year, the Company will under or over recover revenue if assumptions made differ from actual experience. At 31 March 2010 the Company has under recovered revenue by £7.7m (2009: £0.8m over recovery). Allowed revenue is the major component of total revenue generated by the Company but additional revenue is earned from unregulated customers taking supply at extra high voltage and for certain rechargeable work. Whilst the Company through EDF Energy Networks Ltd has the expertise to earn revenue in other areas, its ability to do so is restricted by regulation.

The last price control review, Distribution Price Control Review 4 ('DPCR4'), covered the five years ended 31 March 2010. Price control allowances for the next five years from 1 April 2010 were agreed with Ofgem in December 2009 as part of Distribution Price Control Review 5 ('DPCR5').

Performance against price control

For the purposes of comparison to the price control allowance the capital and operational expenditure differ to that reported in these Regulatory Accounts. This is due to a number of differences between accounting under UK GAAP and the regulatory reporting guidelines set out by Ofgem.

Regulatory capital expenditure was £160.8m (2009: £135.1m) against a price control allowance of £127.4m (2009: £126.9m). The five year allowance for the DPCR4 period ended 31 March 2010 was broadly allocated equally for each year whereas the planned expenditure was weighted towards the end of the period. During the year the Company invested in a range of improvements to its electricity distribution network, including refurbishment of its overhead line networks, provision of additional network capacity to meet growing demand, and the continued automation of parts of the high voltage distribution system to reduce customer disruption in the event of failure on the network. As part of a joint initiative, the Company has completed the undergrounding of selected overhead lines in Areas of Outstanding Natural Beauty.

Regulatory operating costs excluding regulatory depreciation totalled £69.5m (2009: £77.5m) compared to a price control allowance of £48.1m (2009: £46.8m).

The price control includes regulatory depreciation that assumes a 20 year cost recovery period for post-vesting assets. However actual asset lives, on average, exceed 40 years and this is reflected by the lower depreciation charge presented in these financial statements.

Treasury policy, objectives and capital structure

The Company is financed by a combination of equity and retained profits, long term bonds, money market borrowings and group loans. The Company's funding and liquidity are managed within a framework of policies and quidelines authorized by the Board of Directors.

The Company has net debt of £695.9m (2009: £610.8m) which represents approximately 64% (2009: 65%) of the Regulatory Asset Value of the Company. During the current year the Company issued Eurobonds for £300m at 6.125%, maturing in 2031. The proceeds were used to reduce short term borrowings, and as at 31 March 2010 the net debt includes £653.9m (2009: £357.8m) in bonds, £0.1m (2009: £49.7m) drawn under the £200m Intra Group Revolving Credit Facility and £47.5m (2009: £203.3m) under the £1 billion Multi Issuer Commercial Paper Program, offset by cash balances of £0.1m (2009: £nil) and investments of £5.5m (2009: £nil). The debt was secured at competitive fixed or index-linked rates of interest and the weighted average interest rate is 4.1% (2009: 5.6%). Annual interest payments are made on the two £300m bonds in June and November respectively, and twice yearly on the £50m bond, in June and December.

The Company receives interest on positive cash balances and pays interest on overdrafts. Interest earned on cash deposits is predominantly through money market investments. The EDF Energy plc Treasury department invests under strict procedures, which limit the amount and duration of investments, and only allows money to be deposited with reputable banks and building societies.

Liquidity and cash flows

Liquidity is maintained through a mixture of long term borrowings and short term liquid funds in order that there are sufficient funds available for the Company's current and planned operations. Committed facilities are in place in order to provide funding for future capital expenditure as well as providing sufficient available liquid funds to meet the seasonal working capital requirements of the Company.

The Company generates cash primarily from Use of System charges which are payable within 14 days of the demand for payment. Payments are received in advance from customers requiring connection to the network, and suppliers and contractors are paid in accordance with negotiated terms. Other principal cash outflows include interest, taxation and dividends. The Company plans its working capital requirements to take account of expected cash inflows and outflows.

Factors likely to affect future development and performance

The following trends and factors are expected to influence the future financial position and performance of the Company.

Main features of DPCR5
The Company's licence for DPCR5 allows for £1,442m in revenue, including allowances for certain pass-through costs and Excluded Services, over the five years ending 31 March 2015 (in 2007/08 prices). Allowed revenue is intended to cover regulatory depreciation, pass-through costs and incentives, tax, pensions, generally the cost of operating and maintaining the network and a return on regulatory capital investments.

Allowed return under DPCR5
The DPCR5 Final Proposals include a reduction in the allowed return from the level allowed in DPCR4 and assumed in the DPCR5 Initial Proposals. However, Ofgem has pointed to the opportunity for Distribution Network Operators ('DNO's) to outperform the allowed return through the delivery of efficiencies in the DNO's cost base beyond the assumed regulatory cost allowances and through incentive mechanisms. In addition, Ofgem has sought to de-risk the DNOs by introducing new measures to deal with uncertainty and limit downside risk.

Incentives and penalties applicable to the Regulated Networks:
Ofgem uses a series of incentive and penalty schemes to encourage specific action and behaviour by the DNOs, as follows:

- Information quality incentive (IQI):
  This incentive encourages the DNOs to submit good quality forecasts by providing lower returns to companies that over-forecast their expenditure requirements. In DPCR4 the incentive mechanism only applied to regulatory capex, whereas the DPCR5 Initial Proposals extend the measurement of the Retention Rate to apply to network operating and indirect costs (excluding business support costs);

- Interruptions Incentive Scheme (IIS) or Quality of Service (QoS):
  This provides incentives (or penalties) based on customer interruptions (CI) and customer minutes lost (CML) below (or above) a specific target set for each DNO;

- Losses:
  This provides incentives (or penalties) based on units of electricity lost in the process of distribution below (or above) a specific target set for each DNO. The incentive rate is set on a £/MWh basis;

- Customer satisfaction:
  This is a new scheme in the DPCR5 Initial Proposals that captures and measures customer experience across a broad range of network services is expected to be operational from 2012/13;

- Low Carbon Networks fund:
  This is a new scheme in the DPCR5 Initial Proposals that funds trials for technology/commercial operating arrangements to facilitate a low carbon economy. The mechanism requires DNOs to fund at least 10% of the costs, with up to 90% being recoverable through the incentive. An industry-wide fund of £500m has been made available.

Factors likely to affect future development and performance continued

Training
The Company's need for training resources has formed an integral part of its DPCR5 submission and was a point of discussion with Ofgem, as it was with other DNOs. The Regulated Networks run regular and comprehensive training programmes for new intakes of apprentices and craft trainees, for technically skilled employees (professional qualifications, health and safety) and for management.

Due to the large number of employees in the Regulated Networks, management training is of vital importance to ensure efficiency and is sourced either internally through the HR function or through third-party suppliers.

Capital Expenditure
As part of the DPCR5 process, the Company submitted direct capex forecasts to Ofgem for the DPCR5 period totalling approximately £650m (2007/8 prices). After removing discretionary programmes that were included within the forecasts and which, it was agreed with Ofgem, would not be required to be delivered during the DPCR5 period, the revised capital programme totalled £602m.

Environment
The Company's environmental procedures are focused on the protection of the climate, natural resources, natural habitats, wildlife, and the amenity value of living and working environments. Investment plans include the reduction of pollution through replacement of fluid filled cables, the control and mitigation of losses from our equipment of oil and the greenhouse gas Sulphur Hexafluoride, a reduction in the use of herbicides, and a commitment to amenity under-grounding. The Company also fully supports and complies with the EDF Energy Environment Policy Statement.

Long-term opportunities
The key long-term opportunities considered beyond 2015 relate to the areas listed below:

- Regulatory
  Potentially increased regulatory focus on environmental targets and security of supply leads to increased investment and performance incentives in these areas;

- Technology
  Development of smart distribution grids;

- Integration
  Continued integration of activities to fewer locations to capture synergies through hubs, clusters and delivery points.

DIRECTORS' REPORT

The Directors present their annual report and the audited Regulatory Accounts for the year ended 31 March 2010.

The Regulatory Accounts are not the Statutory Financial Statements of the Company, which are drawn up to 31 December annually and are available to the public from 40 Grosvenor Place, London SW1X 7EN.

Principal activity and review of business

The principal activity of the Company during the year continued to be the distribution of electricity to domestic, commercial and industrial customers through network ownership, management, operation, maintenance and renewal. It will continue in this activity for the foreseeable future.

Results and dividends

The profit for the year before taxation amounted to £87.8m (2009: £76.3m) and after taxation, amounted to £63.1m (2009: £54.9m). No dividend was paid in the year (2009: £nil).

The review of the business for the year, including a statement of the Key Performance Indicators, together with a description of the principal risks and uncertainties facing the Company, are set out within the Operating and Financial Review on pages 1 to 6.

Future developments

The Directors aim to deliver the right balance of customer service and shareholder return through efficient investment in the Network within the boundaries of the price control allowances set by the regulator Ofgem. New price control allowances for the next five years were agreed with Ofgem in December 2009 and will take effect from 1 April 2010. This is the result of the fifth electricity distribution price control review ('DPCR5'). The Directors believe the Company will continue to operate as a profitable, sustainable business under the DPCR5 price control allowances.

The future ownership of the Company is dependent on the current process by the EDF Energy Group, headed by Electricité de France SA, to evaluate ownership options for its electricity distribution business in the United Kingdom which includes this Company. This is part of the group strategy to reduce debt.

Directors

Directors who held office during the year and subsequently were as follows:

Vincent de Rivaz (Chairman)	
Laurent Ferrari	
Humphrey Cadoux-Hudson	(resigned 1 April 2009)
Thomas Kusterer	(appointed 1 April 2009)

None of the Directors had a contract with the Company in the current or prior year. They are all employed by a parent company, EDF Energy plc, and have contracts with that Company.

The Company has made qualifying third party indemnity provisions for the benefit of its Directors during the year, which remain in force at the date of this report.

Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the financial risks the Directors consider specifically relevant to this Company are credit risk, liquidity risk, interest rate risk and price risk.

Credit and liquidity risk

The Company's exposure to credit and liquidity risk is reduced as it is a 100% subsidiary of the EDF Energy Group of Companies. The credit risk on liquid funds and financial instruments is limited because the counterparties are reputable banks and building societies. The Company is able to raise finance in external financial markets supported by cash flows generated by the Regulatory Asset Value which determines the levels of allowed revenue that may be recovered. The Directors of the Company believe the Company has sufficient resources to service its assets and liabilities for the foreseeable future.

Interest rate risk

The Company's exposure to interest rate fluctuations on its borrowings and deposits is managed by using fixed rate debt instruments and index-linked rate debt instruments.

Price risk

The prices the Company is allowed to charge for its services are for the most part subject to regulatory controls. The profitability of the Company's operations is thus largely dependent upon the successful management of costs incurred to deliver the services and maintain and expand the network in compliance with its operating licence. The Directors believe that the Company is in a position to operate profitably within these constraints.

Financial instruments

The Company holds or issues financial instruments for two main purposes:

- to finance its operations; and
- to manage the interest rate and currency risks arising from its sources of finance.

The Company finances its operation by a mixture of retained profits, long-term loans, group loans and commercial paper. The Company has borrowings denominated in sterling at fixed or index linked rates of interest. The main risk arising from the Company's financial instruments is interest rate risk. The Company's policy for managing this risk is as above and is defined in statements authorised by the Board of Directors and reviewed on an annual basis. Authority for managing risk consistent with this corporate policy may be delegated by the Board to, amongst others, the Treasury department of the parent company, EDF Energy plc.

Going concern

The Company's financial position, cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future performance and the principal risk and uncertainties are set out within the Operating and Financial review on pages 1 to 6.

The Group has considerable resources available. At 31 March 2010, the Company's facilities include £653.9m in long term bonds, access to a £200m Intra Group Revolving Credit Facility and access to Money Market Borrowings under the £1 billion Multi Issuer Commercial Paper Programme. The Company has generated positive operating cash inflows from continuing operations for each of the last two years. The Company generates cash flows primarily from the use of system charges which are payable within 14 days of the demand for payment and suppliers being paid in accordance with negotiated terms. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, indicate that the Company has sufficient funding to operate within its available facilities.

As mentioned above, the future ownership of the Company is under review. The Directors have considered the options available should the Group Revolving credit facility and Money Market Borrowings be withdrawn if the Company is no longer part of the EDF Energy Group. These options include seeking alternative external funding under new ownership. The Directors are satisfied that this revised funding strategy could be adopted if and when necessary, as the Regulator would require confirmation of the ability of the new owners to fund the Company in the future.

Based on the information set above the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Political and charitable contributions

The Company made no charitable or political contributions in either year.

Disclosure of Information to Auditors

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- the Director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

In accordance with s489(4)(a) of the Companies Act 2006, a resolution was passed at the Annual General Meeting to reappoint Deloitte LLP as auditors to the Company.

By order of the Board

T Kusterer
Director

27 July 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Regulatory Accounts in accordance with applicable law and regulations. Standard Licence Condition 44 of the Distribution Licence requires the Directors to prepare Regulatory Accounts, for each regulatory year, which present fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to the Company and of revenues, costs and cash flows of, or reasonably attributable to, the Company for that period. In preparing the Regulatory Accounts, 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; and
- prepare the Regulatory Accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard Licence Condition 44 as applicable. They are also responsible for the system of internal control, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm to the best of their knowledge that:

- the Regulatory Accounts, prepared in accordance with the Company's accounting policies and Standard Licence Condition 44, give a true and fair view of the assets and liabilities, financial position and profit of EDF Energy Networks (SPN) plc as at 31 March 2010; and
- the Directors' report includes a true and fair view of the development and performance of the business and the financial position of EDF Energy Networks (SPN) plc, together with a description of its principal risks and uncertainties.

Signed on behalf of the Board of Directors of EDF Energy Networks (SPN) plc on 27 July 2010.

T Kusterer
Director

REPORT ON CORPORATE GOVERNANCE

UK Corporate Governance Code

The Company is a subsidiary of EDF SA and is not listed on the London Stock Exchange and so is not obliged by law to comply with Stock Exchange listing rules, nor to make the same disclosures as listed companies. However, the Company does seek to operate to the highest standards of Corporate Governance, and has voluntarily adopted the principles underlying the guidance set out in the UK Financial Reporting Council's Corporate Governance Code, issued in May 2010 ('the Code').

In this respect, the Directors have complied with the Code to the extent considered applicable and have provided all relevant information '*as if the required disclosures applied to the licensee as a Quoted Company*', in accordance with paragraph 44 of the Standard License Conditions. The relevant disclosures are included below in this Report on Corporate Governance, in the Statement of Directors' Responsibilities, and in the Directors' Report.

In accordance with the '*comply or explain*' approach recommended by the Code, the principal areas of the Code which are not considered applicable are explained as follows.

- The Company is a 100% wholly owned subsidiary of EDF SA and forms part of the EDF Energy UK group, which is overseen by the Board of EDF Energy (UK) Limited ('EDF Energy UK'), of which the Company is also a 100% wholly owned subsidiary. The Board of EDF Energy UK is determined by EDF SA, and comprises of both Executive and Non Executive Directors, the latter being employed by EDF SA, the ultimate Shareholder, and as such there is no requirement for a formal Nominations committee to select candidates.

- The Directors of the Company are all Executive Directors of EDF Energy UK, providing a direct executive link between the two companies. Given the presence of Non Executive Directors on the EDF Energy UK Board, and the direct Executive link that exists between the two, further Non Executive Director representation at Company level is not considered necessary. Should it be necessary, the Board is empowered, at the Company's expense, to employ external advisors to address specific issues of particular complexity to help facilitate and support a Director's duties. In the normal course of business, Board meetings of the Company take place every quarter.

- The Board of EDF Energy UK, which is responsible for all aspects of governance for the UK group, has established certain standing committees to consider matters in detail and make recommendations to the Board. Currently these are:

  - Audit Committee
  - Remuneration Committee
  - Health and Safety Committee
  - Sustainable Development Committee

  Each committee's performance, constitution and terms of reference are reviewed annually to ensure that they are operating effectively. The Company Secretary acts as a secretary for each committee.

- Duplicate board committees at Company level have not been established as the terms of reference confirm that the scope of the above committees extends across the EDF Energy UK group. For example, the Audit Committee's terms of reference confirms its primary function to be to assist the Board by reviewing the general policies and practices of EDF Energy UK and its controlled subsidiaries in respect of accounting and financial control matters, the internal control environment, risk assessment, risk management and corporate governance.

Corporate Governance Policies

The ultimate parent company EDF SA, being listed on the Paris Stock Exchange, is required to comply with the Loi de Sécurité Financière (LSF). The LSF requires the Chairman of EDF SA to provide in the annual report a description of the internal controls in the EDF Group and to provide an opinion on their effectiveness. The EDF Energy UK group ('the Group') has adopted the EDF Internal Control and Audit Policy which provides for:

- Management responsibility for Internal Control;
- a requirement to describe the systems of Internal Control;
- Management to provide assurances on the effectiveness of the systems of Internal Control;
- the requirement for remediation plans where the systems of Internal Control are assessed as not providing the assurances required; and
- independent verification of the assurance process.

The Corporate Risk Assurance Policy, originally implemented in 2003 and most recently reviewed and updated in May 2010, is a statement of what the organisation is seeking to achieve by actively managing risk. It defines a governance structure together with roles and responsibilities that will allow the Group to:

- promptly and continuously identify, evaluate, effectively control and report new and continuing risks that are significant at Group level;
- promote a consistent and comprehensive approach to Risk Management throughout EDF Energy, with strong ownership at Business Unit level;
- maintain a record of significant risks faced by each Business Unit and Corporate Function, together with remedial action plans and progress reports consolidated into a risk register for EDF Energy; and
- promote the development of risk control as a core business process and to provide a framework and awareness for exploiting opportunities, and containing or preventing loss.

Risk Management guidelines have also been developed to provide a standard approach to Risk Management and to facilitate a meaningful consolidation of Group risks.

Internal Control

The Board of EDF Energy UK (through the Audit Committee) is responsible for the Group's system of internal control and for reviewing its effectiveness. The Group's system of internal control and embedded risk management which has been in place throughout the year helps to safeguard the Company's assets. However, the Board recognises that such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

During the period the Board conducted a self assessment of the systems of Internal Control in EDF Energy. This assessment enabled the Board to describe the systems of internal control of the UK entities and to identify areas where attention is required to improve business performance and effectiveness.

The key elements of the Group's system of internal control include:

Control environment

The Group is committed to the highest standard of business conduct. The Group is appropriately structured according to business areas. This allows for effective operations to achieve the Group's objectives. Lines of responsibility and levels of authority are formally documented. The Group Executive Committee comprises the Group Chief Executive Officer, Business Unit Chief Operating Officers and Corporate Directors. This Committee defines authorities given to individual officers of the Group. The Committee also approves the five year medium term plan and budget which is the basis on which the objectives of the business are agreed and delegated.

The Board of Directors have established the scope of the internal audit function which is responsible for reviewing the effectiveness of the Group's systems of internal control and reports to the Audit Committee of the Board of EDF Energy UK.

Risk identification and control

The Director of Strategy and Regulation is responsible for maintaining an oversight of Group systems of Internal Control and risk management, working closely with the Business Units and other corporate functions to ensure that their activities complement each other, and enhance the overall Group position. The objectives are to provide assurance that management of risks is effectively managed and embedded in day to day activities, that risk management activity has sufficient visibility and that there is transparency around decision making processes.

The relationship between Internal Audit and Risk Assurance requires Risk Assurance to be primarily responsible for ensuring the identification of risks and their mitigation and Internal Audit to be independently responsible for review of the mechanisms that provide assurance.

Specific Risk Management Committees have been established where required and operate to address specific risk areas including energy trading risk and health and safety.

Control activities

Control procedures have been implemented throughout the Group and are designed to ensure complete and accurate accounting for financial transactions, to safeguard the Group's assets and to ensure compliance with laws and regulations. There are control processes to establish budgets, financial and service targets in each business unit/subsidiary against which performance is monitored in detail and agreements under which relationships with partners in joint ventures are controlled. High level reporting is made by business units/subsidiaries and functional heads at corporate level to the Group Executive Committee and the Board. This Committee approves individual projects within the medium term plan and approves the award of contracts either directly or by delegated authority within agreed limits.

Information and communication

The performance management cycle is based upon a balanced scorecard approach; the scorecard translates the Company's ambitions into key measures required to achieve sustainable value. Company measures are cascaded to Business Unit and Corporate functions and each Business Unit translates the Business Unit measures into team or sub-business unit measures with appropriate tracking mechanisms. For each performance measure there are agreed targets. Staff policies are in place to ensure that employees are competent, have appropriate skills and receive information required to effectively perform their roles. The Group's Intranet is widely used to communicate information to staff.

Monitoring and corrective action

Group performance is continually monitored. Business Unit Chief Operating Officers and Managing Directors report regularly on operating performance.

The Audit Committee is a sub-committee of the Board of EDF Energy UK, with advisory responsibility for issues related to Corporate Governance, risk and internal control. This covers all aspects of risk management and the system of internal control including financial, operational and compliance controls. The scope includes all EDF Energy plc companies but ultimate responsibility remains with the Board. Membership includes appointed non-executive representatives representing finance, risk and audit from EDF SA.

The Executive Committee and Audit Committee receive reports of key risks from the business units. These reports include for each risk an assessment of the likelihood of the risk occurring and the associated impact. The risk reports include the key mitigating controls and an assessment by the business units of their adequacy. Where appropriate businesses are required to identify the actions required and ensure that the risks are adequately managed.

Internal Audit reviews the operation of internal controls using a risk-based methodology and reports periodically to the Group Executive Committee and half yearly to the Audit Committee. Assignments are determined by reference to the risk framework and discussions with senior management including members of the Group Executive Committee.

Control procedures relating to the reliability of financial information

The Group consolidated financial statements of EDF Energy plc and its subsidiaries are prepared by the central finance team based on results submitted by each business unit. The role of the central finance function is to receive instructions from EDF SA on such matters as accounting policies, planning for changes, and reporting requirements and to ensure that these are communicated effectively to the business units. There are regular meetings between the Central team and the business units to ensure there is appropriate dialogue and understanding.

The Business Units are accountable for the review and approval of the monthly accounts prior to submission to the Central team who then undertake further reviews and challenge. The monthly accounts of each business unit are reviewed during the formal Performance Review meetings attended by the Chief Executive Officer and the Chief Financial Officer. The annual and half-year results of the Group are presented to the Audit Committee prior to approval by the Board.

Effectiveness review

The Group is continuously making improvements to the system of internal control. The EDF Group Internal Control and Audit Policy requires, inter alia, that the Chief Executive Officer of EDF Energy provides an annual report to the Chairman of EDF SA of the quality of the internal control system.

As a result of the 2009 self assessment of the systems of Internal Control of the Group, areas where attention is required to improve business performance and effectiveness were identified. A programme of work is underway to bring about these improvements.

The relationship between Internal Audit and Management requires Management to be primarily responsible for ensuring that the systems of internal control are implemented and operated so as to provide reasonable assurance that the objectives of the business will be met or that the risks or threats to the business are mitigated. Internal Audit is independently responsible for review of the mechanisms that provide assurance and for providing advice and guidance to management on the appropriateness of Internal Control mechanisms and systems.

Material weaknesses

Significant weaknesses in internal control are reported to the Group Executive Committee and, if appropriate, to the Audit Committee.

INDEPENDENT AUDITORS' REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ('THE REGULATOR') AND EDF ENERGY NETWORKS (SPN) PLC ('THE COMPANY')

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2010 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes numbered 1 to 22. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of the Standard Condition 44 of the Electricity Distribution Licence, (the 'Regulatory Licence'). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with Standard Condition 44 of the Company's Regulatory Licence and the accounting policies set out in the notes to the Regulatory Accounts.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not necessarily been prepared under the basis of Generally Accepted Accounting Practice in the United Kingdom ('UK GAAP'). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the Regulator, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Standard Condition 44 of the Regulatory Licence are set out in the Statement of Directors' responsibilities on page 10.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the guidance contained in Audit 05/03 *'Reporting to Regulators of Regulated Entities'*.

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 44 of the Company's Regulatory Licence and the accounting policies set out on pages 20 to 21, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information presented with the Regulatory Accounts, being the Operating and Financial Review, the Directors' Report, the Report on Corporate Governance, and the Statement of Directors' Responsibilities on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT TO THE GAS AND ELECTRICITY MARKETS AUTHORITY ('THE REGULATOR') AND EDF ENERGY NETWORKS (SPN) PLC ('THE COMPANY') continued

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 Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we reported on 18 March 2010, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our 'Statutory Audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory Audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory Auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory Audit work, for our Statutory Audit report, or for the opinions we have formed in respect of that Statutory Audit.

Audit opinion

In our opinion

- the Regulatory Accounts present fairly in accordance with Standard Condition 44 of the Company's Regulatory Licence and the accounting policies set out on pages 20 to 21, the financial position of the Company as at 31 March 2010 and its financial performance and cash flows for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 and the Company's accounting policies.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

27 July 2010

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 £m	2009 £m
Turnover	2,3	**261.6**	245.0
Cost of sales		**(9.0)**	(8.3)
Gross profit		**252.6**	236.7
Distribution costs		**(121.7)**	(122.6)
Administrative expenses		**(2.7)**	(1.4)
Operating profit	4	**128.2**	112.7
Interest receivable and similar income	6	**0.1**	0.1
Interest payable and similar charges	7	**(40.5)**	(36.5)
Profit on ordinary activities before taxation		**87.8**	76.3
Tax on profit on ordinary activities	8	**(24.7)**	(21.4)
Profit for the financial year	17	**63.1**	54.9

All results are derived from continuing operations in both the current and preceding year.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2010

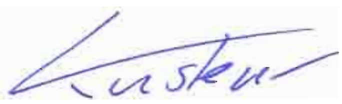
	Note	2010 £m	2009 £m
Profit for the financial year		**63.1**	54.9
Actuarial loss net of deferred tax on defined pension benefits	19	**(101.1)**	(85.9)
Total recognised losses relating to the year		**(38.0)**	(31.0)

The deferred tax credit reflected in the actuarial loss net of deferred tax on defined pension benefits amounted to £39.3m (2009: £33.4m).

BALANCE SHEET
AS AT 31 MARCH 2010

	Note	2010 £m	2009 £m
Fixed assets			
Tangible assets	9	**1,396.6**	1,249.8
Current assets			
Debtors	10	**34.9**	31.2
Investments: unlisted money market investments		**5.5**	-
Cash at bank and in hand		**0.1**	-
		40.5	31.2
Creditors: amounts falling due within one year	11	**(161.6)**	(375.3)
Net current liabilities		**(121.1)**	(344.1)
Total assets less current liabilities		**1,275.5**	905.7
Creditors: amounts falling due after more than one year	12	**(653.9)**	(357.8)
Provisions for liabilities	15	**(181.8)**	(174.1)
Net assets excluding pension liability		**439.8**	373.8
Pension liability	19	**(204.1)**	(100.1)
Net assets including pension liability		**235.7**	273.7
Capital and reserves			
Called up share capital	16	**0.1**	0.1
Profit and loss account	17	**235.6**	273.6
Shareholder's funds	17	**235.7**	273.7

The regulatory accounts on pages 17 to 36 were approved by the Board of Directors on 27 July 2010 and were signed on its behalf by:



T Kusterer
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Note	2010 £m	2009 £m
Net cash inflow from operating activities	20	**162.2**	145.4
Returns on investments and servicing of finance			
Interest received		**0.1**	0.1
Interest paid		**(21.6)**	(30.1)
		(21.5)	(30.0)
Taxation			
Corporation tax paid		**(36.3)**	(26.7)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(238.6)**	(221.6)
Receipts of customer contributions		**48.0**	51.3
Receipts from sale of tangible fixed assets		**0.5**	0.1
		(190.1)	(170.2)
Net cash flow before management of liquid resources and financing		**(85.7)**	(81.5)
Management of liquid resources			
Increase in short term deposits		**(5.5)**	-
Net cash flow before financing		**(91.2)**	(81.5)
Financing			
(Decrease)/increase in short term borrowings		**(205.4)**	81.4
Increase in long term borrowings		**296.7**	-
Increase/(decrease) in cash for the year		**0.1**	(0.1)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash for the year		**0.1**	(0.1)
Increase in short term deposits		**5.5**	-
Decrease/(increase) in short term borrowings		**205.4**	(81.4)
Increase in long term borrowings		**(296.7)**	-
Change in net debt resulting from cash flows		**(85.7)**	(81.5)
Net non-cash movements		**0.6**	(3.1)
Movements in net debt		**(85.1)**	(84.6)
Net debt at 1 April		**(610.8)**	(526.2)
Net debt at 31 March		**(695.9)**	(610.8)

NOTES TO THE ACCOUNTS

1. Accounting policies

The principal accounting policies are set out below. They have all been applied consistently throughout the year and the preceding year.

Purpose and basis of preparation of the accounts

The Regulatory Accounts are a primary source of audited financial information about the licensed electricity distribution business. They have been prepared in accordance with the terms of the Regulatory Licence. Regulatory Accounts are separate to the audited Statutory Financial statements which are prepared to 31 December each year.

The Regulatory Licence requires the Regulatory Accounts to be prepared with the same content and format as the most recent Statutory Accounts of the Company. Statutory Accounts are required to be prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards, except as noted below in respect of 'Tangible fixed assets'. The Company is exempt from the disclosures required by FRS 29 'Financial Instruments: Disclosures' since the Company is a subsidiary of EDF Energy plc which prepares consolidated accounts under IFRS that comply with requirements of IFRS 7 'Financial Instruments: Disclosures' which is equivalent to FRS 29.

Going concern

The financial statements have been prepared on the going concern basis. The grounds for adopting this basis are discussed in the Directors' report.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Overhead and underground lines	–	45 to 60 years
Other network plant and buildings	–	20 to 60 years
Fixtures and equipment	–	5 years
Vehicles	–	5 to 10 years

Assets in the course of construction for production are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Customer contributions in respect of capital expenditure are credited to a fixed asset account and are released to the profit and loss account over the expected useful lives of the relevant assets by equal annual instalments. The un-amortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 2006, which requires fixed assets to be included at their purchase price or production cost and hence the contribution would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the Directors that the treatment adopted is necessary to give a true and fair view. The value of the contributions is shown in note 9.

Finance costs

Finance costs on borrowings are recognised in the profit and loss account over the term of such instruments, at a constant rate on the carrying amount.

1. Accounting policies continued

Borrowings

Borrowings are initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date, with the following exceptions:

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses;

- provision is made for gains on re-valued fixed assets only where there is a commitment to dispose of the re-valued assets and the attributable gain can neither be rolled over nor eliminated by capital losses; and

- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured on an undiscounted basis.

Investments

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

Pensions

The Company has obligations under a funded defined benefit pension arrangement with regard to its former employees and accounts for this scheme in accordance with FRS 17 'Retirement Benefits'.

Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately the costs are recognised over the period until vesting occurs. The interest cost and the expected return on the assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2. Segment information

The segments, which are designated by the Regulator, are defined as follows:

- 'Distribution (Use of System)' is the distribution of electricity through the Company's distribution system to demand customers, and is subject to price control.
- 'Distributed Generation' is the distribution of electricity to customers having the capacity to generate and supply electricity, and is subject to price control.
- 'Excluded Services' is the supply of electricity to customers with specific requirements, such as the 'top-up' of self-generated supplies, emergency stand-by, and enhanced security of supply. These services are not price-controlled
- 'Metering' is the provision of metering equipment and services, and is subject to partial price control.

Turnover between segments is immaterial. The Company has no activities which fall into the other three categories of activity defined by the Regulator, namely 'De Minimis', 'Out of Area' and 'Other' activities.

SEGMENTAL ANALYSIS FOR THE YEAR ENDED 31 MARCH 2010	Distribution (DUoS) £m	Distributed Generation £m	Excluded Services (excluding metering) £m	Metering £m	**Total £m**
Turnover	**238.1**	**0.2**	**15.1**	**8.2**	**261.6**
Cost of Sales	(9.0)	-	-	-	**(9.0)**
Distribution costs	(68.3)	-	(9.3)	(1.2)	**(78.8)**
Admin expenses	(2.7)	-	-	-	**(2.7)**
Depreciation	(34.4)	-	-	(8.5)	**(42.9)**
	(114.4)	-	(9.3)	(9.7)	**(133.4)**
Operating profit	**123.7**	**0.2**	**5.8**	**(1.5)**	**128.2**
Net finance costs					**(40.4)**
Profit on ordinary activities before taxation					**87.8**
Capex Additions	235.6	1.2	-	1.8	**238.6**
Capital Contributions	(46.8)	(1.2)	-	-	**(48.0)**
Net additions	**188.8**	**-**	**-**	**1.8**	**190.6**

2. Segment information continued

SEGMENTAL ANALYSIS FOR THE YEAR END 31 MARCH 2009

	Distribution (DUoS) £m	Distributed Generation £m	Excluded Services (excluding metering) £m	Metering £m	**Total £m**
Turnover	**222.4**	**0.1**	**11.6**	**10.9**	**245.0**
Cost of Sales	(8.3)	-	-	-	**(8.3)**
Distribution costs	(72.3)	-	(7.6)	(3.2)	**(83.1)**
Admin expenses	(1.4)	-	-	-	**(1.4)**
Depreciation	(30.6)	-	-	(8.9)	**(39.5)**
	(112.6)	-	(7.6)	(12.1)	**(132.3)**
Operating profit	**109.8**	**0.1**	**4.0**	**(1.2)**	**112.7**
Net finance costs					**(36.4)**
Profit on ordinary activities before taxation					**76.3**
Capex Additions	217.8	-	-	3.8	**221.6**
Capital Contributions	(51.3)	-	-	-	**(51.3)**
Net additions	**166.5**	**-**	**-**	**3.8**	**170.3**

Net assets cannot be reliably allocated between segments and therefore are not presented in the tables above. The greater majority of assets by value are attributable to the Distribution segment.

3. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of electricity distribution and the invoice value of other goods and services provided. This includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end.

NOTES TO THE ACCOUNTS continued

4. Operating profit

This is stated after charging/(crediting):	**2010 £m**	2009 £m
Depreciation of owned assets	**42.9**	39.5
Loss/(profit) on disposal of fixed assets	**0.4**	(0.1)

Amounts payable to auditors	**2010 £000**	2009 £000
Fees payable to Company Auditors for the audit of the Company's annual accounts	**35.0**	35.0
Other services pursuant to legislation		
- Regulatory accounts	**20.0**	20.0
Total audit fees	**55.0**	55.0

The Company had no employees in either the current or the prior year.

5. Directors' emoluments

All Directors are employees of EDF Energy plc and did not receive any remuneration for services to the Company during the year or the preceding year.

6. Interest receivable and similar income

	2010 £m	2009 £m
Other interest receivable	**0.1**	0.1

7. Interest payable and similar charges

	2010 £m	2009 £m
Net interest cost on pension scheme	**13.2**	4.4
On loans from Group undertakings	**0.2**	1.8
On money market borrowings	**2.3**	8.8
On loans repayable after five years	**24.8**	21.5
	40.5	36.5

8. Tax on profit on ordinary activities

(a) Analysis of tax charge for the year:

	2010 £m	2009 £m
UK current tax		
UK corporation tax charge on profit for the year	**21.4**	17.4
Adjustment in respect of prior years	**(4.1)**	(1.5)
Total current tax charge for the year (note(b))	**17.3**	15.9
UK deferred tax		
Origination and reversal of timing differences	**3.5**	4.1
Adjustment in respect of prior years	**3.9**	1.4
Total deferred tax charge for the year	**7.4**	5.5
Tax on profit on ordinary activities	**24.7**	21.4

(b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower (2009: lower) than the standard rate of corporation tax in the UK.

The difference is explained below:

	2010 £m	2009 £m
Profit on ordinary activities before tax	**87.8**	76.3
Tax on profit on ordinary activities at standard UK rate of corporation tax of 28% (2009: 28%)	**24.6**	21.4
Effect of:		
Expenses not deductible for tax purposes	**0.4**	0.1
Capital allowances in excess of depreciation	**(4.5)**	(3.0)
Movement in pension liability	**1.2**	(1.1)
Other timing differences	**(0.3)**	-
Adjustment in respect of prior years	**(4.1)**	(1.5)
Total current tax charge for the year	**17.3**	15.9

9. Tangible fixed assets

	Network £m	Non-network land and buildings £m	Vehicles £m	Fixtures and equipment £m	Customer contributions £m	**Total £m**
Cost						
At 1 April 2009	2,406.7	9.3	7.1	66.9	(622.8)	**1,867.2**
Additions	232.1	0.4	0.6	5.5	(48.0)	**190.6**
Disposals	(13.9)	(0.5)	-	-	-	**(14.4)**
At 31 March 2010	**2,624.9**	**9.2**	**7.7**	**72.4**	**(670.8)**	**2,043.4**
Depreciation						
At 1 April 2009	740.1	1.6	2.8	56.0	(183.1)	**617.4**
Charge for the year	50.4	0.2	1.1	5.8	(14.6)	**42.9**
Disposals	(13.5)	-	-	-	-	**(13.5)**
At 31 March 2010	**777.0**	**1.8**	**3.9**	**61.8**	**(197.7)**	**646.8**
Net book value						
At 31 March 2010	**1,847.9**	**7.4**	**3.8**	**10.6**	**(473.1)**	**1,396.6**
At 31 March 2009	1,666.6	7.7	4.3	10.9	(439.7)	1,249.8

Network assets include operational land with a book value of £9.9m (2009: £9.6m)

The net book value of non-network land and buildings comprised:

	2010 £m	2009 £m
Freehold land	**0.3**	0.3
Freehold buildings	**5.6**	5.8
Short leasehold	**1.5**	1.6
	7.4	7.7

Included within tangible assets as at 31 March 2010 are assets in the course of construction of £35.0m. The balance as at 31 March 2009 was £48.3m of which £25.2m was completed during the current period.

NOTES TO THE ACCOUNTS continued

10. Debtors: amounts falling due within one year

	2010	2009
	£m	£m
Trade debtors	21.8	17.6
Amounts owed by Group undertakings	12.9	12.9
Prepayments and accrued income	0.2	0.7
	34.9	31.2

11. Creditors: amounts falling due within one year

	2010	2009
	£m	£m
Borrowings (note 13)	47.6	253.0
Amounts owed to Group undertakings	33.3	21.3
Corporation tax (Group payments)	25.3	44.3
Other creditors	3.5	2.6
Accruals and deferred income	51.9	54.1
	161.6	375.3

12. Creditors: amounts falling due after more than one year

	2010	2009
	£m	£m
Borrowings (note 13)	653.9	357.8

13. Borrowings

	2010 £m	2009 £m
Amounts falling due within one year		
Money market borrowings	**47.5**	203.3
Amounts owed to Group undertakings	**0.1**	49.7
	47.6	253.0
Amounts falling due after more than one year		
£50m 3.053% Index Linked Bonds due June 2023	**59.8**	60.6
£300m 5.5% Eurobonds due June 2026	**297.4**	297.2
£300m 6.125% Eurobonds due November 2031	**296.7**	-
	653.9	357.8
	701.5	610.8

Loans are stated net of unamortised issue costs of £6.1m (2009: £3.0m) and include accretion on the index linked bond of £10.0m (2009: £10.8m). These costs together with the interest expense are allocated to the profit and loss account over the term of the debt.

On 12 November 2009 the Company received £296.7m from the issue of £300m Eurobonds under the £10 billion Euro Medium Term Note Programme. Interest is charged at 6.125% subject to adjustment depending on the investment grade rating of the Company and is payable annually in arrears on 12 November in each year. The bonds mature in November 2031.

14. Financial instruments

Risk management

The Company's funding, liquidity and exposure to interest rate risks are managed by the intermediate parent company, EDF Energy plc. Treasury operations are conducted within a framework of policies and guidelines authorised by the Board of EDF Energy plc.

(a) Interest rate and currency risk

The Company's long-term debt has been issued at fixed or index linked rates of interest. Exposure to short-term interest rate movements is limited to short-term investments and short and long term borrowings resulting from funding needs and working capital surpluses and deficits. The Company does not have any direct material exposure to foreign currencies.

(b) Interest rate profile

Interest earned on cash deposits is predominantly through money market investments. Money market investments are short term in nature and taken out at fixed rates of interest for the duration of the investment.

The interest rate profile of the Company's financial liabilities was as follows:

	Borrowings				Fixed Rate Borrowings	
	Floating rate	Index linked	Fixed rate	Total	Weighted average interest rate	Weighted average fixed period
	£m	£m	£m	£m	%	Years
As at 31 March 2010	**47.6**	**59.8**	**594.1**	**701.5**	**5.8**	**19.0**
As at 31 March 2009	253.0	60.6	297.2	610.8	5.5	17.0

The interest rate on the index linked financial liabilities (£50m Bond due 2023) is based on 3.053% index linked to the Retail Price Index over the period of the borrowing.

(c) Fair values

The fair values of financial instruments represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates at the year end.

The fair value of borrowings was as follows:

	Carrying amount 2010	**Fair value 2010**	Carrying amount 2009	Fair value 2009
Amounts payable:	**£m**	**£m**	£m	£m
Within one year	**47.6**	**47.6**	253.0	253.0
In more than five years	**653.9**	**699.1**	357.8	359.9
	701.5	**746.7**	610.8	612.9

The fair value of amounts payable within one year approximates the carrying value.

NOTES TO THE ACCOUNTS continued

14. Financial instruments continued

(d) Borrowing facilities

Included in amounts payable within one year are intra group borrowings of £0.1m (2009: £49.7m) drawn under the £200m Intra Group Revolving Credit Facility and £47.5m (2009: £203.3m) in short term Money Market Borrowings under the £1 billion Multi Issuer Commercial Paper Program.

15. Provisions for liabilities

The movements in provisions during the current year are as follows:

	At 1 April 2009 £m	Arising during the year £m	Utilised during the year £m	Released during the year £m	**At 31 March 2010 £m**
Deferred tax	173.2	8.6	-	-	**181.8**
Other Provisions	0.9	-	(0.5)	(0.4)	-
Total Provisions	**174.1**	**8.6**	**(0.5)**	**(0.4)**	**181.8**

Deferred taxation provided in the financial statements is as follows:

	2010 £m	2009 £m
Accelerated capital allowances	**181.8**	174.4
Other timing differences	-	(1.2)
Provision for deferred tax	**181.8**	173.2

The movements in deferred taxation are as follows:

	At 1 April 2009 £m	Profit and loss account £m	Statement of total recognised gains and losses £m	**At 31 March 2010 £m**
Provision for deferred tax	173.2	8.6	-	**181.8**
Deferred tax shown against pension liability	(38.9)	(1.2)	(39.3)	**(79.4)**
Net deferred tax	**134.3**	**7.4**	**(39.3)**	**102.4**

16. Share capital

Authorised, allotted, called up and fully paid	**2010 Number**	2009 Number	**2010 £000**	2009 £000
Ordinary shares of £1.00 each	**50,000**	50,000	**50**	50

17. Reconciliation of shareholder's funds

	Share Capital £m	Profit and loss account £m	**Total shareholder's funds £m**
At 1 April 2008	0.1	304.6	**304.7**
Profit for the year	-	54.9	**54.9**
Actuarial loss net of deferred tax on defined pension benefits	-	(85.9)	**(85.9)**
At 31 March 2009	0.1	273.6	**273.7**
Profit for the year	-	63.1	**63.1**
Actuarial loss net of deferred tax on defined pension benefits	-	(101.1)	**(101.1)**
At 31 March 2010	**0.1**	**235.6**	**235.7**

18. Capital commitments

Amounts contracted for but not provided in the Regulatory Accounts amounted to £66.3m (2009: £69.9m).

19. Pension commitments

Former employees of the Company participate in the EDF Energy Group of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme, now closed to new members. The scheme is accounted for in accordance with FRS 17. On 1 September 2005 the EDF Energy Group of the ESPS was created by the merger of the Company's two ESPS Groups, the London Electricity Group of the ESPS and the SEEBOARD Group of the ESPS. The London Electricity group and SEEBOARD group of the ESPS closed to new employees in April 1994 and July 1995 respectively.

The latest full actuarial valuation of the EDF Energy Group of the ESPS was carried out by Hewitt Bacon & Woodrow, consulting actuaries, as at 31 March 2007. The valuation was agreed on 25 January 2008, at the same time that a special contribution was agreed to fund the ESPS deficit over an 8 year period to 31 March 2015. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

19. Pension commitments continued

The principal financial assumptions used to calculate ESPS liabilities under FRS 17 were:

	2010	2009
	%	%
Discount rate	**5.5**	6.7
Inflation assumption	**3.7**	2.8
Rate of increase in salaries	**5.7**	4.8
Rate of increase of pensions increases		
- full retail price indexation ("RPI")	**3.7**	2.8

The table below shows details of assumptions around mortality rates used to calculate the FRS 17 ESPS liabilities.

	31 March 2010	31 March 2009
	years	years
Life expectancy for current male pensioner aged 60	**27.2**	27.0
Life expectancy for current female pensioner aged 60	**30.5**	30.4
Life expectancy for future male pensioner currently aged 40 from age 60	**30.0**	29.9
Life expectancy for future female pensioner currently aged 40 from age 60	**31.8**	31.7

These assumptions are governed by FRS 17 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2007, which determined the Group's contribution rate for future years.

The amount recognised in the balance sheet in respect of the defined benefit retirement benefit plan is as follows:

	2010	2009
	£m	£m
Fair value of scheme assets	**716.8**	576.9
Present value of defined benefit obligations	**(1,000.3)**	(715.9)
Deficit in scheme	**(283.5)**	(139.0)
Related deferred tax asset	**79.4**	38.9
Liability recognised in the balance sheet	**(204.1)**	(100.1)

This amount is presented in pension liabilities.

19. Pension commitments continued

Amounts recognised in the profit and loss account in respect of the defined benefit scheme are as follows:

	2010 £m	2009 £m
Interest cost on pension scheme liabilities	**(47.0)**	(50.5)
Expected return on scheme assets	**33.8**	46.1
Net return on pension scheme	**(13.2)**	(4.4)

The net charge for the year of £13.2m (2009: £4.4m) has been included in interest payable.

Movements in the present value of defined benefit obligations in the current period were as follows:

	2010 £m	2009 £m
At 1 April	**(715.9)**	(753.8)
Interest cost	**(47.0)**	(50.5)
Actuarial (loss)/gain	**(273.4)**	51.4
Benefits paid	**36.0**	37.0
At 31 March	**(1,000.3)**	(715.9)

Movements in the present value of fair value of scheme assets in the current period were as follows:

	2010 £m	2009 £m
At 1 April	**576.9**	730.2
Expected return on scheme assets	**33.8**	46.1
Actuarial gain/(loss)	**133.0**	(170.7)
Deficit payments	**9.1**	8.3
Benefits paid	**(36.0)**	(37.0)
At 31 March	**716.8**	576.9

19. Pension commitments continued

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

	Expected return		Fair value of assets	
	2010	2009	**2010**	2009
	%	%	**£m**	£m
Gilts - fixed	**4.6**	4.0	**177.3**	198.8
Equities	**8.2**	7.6	**297.1**	266.7
Property	**8.7**	6.6	**18.5**	12.4
Corporate bonds	**5.9**	5.7	**185.6**	87.7
Cash	**0.7**	2.2	**38.3**	11.3
			716.8	576.9

EDF Energy plc group employs a building block approach in determining the long term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long term rate of return on assets is then derived by aggregating the expected return for each asset class over the actual allocation for ESPS as at 31 March 2010.

The actual return on scheme assets in the year was a gain of £166.8m (2009: £124.6m loss).

History of experience gains and losses are as follows:

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Fair value of scheme assets	**716.8**	576.9	730.2	750.9	740.8
Present value of defined benefit obligations	**(1,000.3)**	(715.9)	(753.8)	(826.5)	(815.8)
Deficit in the scheme	**(283.5)**	(139.0)	(23.6)	(75.6)	(75.0)
Experience adjustments on scheme liabilities:					
Amount (£m)	**(7.6)**	(1.4)	(26.3)	(2.4)	(1.9)
Percentage of scheme liabilities (%)	**0.8**	0.2	3.5	0.3	0.2
Experience adjustments on scheme assets:					
Amount (£m)	**133.0**	(170.7)	(51.6)	(25.9)	105.9
Percentage of scheme assets (%)	**18.6**	29.6	7.1	3.4	14.3

19. Pension commitments continued

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is as follows:

	2010	2009
	£m	£m
At 1 April	**(77.0)**	8.9
Actuarial loss	**(140.4)**	(119.3)
Deferred taxation	**39.3**	33.4
At 31 March	**(178.1)**	(77.0)

20. Notes to the cash flow statement

	2010	2009
	£m	£m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**128.2**	112.7
Depreciation of tangible fixed assets	**42.9**	39.5
Decrease in debtors	**8.4**	0.4
(Decrease)/increase in creditors	**(7.7)**	0.3
(Decrease)/increase in provisions	**(0.9)**	0.9
Pension deficit payment	**(9.1)**	(8.3)
Loss/(profit) on sale of fixed assets	**0.4**	(0.1)
Net cash inflow from operating activities	**162.2**	145.4

21. Related parties

As part of the EDF Group, the Company engages in transactions with other Group companies in the normal course of business.

Charges were received from other Group entities (principally EDF Energy Networks Limited) in respect of costs incurred on the Company's behalf. These were for personnel and administration costs, capital expenditure (net of customer contributions), metering services, loan interest, etc, and amounted to £248.3m for the year ended 31 March 2010 (2009: £230.6m).

Trading balances owed to other Group entities amounted to £33.3m (2009: £21.3m), and a loan was outstanding from a parent company EDF Energy plc of £0.1m (2009: £49.7m). Balances due from other Group entities amounted to £12.9m (2009: £12.9m).

DUoS revenues from related party customers have not been disclosed for reasons of commercial sensitivity.

22. Parent undertaking and controlling party

EDF Energy (South East) plc holds a 100% interest in the Company and is considered to be the immediate parent company. EDF Energy plc heads the smallest group for which consolidated financial statements are prepared which include the results of the Company. Copies of the consolidated financial statements may be obtained from the registered office shown on the contents page.

At 31 March 2010 Electricité de France SA (EDF), a company incorporated in France, is regarded by the Directors as the Company's ultimate parent company and controlling party. This is the largest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from Electricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.