EDF ENERGY NETWORKS (LPN) PLC
(DISTRIBUTION BUSINESS)

Regulatory Accounts

for the year ended 31 March 2007

CONTENTS

Directors

Vincent de Rivaz
Humphrey A E Cadoux-Hudson
Paul Cuttill

Company Secretary

Robert Ian Higson

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

Registered Office

40 Grosvenor Place
Victoria
London
SW1X 7EN

OPERATIONAL REVIEW

Operation

EDF Energy Networks (LPN) plc ("LPN") distributes electricity to approximately 2.2 million customers in the London area 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 employs no staff (2006: nil). Staff are employed by EDF Energy Networks Ltd, which operates the Network on the Company's behalf.

The EDF Energy plc Networks Branch 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) Limited).

Risks

The Company is exposed to both normal business risks and specific industry risks and it has 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.

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 and road traffic accidents as well as general wear.

Health, Safety and Environment

Programmes under the Company's Health, Safety and Environment activities 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;
- Harmonisation of our approach to the management of Health Safety and the Environment across all three 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.

OPERATIONAL REVIEW continued

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

The Company has net debt of £503.7m (2006: £538.7m) which represents approximately 48% (2006: 55%) of the Regulatory Asset Value of the Company. The net debt includes £474.5m of bonds (2006: £469.3m), a £41.9m short term credit revolving facility (2006: £58.6m) and a £14.6m loan due to other Group undertakings (2006: £11.5m) which are offset by cash balances of £5.3m (2006: £0.7m) and investments of £22.0m (2006: £nil). The debt was secured at competitive fixed rates of interest and the weighted average interest rate is 6.1% (2006: 6.1%). Interest is payable annually on the £300m bond in June and paid twice yearly on the £150m bond in June and December.

The Company receives interest on positive cash balances and pays interest on overdrafts. The Company does not invest directly but participates in the EDF Group of companies ("EDF Energy") scheme whereby all of the funds are pooled to deliver more competitive interest rates. The EDF Energy treasury department invests under strict procedures, which limit the amount and duration of investments, and only allows money to be deposited with investment grade banks.

The Company generates cash primarily from use of system charges which are payable within 14 days of the demand for payment. Payments to suppliers and contractors are made 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.

Comparison to price control

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 the Office of Gas and Electricity Markets ("Ofgem") but was not accepted by Ofgem. Instead, the Company was set challenging targets for the levels of operating and capital expenditure which have been 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 Company is subject to price control that 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.

At the last price control, allowed revenue was reduced by 2.2%, on a one off basis, from 1 April 2005 and in subsequent years it will increase by RPI. Allowed revenue makes up a substantial proportion of total revenue. 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.

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 2007 the Company has under recovered revenue by £16.5m (2006: £17.4m).

OPERATIONAL REVIEW continued

Performance

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.

Operational capital expenditure in 2006/7 was £99.2m (2005/6: £84.5m) against a price control allowance of £111.7m (2005/6: £107.9m). The five year allowance has been broadly allocated equally for each year whereas the planned expenditure is weighted towards the end of the period. During 2006/7 LPN invested in a range of improvements to its electricity distribution network, including provision of significant additional network capacity to meet growing demand and the renewal of significant elements of the Central London infrastructure.

Operating costs excluding regulatory depreciation totalled £53.8m (2005/6: £42.7m) compared to a price control allowance of £45.6m (2005/6: £44.6 m).

The price control includes regulatory depreciation that assumes a 20 year cost recovery period for post-vesting assets. Actual asset lives, on average, exceed 40 years and this is reflected by a lower depreciation charge in the Statutory and Regulatory Accounts. For the comparison to the price control only, depreciation has been restated to align with regulatory depreciation assumptions.

The weighted average cost of debt for the Company in the year was 6.1%.

DIRECTORS' REPORT

The Directors present their report and the audited Regulatory Accounts for the year ended 31 March 2007.

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 on for the year before taxation amounted to £159.9m (2006: £128.3m) and after taxation, amounted to £109.4m (2006: £94.6m). A final dividend of £30.0m (2006: £61.7m) was approved and paid in the year.

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.

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.

Directors and their interests

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

Vincent de Rivaz

Humphrey Cadoux-Hudson

Paul Cuttill

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

There are no contracts of significance during or at the end of the regulatory year in which a Director of the Company had a material interest.

None of the Directors who held office at the end of the regulatory year had any interest in the shares of the Company or any other Group Company in either year required to be disclosed under the Companies Act 1985.

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

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 s234ZA of the Companies Act 1985.

Political and charitable contributions

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

DIRECTORS' REPORT Continued

Creditors payment policy

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

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

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception. Trade creditor days at 31 March 2007 were 19 days (2006: 18) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Derivatives and other 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, bank borrowings, medium-term loans, long-term loans and commercial paper. The Company has borrowings denominated in sterling at fixed 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 summarised below 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 Company's parent Company, EDF Energy plc.

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.

Going concern

The Regulatory Accounts have been prepared on a going concern basis. The Directors have considered the financial adequacy of the Company as required by condition 44 of the licence and are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Robert Ian Higson
Company Secretary
26th July 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Standard Licence Condition 42 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 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 1985 and Standard Licence Condition 42 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT ON CORPORATE GOVERNANCE

EDF Energy plc (the Group) is a wholly owned subsidiary of EDF SA. EDF SA, being a company 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 Group has adopted the EDF Group 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, implemented in 2003, 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 Branch level;
- maintain a record of significant risks faced by each Branch 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 plc (through the Audit Committee) is responsible for the Group's system of internal control and for reviewing its effectiveness. However, 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, Branch 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.

Risk identification and control

The Director of Governance and Group Synergies is responsible for maintaining an oversight of Group systems of Internal Control and risk management, working closely with the branches 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.

REPORT ON CORPORATE GOVERNANCE Continued

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 ambitions into key measures required to achieve sustainable value. Company measures are cascaded to Branch and Corporate functions and each branch translates the branch measures into team or sub-branch 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. Branch Chief Operating Officers and Managing Directors report regularly on operating performance.

The Audit Committee is a sub-committee of the Board 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 both 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 from EDF.

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.

REPORT ON CORPORATE GOVERNANCE Continued

Effectiveness review

The Group is continuously making improvements to the system of internal control. The revised EDF Group Internal Control and Audit Policy requires, inter alia, that as from the end of 2007 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 2006 self assessment of the systems of Internal Control in EDF Energy, 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 to such an extent 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 (LPN) PLC ("THE COMPANY")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2007 on pages 12 to 28 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes numbered 1 to 22.

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 42 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 42 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 1985.

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 42 of the Regulatory Licence are set out in the Statement of Directors' responsibilities on page 6.

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 42 of the Company's Regulatory Licence and the accounting policies set out on pages 15 to 17, 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 Operational Review of the year, 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 within the Regulatory Accounts.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing issued by the UK 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 (LPN) 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.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we reported on 28 June 2007, 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 section 235 of the Companies Act 1985. 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.

Opinion

In our opinion the Regulatory Accounts present fairly in accordance with Standard Condition 42 of the Company's Regulatory Licence and the accounting policies set out on pages 15 to 17, the state of affairs of the Company as at 31 March 2007 and of its profit and cash flows for the year then ended, and have been properly prepared in accordance with Standard Condition 42 and the Company's accounting policies.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
31 July 2007

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 £m	2006 £m
Turnover		**296.7**	272.8
Cost of sales		**(10.3)**	(10.1)
Gross profit		**286.4**	262.7
Distribution costs	3	**(107.3)**	(105.6)
Administrative expenses	3	**(0.1)**	(0.6)
Operating profit		**179.0**	156.5
Interest receivable and similar income	5	**13.1**	6.2
Interest payable and similar charges	6	**(32.2)**	(34.4)
Profit on ordinary activities before taxation		**159.9**	128.3
Tax on profit on ordinary activities	7	**(50.5)**	(33.7)
Profit for the financial year	17	**109.4**	94.6

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 2007

	Note	2007 £m	2006 £m
Profit for the financial year		**109.4**	94.6
Actuarial (loss)/gain net of deferred tax on defined pension benefits	17	**(21.1)**	21.8
Total recognised gain relating to the year		**88.3**	116.4

The deferred tax credit reflected in the actuarial loss net of deferred tax on defined benefit pensions amounted to £9.0m (2006: charge £9.3m).

BALANCE SHEET
AS AT 31 MARCH 2007

	Note	**2007 £m**	2006 £m
Fixed assets			
Tangible assets	8	**1,264.7**	1,174.3
Current assets			
Debtors	9	**39.3**	50.1
Investments: unlisted money market investments		**22.0**	-
Cash at bank and in hand		**5.3**	0.7
		66.6	50.8
Creditors (amounts falling due within one year)	10	**(228.9)**	(192.7)
Net current liabilities		**(162.3)**	(141.9)
Total assets less current liabilities		**1,102.4**	1,032.4
Creditors (amounts falling due after more than one year)	11	**(474.5)**	(469.3)
Provisions for liabilities and charges	14	**(229.5)**	(224.7)
Net assets excluding pension liability		**398.4**	338.4
Pension liability	19	**(60.4)**	(58.7)
Net assets including pension liability		**338.0**	279.7
Capital and reserves			
Called up share capital	15	**10.0**	10.0
Profit and loss account	17	**328.0**	269.7
Equity shareholder's funds	17	**338.0**	279.7

The financial statements on pages 12 to 28 were approved by the Board of Directors on 26th July 2007 and were signed on its behalf by:

Humphrey A E Cadoux-Hudson
Director

CASH FLOW STATEMENT

	Note	2007 £m	2006 £m
Net cash inflow from operating activities	20	**233.7**	165.1
Returns on investments and servicing of finance			
Interest received		**0.7**	6.2
Interest paid		**(39.5)**	(26.7)
		(38.8)	(20.5)
Taxation			
Corporation tax paid		**-**	(22.8)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(172.0)**	(141.6)
Receipts of customer contributions		**47.1**	36.8
Receipts from sale of tangible fixed assets		**0.2**	-
		(124.7)	(104.8)
Equity dividends paid		**(30.0)**	(61.7)
Net cash flow before management of liquid resources and financing		**40.2**	(44.7)
Management of liquid resources			
(Increase) / Decrease in short term deposits		**(22.0)**	74.8
Net cash flow before financing		**18.2**	30.1
Financing			
(Decrease) in short term borrowing		**(13.6)**	(29.8)
(Decrease) in long term borrowing		**-**	(0.1)
		(13.6)	(29.9)
Increase in cash for the year		**4.6**	0.2

Reconciliation of net cash flow to movement in net debt		
Increase in cash for the year	**4.6**	0.2
Increase / (Decrease) in liquid resources	**22.0**	(74.8)
Decrease in short term borrowing	**13.6**	29.8
Decrease in long term borrowing	**-**	0.1
Change in net debt resulting from cash flows	**40.2**	(44.7)
Net non-cash movements	**(5.2)**	(4.5)
Movements in net debt	**35.0**	(49.2)
Net debt at 1 April	**(538.7)**	(489.5)
Net debt at 31 March	**(503.7)**	(538.7)

NOTES TO THE FINANCIAL STATEMENTS

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.

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 in accordance with applicable United Kingdom accounting standards, except as noted below in respect of "Tangible fixed assets".

Regulatory Accounts are separate to the audited Statutory Financial statements prepared to 31 December each year.

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

Capital 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 1985, 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 8.

Finance Costs

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

Debt

Debt is 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.

NOTES TO THE FINANCIAL STATEMENTS Continued

1 Accounting policies continued

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; 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.

Derivatives and other 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, bank borrowings, medium-term loans, long-term loans and commercial paper. The Company has borrowings denominated in Sterling at both fixed and floating rates of interest. The main risks arising from the Company's financial instruments are interest rate risk. The Company's policy for managing these risks is summarised below 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 a parent company, EDF Energy plc.

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.

Investments

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

NOTES TO THE FINANCIAL STATEMENTS Continued

1 Accounting policies continued

Pensions

Former employees of the Company participate in a number of group-wide funded defined benefit pension arrangements, and the Company accounts for these schemes in accordance with FRS 17 'Retirement Benefit', ("FRS 17").

The amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. 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 schemes are 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.

2 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.

3 Net operating costs and administrative expenses

		2007	2006
		£m	£m
Net operating costs	- Depreciation	**34.3**	31.4
	- Other	**73.0**	74.2
		107.3	105.6
Administrative expenses		**0.1**	0.6
		107.4	106.2

Amounts payable to Deloitte & Touche LLP and their associates by the Company in respect of statutory audit services were £30,000 (2006: £29,048) and in respect of non-statutory audit services were £18,000 (2006: £17,429). In the prior year these were borne by another Group Company. The Company had no employees in 2007 (2006: None).

NOTES TO THE FINANCIAL STATEMENTS Continued

4 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.

5 Interest receivable and similar income

	2007	2006
	£m	£m
Net return on pension scheme	**12.4**	3.7
Other interest receivable	**0.7**	2.5
	13.1	6.2

6 Interest payable and similar charges

	2007	2006
	£m	£m
Interest payable on loans from other group companies	**0.8**	0.3
On loans wholly repayable within five years	**2.6**	5.9
On external loans repayable after five years	**28.8**	28.2
Interest payable	**32.2**	34.4

7 Tax on profit on ordinary activities

(a) Analysis of tax charge for the year:

	2007	2006
	£m	£m
UK current tax		
UK corporation tax at 30% (2006: 30%)	**40.9**	34.3
Adjustment in respect of prior years	**(3.7)**	(8.4)
Total current tax charge (Note(b))	**37.2**	25.9
UK deferred tax		
Origination and reversal of timing differences	**8.0**	4.8
Adjustment in respect of prior year	**5.3**	3.0
Total deferred tax charge for the year	**13.3**	7.8
Tax on profit on ordinary activities	**50.5**	33.7

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

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30%. The difference is explained below:

Profit on ordinary activities before tax	**159.9**	128.3
Tax on profit on ordinary activities at standard UK rate of corporation tax of	**48.0**	38.5
Effect of:		
Expenses not deductible for tax purposes	**0.9**	0.7
Accelerated capital allowances	**-**	1.2
Movement in pension liability	**(8.3)**	(5.7)
Other timing differences	**0.3**	(0.4)
Adjustment in respect of prior years	**(3.7)**	(8.4)
Current tax charge for the period	**37.2**	25.9

8 Tangible fixed assets

	Network	Non-network land and buildings	Vehicles	Fixtures and equipment	Customer contributions	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2006	2,328.3	19.6	0.6	75.5	(508.2)	1,915.8
Additions	163.9	2.2	0.6	5.3	(47.1)	124.9
Disposals	(4.5)	-	-	-	-	(4.5)
At 31 March 2007	**2,487.7**	**21.8**	**1.2**	**80.8**	**(555.3)**	**2,036.2**
Depreciation						
At 1 April 2006	789.5	6.9	0.1	72.0	(127.0)	741.5
Charge for the year	45.4	0.2	0.2	0.8	(12.3)	34.3
Disposals	(4.3)	-	-	-	-	(4.3)
At 31 March 2007	**830.6**	**7.1**	**0.3**	**72.8**	**(139.3)**	**771.5**
Net book value						
At 31 March 2007	**1,657.1**	**14.7**	**0.9**	**8.0**	**(416.0)**	**1,264.7**
At 31 March 2006	1,538.8	12.7	0.5	3.5	(381.2)	1,174.3

Network assets include operational land valued of £11.9m (2006: £11.3m)

The net book amount of non-network land and buildings comprised:	**2007**	2006
	£m	£m
Freehold buildings	**10.3**	8.3
Freehold land	**4.4**	4.4
	14.7	12.7

Assets in course of construction included within the tangible fixed assets shown above amounted to £62.7m as at 31 March 2007 (2006: £41.6m)

NOTES TO THE FINANCIAL STATEMENTS Continued

9 Debtors: amounts falling due within one year

	2007 £m	2006 £m
Trade debtors	**17.7**	16.1
Amounts owed by other Group undertakings	**21.5**	18.7
Prepayments and accrued income	**0.1**	15.3
	39.3	50.1

10 Creditors: amounts falling due within one year

	2007 £m	2006 £m
Borrowings (note 12)	**56.5**	70.1
Trade creditors	**0.7**	0.6
Amounts owed to other Group undertakings	**63.9**	48.5
Corporation tax (Group payments)	**80.4**	43.2
Other creditors	**6.4**	4.7
Accruals and deferred income	**21.0**	25.6
	228.9	192.7

11 Creditors: amounts falling due after more than one year

	2007 £m	2006 £m
Borrowings (note 12)	**474.5**	469.3
	474.5	469.3

12 Borrowings

	2007	2006
	£m	£m
Amounts falling due within one year		
Loan due to other Group undertakings	**14.6**	11.5
Short term credit revolving facility	**41.9**	58.6
	56.5	70.1
Amounts falling due after more than one year		
£300m 6.125% Bonds due June 2027	**305.5**	305.8
£150m 3.125% Index Linked Bonds due June 2032	**169.0**	163.5
	474.5	469.3
	531.0	539.4

13 Derivatives and financial instruments

Risk management

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

The following disclosures are in compliance with FRS 25: Financial Instruments: disclosures and presentation.

(a) Interest rate and currency risk

The Company's long-term debt has been issued at fixed rates of interest, with the exception of the floating rate bond described below. 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

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

	Total	Floating rate	Fixed rate	Weighted average interest rate	Weighted average fixed period
	£m	£m	£m	%	Years
As at 31 March 2007	**531.0**	**225.5**	**305.5**	**6.1**	**20.0**
As at 31 March 2006	539.4	233.6	305.8	6.1	21.0

The interest rate on floating rate financial liabilities (Eurobonds 2032) is based on 3.125% index linked to the Retail Price Index over the period of the borrowing.

13 Derivatives and financial instruments continued

(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.

Amounts payable:	**Carrying amount 2007 £m**	**Fair value 2007 £m**	Carrying amount 2006 £m	Fair value 2006 £m
Within one year	**56.5**	**56.5**	70.1	70.1
In more than five years	**474.5**	**567.9**	469.3	568.1
	531.0	**624.4**	539.4	638.2

Included within amounts payable within one year is a short term loan of £41.9m (2006: £70.1m). The fair value of this debt is equal to the carrying value.

14 Provisions for liabilities and charges

	At 1 April 2006 £m	Released in the year £m	Arising during the year £m	**At 31 March 2007 £m**
Deferred tax	220.0	-	5.0	**225.0**
Wayleaves	4.5	(0.4)	-	**4.1**
Other	0.2	-	0.2	**0.4**
	224.7	(0.4)	5.2	**229.5**

Deferred taxation provided in the financial statements is as follows:

	2007 £m	2006 £m
Accelerated capital allowances	**228.0**	222.7
Other timing differences	**(3.0)**	(2.7)
Provision for deferred tax	**225.0**	220.0

NOTES TO THE FINANCIAL STATEMENTS Continued

14 Provisions for liabilities and charges continued

The movements in deferred taxation are as follows:

	2006	Profit and loss account	Statement of total recognised gains and losses	**2007**
	£m	£m	£m	**£m**
Provision for deferred tax	220.0	5.0	-	**225.0**
Deferred tax shown against pension liability	(25.2)	8.3	(9.0)	**(25.9)**
Net deferred tax	194.8	13.3	(9.0)	**199.1**

15 Share capital

Authorised, allotted, called up and fully paid	**2007**	2006	**2007**	2006
	Number	Number	**£m**	£m
Ordinary shares of £1.00 each	**10,000,000**	10,000,000	**10.0**	10.0

16 Dividends paid

	2007	2006
	£m	£m
Ordinary dividends on equity shares – 300p per share (2006: 617p)	**30.0**	61.7

17 Reconciliation of shareholder's funds and movement on reserves

	Share Capital	Profit and loss account	Equity shareholder's funds
	£m	£m	£m
As at 1 April 2006	10.0	269.7	279.7
Profit for the year	-	109.4	109.4
Dividend paid	-	(30.0)	(30.0)
Actuarial gain net of deferred tax on defined pension benefits	-	(21.1)	(21.1)
At 31 March 2007	**10.0**	**328.0**	**338.0**

18 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £105.2m (2006: £43.3m).

NOTES TO THE FINANCIAL STATEMENTS Continued

19 Pension commitments

Former employees of the Company participate in a number of group-wide funded defined benefit pension arrangements, and the Company accounts for these schemes in accordance with FRS17.

The principal pension schemes of EDF Energy plc are the EDF Energy Pension Scheme (EEPS) and the EDF Energy Group of the Electricity Supply Pension Scheme (ESPS), which is now closed to new members. Both of these schemes are defined benefit schemes. On 1 September 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 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 2004. The valuation was agreed on 15 December 2004, at the same time that a special contribution was agreed to fund the deficit over a 12 year period from 1 April 2005. 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.

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

	2007	2006
	% p.a.	% p.a.
Discount rate	**5.4**	4.9
Inflation assumption	**3.2**	3.0
Rate of increase in salaries	**4.2**	4.0
Rate of increase of pensions increases RPI	**3.2**	3.0

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 2004, which determined the Group's contribution rate for future years.

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

	2007	2006
	£m	£m
Fair value of scheme assets	**775.0**	766.2
Present value of defined benefit obligations	**(861.3)**	(850.1)
Deficit in scheme	**(86.3)**	(83.9)
Related deferred tax asset	**25.9**	25.2
Liability recognised in the balance sheet	**(60.4)**	(58.7)

This amount is presented in pension liabilities.

19 Pension commitments continued

Analysis of the amounts charged to the profit and loss account in respect of these defined benefit schemes are as follows:

	2007	2006
	£m	£m
Expected return on pension scheme assets	**63.8**	44.5
Interest on pension scheme liabilities	**(51.4)**	(40.8)
Net return on pension scheme	**12.4**	3.7

Analysis of the actuarial (loss)/ gain in the statement of total recognised gains and losses:

	2007	2006
	£m	£m
Actual return less expected return on pension scheme assets	**(26.8)**	109.5
Experience gains and losses arising on scheme liabilities	**(2.4)**	(1.9)
Changes in assumptions underlying the present value of the scheme	**(0.9)**	(76.5)
	(30.1)	31.1

Movements in the scheme deficit in the current period were as follows:

	2007	2006
	£m	£m
At 1 April 2006	**(83.9)**	(134.0)
Deficit payments	**15.3**	15.3
Net finance income	**12.4**	3.7
Actuarial (loss) / gain	**(30.1)**	31.1
At 31 March 2007	**(86.3)**	(83.9)

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

	Expected return			Fair value		
	2007	2006	2005	**2007**	2006	2005
	%	%	%	**£m**	£m	£m
Gilts	**4.7**	4.3	4.7	**312.6**	149.1	97.3
Equities	**8.4**	8.0	8.0	**382.8**	539.1	470.3
Property	**7.4**	7.0	7.0	**20.2**	20.6	1.3
Corporate bonds	**5.2**	4.7	5.1	**48.2**	51.4	53.4
Cash	**5.5**	4.8	5.0	**11.2**	6.0	9.1
				775.0	766.2	631.4

NOTES TO THE FINANCIAL STATEMENTS Continued

19 Pension commitments continued

History of experience gains and losses are as follows:

	2007	2006	2005
	£m	£m	£m
Fair value of scheme assets	**775.0**	766.2	631.4
Present value of defined benefit obligations	**(861.3)**	(850.1)	(765.4)
Deficit in the scheme	**(86.3)**	(83.9)	(134.0)
Difference between the expected and actual return on			
Amount (£m)	**(26.8)**	109.5	19.0
Percentage of scheme assets (%)	**3.5**	14.3	3.0
Experience gains and losses on scheme liabilities			
Amount (£m)	**(2.4)**	(1.9)	20.3
Percentage of present value of scheme liabilities (%)	**0.3**	0.2	2.7
Total amount recognised in statement of total recognised			
Amount (£m)	**(21.1)**	21.8	8.8
Percentage of present value of scheme liabilities (%)	**2.4**	2.6	1.1

20 Notes to the cash flow statement

	2007	2006
	£m	£m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	**179.0**	156.5
Depreciation of tangible fixed assets	**34.3**	31.4
Decrease / (Increase) in debtors	**10.7**	(17.4)
Increase in creditors	**25.2**	9.9
Increase in provisions	**(0.2)**	-
Pension deficit payment	**(15.3)**	(15.3)
Net cash flow from operating activities	**233.7**	165.1

NOTES TO THE FINANCIAL STATEMENTS Continued

21 Related parties

In accordance with FRS 8 'Related party disclosures', the Company is exempt from disclosing transactions with entities that are part of the Group or investees of the Group qualifying as related parties, as it is a wholly owned subsidiary of a parent, which prepares consolidated accounts which are publicly available.

22 Ultimate holding company and ultimate controlling company

EDF Energy plc holds a 100% interest in EDF Energy Networks (LPN) plc and is considered to be the immediate parent company. EDF Energy plc heads the smallest group for which consolidated accounts are prepared which include the results of the Company. Consolidated accounts of that Company are available from EDF Energy plc, 40 Grosvenor Place, Victoria, London SW1X 7EN.

At 31 March 2007 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.