



**EDF ENERGY NETWORKS (LPN) PLC
(DISTRIBUTION BUSINESS)**

Regulatory Accounts

for the year ended 31 March 2006

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Directors

Vincent de Rivaz
Paul Cuttill
Humphrey A E Cadoux-Hudson

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 (2005: 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;
- 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 £538.7m (2005: £489.5m) which represents approximately 55% (2005: 53%) of the Regulatory Asset Value of the Company. The net debt includes £469.3m of bonds (2005: £564.8m), a £58.6m short term credit revolving facility (2005: £nil) and a £11.5m loan due to other Group undertakings (2005: £nil) which are offset by cash balances of £0.7m (2005: £0.5m). In 2005 net debt also included £74.8m investments (2006: £nil). The debt was secured at competitive fixed rates of interest and the weighted average interest rate is 6.13% (2005: 6.8%). 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 2006 the Company has under recovered revenue by £17.4m (2005: £5.4m).

OPERATIONAL REVIEW continued

Performance

Operational capital expenditure in 2005/6 was £89.6m against a price control allowance of £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 2005/6 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.

The weighted average cost of debt for the Company in the year was 6.13%.

Operating costs including regulatory depreciation totalled £156.2m compared to a price control allowance of £162.1m. This reflects the underspend in capital expenditure.

The price control includes regulatory depreciation that assumes a 33 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.

DIRECTORS' REPORT

The Directors of EDF Energy Networks (LPN) plc present their report and the audited Regulatory Accounts for the year ended 31 March 2006.

Principal activity and review of business

The principal activity of the Company is the distribution of electricity to domestic, commercial and industrial customers through network ownership, management, operation, maintenance and renewal.

The Company expects to continue its principal activity for the foreseeable future.

Results and dividends

The profit on ordinary activities for the year before taxation amounted to £128.3m (2005: £100.2m restated) and after taxation, amounted to £94.6m (2005: £57.6m restated).

Dividends of £61.7m (2005: £40.0m) were paid during 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.

Directors and their interests

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

Vincent de Rivaz (Chairman)

Humphrey Cadoux-Hudson

Paul Cuttill

None of the Directors has a service contract with the Company. 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 required to be disclosed under 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 2006 were 19 days based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Financial risk management

The company's approach to financial risk management is described in the operational review.

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.

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

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself 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.

By order of the Board



Robert Ian Higson
Company Secretary
28th July 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Standard Licence Condition 42 of the Distribution Licence requires the Directors to prepare Regulatory Accounts, for each regulatory year, which presents fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to the Company and of the 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

Statement of compliance

The 2003 FCR Combined Code includes a requirement for listed companies that the effectiveness of the system of internal control, including financial, operational, compliance controls, and risk management, is reviewed by the Directors. In addition, the Internal Control: Guidance for Directors on the Combined Code (the Turnbull Report) was published in September 1999, to provide guidance to directors in respect of such requirements.

As a company holding listed debt only, as well as being a subsidiary of Electricité de France, neither the Company nor its UK parent, EDF Energy plc has a requirement to comply with the Combined Code. However, EDF Energy plc and its subsidiaries ("the Group") support the principles set out in the Turnbull Committee Guidelines on risk management. Accordingly, the Board of Directors has decided to adopt the Turnbull Committee Guidelines and is committed to complying with these as best practice on a voluntary basis.

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 EDF Energy plc ("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.

In addition, Risk Management guidelines have been developed to provide a standard approach to Risk Management and 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.

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

Risk identification and control

The Head of Risk Assurance is responsible for maintaining an oversight of Group risk management, working closely with the Branches and other corporate functions to ensure that their risk management 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 Head of Process Assurance is responsible for defining the Group quality assurance structure and policies and developing a consistent approach to quality Group.

The main interfaces are between Management Audit and Risk Assurance whereby Risk Assurance is primarily responsible for ensuring the identification of risks and their mitigation and Management Audit is 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.

During the year the emphasis has been on the assessment of the adequacy of mitigating controls and the implementation of corrective action where required.

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 the effective operations to achieve overall objectives. Lines of responsibility and levels of authority are formally documented.

REPORT ON CORPORATE GOVERNANCE Continued

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 Branch 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 Branch's and functional heads at corporate level to the Group Executive Committee and the Board. The Group Executive Committee defines authority given to individual officers of the Group. The Committee also approves the operating plan and budget, authorises individual projects within that plan and approves the award of contracts either directly or by delegated authority within agreed limits. Membership of the Committee comprises the Group Chief Executive Officer, Branch Chief Operating Officers and Corporate Directors.

Information and communication

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 Group Board with advisory responsibility for issues related to Corporate Governance, risk and 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 Group 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.

The internal audit activities in the Group are provided by the UK Office of the EDF Corporate Audit department ("The UK Audit Office"). The UK Audit Office reviews the operation of internal controls using a risk-based methodology. The UK Audit Office reports quarterly 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.

Effectiveness review

The Group is continually making improvements to the system of internal control. This specific effectiveness review forms part of that system. At the end of the year the UK Audit Office reviewed the control environment and system of internal control. The review assessed the progress against the following areas:

- internal control environment;
- the risk management mechanisms;
- control activities;
- communication and information sharing; and
- monitoring of the system of internal control.

Material weaknesses

Significant weaknesses in internal control are reported to the Group Executive Committee and, if appropriate, to the Audit Committee. In 2006 there were no significant weaknesses in respect of the Company.

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 2006 on pages 11 to 29 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 23.

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 14 to 16, 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")

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 30 June 2006, 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 14 to 16, the state of affairs of the Company as at 31 March 2006 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

31st July 2006

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006**

	Note	2006 £m	2005 Restated £m
Turnover		272.8	262.5
Cost of sales		(10.1)	(9.1)
Gross profit		262.7	253.4
Distribution costs	3	(105.6)	(118.3)
Administrative expenses	3	(0.6)	(0.9)
Operating profit		156.5	134.2
Interest receivable and similar income	5	6.2	3.1
Interest payable and similar charges	6	(34.4)	(37.1)
Profit on ordinary activities before taxation		128.3	100.2
Tax on profit on ordinary activities	7	(33.7)	(42.6)
Profit for the financial year		94.6	57.6

All results are derived from continuing operations in both the current and preceding year. Prior year figures have been restated to reflect the adoption of FRS17 'Retirement benefits', from 1 January 2004 (note 15).

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006**

	Note	2006 £m	2005 £m
Profit for the financial year		94.6	57.6
Actuarial gain net of deferred tax on defined pension benefits	18	21.8	8.8
Total recognised gain relating to the year		116.4	66.4
Prior period adjustment – adoption of FRS 17	15, 18	(93.8)	
Total gains recognised since the last annual report		22.6	

The deferred tax credit reflected in the actuarial gain net of deferred tax on defined benefit pensions amounted to £9.3m (2005: £3.8m).

**BALANCE SHEET
AS AT 31 MARCH 2006**

	Note	2006 £m	2005 Restated £m
Fixed assets			
Tangible assets	8	1,174.3	1,100.9
Current assets			
Debtors	9	50.1	32.7
Investments: unlisted money market investments		-	74.8
Cash at bank and in hand		0.7	0.5
		50.8	108.0
Creditors (amounts falling due within one year)	10	(192.7)	(200.5)
Net current (liabilities) / assets		(141.9)	(92.5)
Total assets less current liabilities		1,032.4	1,008.4
Creditors (amounts falling due after more than one year)	11	(469.3)	(464.9)
Provisions for liabilities and charges	14	(224.7)	(224.7)
Net assets excluding pension liability		338.4	318.8
Pension liability	20	(58.7)	(93.8)
Net assets including pension liability		279.7	225.0
Capital and reserves			
Called up share capital	16	10.0	10.0
Profit and loss account	18	269.7	215.0
Equity shareholder's funds	18	279.7	225.0

The financial statements on pages 11 to 29 were approved by the Board of Directors on 28 July 2006 and were signed on its behalf by:



Paul Cuttill
Director

EDF ENERGY NETWORKS (LPN) PLC
31 March 2006

CASH FLOW STATEMENT	Note	2006 £m	2005 £m
Net cash inflow from operating activities	21	165.1	177.0
Returns on investments and servicing of finance			
Interest received		6.2	1.6
Interest paid		(26.7)	(32.0)
		(20.5)	(30.4)
Taxation			
Corporation tax paid		(22.8)	-
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(141.6)	(116.9)
Receipts of customer contributions		36.8	42.1
		(104.8)	(74.8)
Equity dividends paid		(61.7)	(40.0)
Net cash flow before management of liquid resources and financing		(44.7)	31.8
Management of liquid resources			
Decrease / (Increase) in short term deposits		74.8	(74.8)
Net cash flow before financing		30.1	(43.0)
Financing			
(Decrease) / increase in short term borrowing		(29.8)	99.9
Increase / (decrease) in long term borrowing		(0.1)	(90.4)
		(29.9)	9.5
Increase / (decrease) in cash for the year		0.2	(33.5)
Reconciliation of net cash flow to movement in net debt			
Increase / (decrease) in cash for the year		0.2	(33.5)
(Decrease) / increase in liquid resources		(74.8)	74.8
Decrease / (increase) in short term loans		29.8	(99.9)
(Increase) / decrease in long term loans		0.1	90.4
Change in net debt resulting from cash flows		(44.7)	31.8
Net non-cash movements		(4.5)	5.4
Movements in net debt		(49.2)	37.2
Net debt at 1 April		(489.5)	(526.7)
Net debt at 31 March		(538.7)	(489.5)

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, with the exception of accounting for pension costs under FRS17 'Retirement benefits' ("FRS17") as set out below (note 15).

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 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

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.

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

Pensions

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 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.

NOTES TO THE FINANCIAL STATEMENTS Continued

3 Net operating costs and administrative expenses

	2006	2005
	£m	Restated £m
Net operating costs		
- Depreciation	31.4	30.5
- Other	74.2	87.8
	105.6	118.3
Administrative expenses	0.6	0.9
	106.2	119.2

In 2006 and 2005, amounts payable to Deloitte & Touche LLP and their associates by the Company in respect of audit services were borne by another Group company. The company had no employees in 2006 (2005: none).

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

	2006	2005
	£m	£m
Net return on pension scheme	3.7	1.5
Other interest receivable	2.5	1.6
	6.2	3.1

NOTES TO THE FINANCIAL STATEMENTS Continued

6 Interest payable and similar charges

	2006 £m	2005 £m
Interest payable on loans from other group companies	0.3	0.1
On loans wholly repayable within five years	5.9	8.6
On external loans repayable after five years	28.2	28.4
Interest payable	34.4	37.1

7 Tax on profit on ordinary activities

(a) Analysis of tax charge for the year:	2006 £m	2005 £m Restated
UK current tax		
UK corporation tax at 30% (2005: 30%)	34.3	25.3
Adjustment in respect of prior years	(8.4)	-
Total current tax charge (Note(b))	25.9	25.3
UK deferred tax		
Origination and reversal of timing differences	4.8	5.4
Adjustment in respect of prior year	3.0	11.9
Total deferred tax charge for the year	7.8	17.3
Tax on profit on ordinary activities	33.7	42.6

(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	128.3	100.2
Tax on profit on ordinary activities at standard UK rate of corporation tax of 30% (2005: 30%)	38.5	30.1
Effect of:		
Expenses not deductible for tax purposes	0.7	0.6
Accelerated capital allowances	1.2	(6.3)
Movement in pension liability	(5.7)	(0.5)
Other timing differences	(0.4)	1.4
Adjustment in respect of prior years	(8.4)	-
Current tax charge for the period	25.9	25.3

NOTES TO THE FINANCIAL STATEMENTS Continued

8 Tangible fixed assets

(a)	Network	Non-network land and buildings	Vehicles	Fixtures and Fittings, Tools and Equipment	Customer contributions	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2005 restated	2,191.9	19.6	-	72.9	(471.4)	1,813.0
Additions	138.4	-	0.6	2.6	(36.8)	104.8
Disposals	(2.0)	-	-	-	-	(2.0)
At 31 March 2006	2,328.3	19.6	0.6	75.5	(508.2)	1,915.8
Depreciation						
At 1 April 2005 restated	750.0	6.2	-	71.5	(115.6)	712.1
Charge for the year	41.5	0.7	0.1	0.5	(11.4)	31.4
Disposals	(2.0)	-	-	-	-	(2.0)
At 31 March 2006	789.5	6.9	0.1	72.0	(127.0)	741.5
Net book amount						
At 31 March 2006	1,538.8	12.7	0.5	3.5	(381.2)	1,174.3
At 31 March 2005 restated	1,441.9	13.4	-	1.4	(355.8)	1,100.9

The 2005 opening balances have been restated to reflect a reclassification of assets between Network and Non network land and buildings, amounting to £2.1m.

(b)

Network assets include operational land valued of £11.3m (2004 £10.2m)

The net book amount of non-network land and buildings comprised:	2006 £m	2005 Restated £m
Freehold buildings	8.3	8.6
Freehold land	4.4	4.8
	12.7	13.4

(c)

Assets in course of construction included within the tangible fixed assets shown above amounted to £41.6m as at 31 March 2006 (2005: £52.3m)

NOTES TO THE FINANCIAL STATEMENTS Continued

9 Debtors: amounts falling due within one year

	2006 £m	2005 £m
Trade debtors	16.1	13.9
Amounts owed by other Group undertakings	18.7	18.7
Other debtors	-	0.1
Prepayments and accrued income	15.3	-
	50.1	32.7

10 Creditors: amounts falling due within one year

	2006 £m	2005 £m
Borrowings (Note 12)	70.1	99.9
Trade creditors	0.6	0.2
Amounts owed to other Group undertakings	48.5	24.2
Corporation tax (Group payments)	43.2	40.1
Other creditors	4.7	4.9
Accruals and deferred income	25.6	31.2
	192.7	200.5

11 Creditors: amounts falling due after more than one year

	2006 £m	2005 £m
Borrowings (note 12)	469.3	464.9
	469.3	464.9

12 Borrowings

	2006 £m	2005 £m
Amounts falling due within one year		
£100m LPN 8.625% Eurobond due October 2005	-	99.9
Loan due to other Group undertakings	11.5	-
Short term credit revolving facility due August 2006	58.6	-
	70.1	99.9
Amounts falling due after more than one year		
£300m/£200m 6.125% Bonds due June 2027	305.8	306.1
£150m 3.125% Index Linked Bonds due June 2032	163.5	158.8
	469.3	464.9
	539.4	564.8

NOTES TO THE FINANCIAL STATEMENTS Continued

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.

As permitted by FRS 13 – 'Derivatives and other Financial Instruments: Disclosures', short-term debtors and creditors have been excluded from disclosures.

(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 2006	539.4	233.6	305.8	6.13	21.0
As at 31 March 2005	564.8	158.8	406.0	6.8	16.8

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.

(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.

	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
	£m	£m	£m	£m
Amounts payable:				
Within one year	70.1	70.1	99.9	101.9
In more than five years	469.3	568.1	464.9	513.6
	539.4	638.2	564.8	615.5

Included within amounts payable within one year is a short term loan of £70.1m (2004: nil). The fair value of this debt is equal to the carrying value.

NOTES TO THE FINANCIAL STATEMENTS Continued

14 Provisions for liabilities and charges

	At 1 April 2005	Released in the year	Utilised in the year	Arising during the year	At 31 March 2006
	£m	£m	£m	£m	£m
Deferred tax	217.9	-	-	2.1	220.0
Other	6.8	(2.0)	(0.2)	0.1	4.7
	224.7	(2.0)	(0.2)	2.2	224.7

Deferred taxation provided in the financial statements is as follows:

	2006 £m	2005 £m
Accelerated capital allowances	222.7	221.0
Other timing differences	(2.7)	(3.1)
Provision for deferred tax	220.0	217.9

The movements in deferred taxation are as follows:

	2005 Restated	Profit and loss account	Statement of total recognised gains and losses	2006
	£m	£m	£m	£m
Provision for deferred tax	217.9	2.1	-	220.0
Deferred tax shown against pension liability	(40.2)	5.7	9.3	(25.2)
Net deferred tax	177.7	7.8	9.3	194.8

NOTES TO THE FINANCIAL STATEMENTS Continued

15 Prior year adjustments

The adoption of FRS17 'Retirement benefits', has required changes in the method of accounting for pension costs and liabilities. As a result of these changes in accounting policy the comparatives have been restated as follows:

Balance sheet	Pension deficit	Deferred taxation against pension liability	Net pension liability	Shareholders' funds
	£m	£m	£m	£m
At 31 March 2005 as published	-	-	-	318.8
Adoption of FRS17 at 1 April 2004	148.1	(44.4)	103.7	(103.7)
Adoption of FRS17 for the year ended 31 March 2005 – profit and loss account	(1.5)	0.4	(1.1)	1.1
Adoption of FRS17 for the year ended 31 March 2005 – statement of total recognised gains and losses	(12.6)	3.8	(8.8)	8.8
At 31 March 2005 as restated	134.0	(40.2)	93.8	225.0

Profit and loss account

	Interest receivable	Tax on profit on ordinary activities	Profit for the financial year
	£m	£m	£m
Year ended 31 March 2005 as published	1.6	(42.2)	56.5
Adoption of FRS17 for the year ended 31 March 2005	1.5	(0.4)	1.1
Year ended 31 March 2005 as restated	3.1	(42.6)	57.6

16 Share capital

Authorised, allotted, called up and fully paid	2006	2005	2006	2005
	Number	Number	£m	£m
Ordinary shares of £1.00 each	10,000,000	10,000,000	10.0	10.0

17 Dividends paid

	2006	2005
	£m	£m
Ordinary dividends on equity shares – 13.7p per ordinary share	61.7	40.0

NOTES TO THE FINANCIAL STATEMENTS Continued

18 Reconciliation of shareholder's funds and movement on reserves

	Share capital	Profit and loss account	Equity share- holders funds
	£m	£m	£m
At 31 March 2004	10.0	292.3	302.3
Prior year adjustment	-	(103.7)	(103.7)
As at 31 March 2004 as restated	10.0	188.6	198.6
Profit for the year restated (note 15)	-	57.6	57.6
Dividend paid	-	(40.0)	(40.0)
Actuarial gain net of deferred tax on defined pension benefits	-	8.8	8.8
As at 31 March 2005 as restated	10.0	215.0	225.0
Profit for the year	-	94.6	94.6
Dividend paid	-	(61.7)	(61.7)
Actuarial gain net of deferred tax on defined pension benefits	-	21.8	21.8
At 31 March 2006	10.0	269.7	279.7

19 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £43.3m (2005: £26.7m).

NOTES TO THE FINANCIAL STATEMENTS Continued

20 Pension commitments

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). 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 London Electricity group and SEEBOARD group of the ESPS closed to new employees in April 1994 and July 1995 respectively. New employees were offered membership of the following schemes; the SEEBOARD Final Salary Pension Plan, the London Electricity 1994 Retirement Plan (LERP), the 24seven Group Personal Pension Plan (24seven GPP), and the SEEBOARD Pension Investment Plan. The first of these schemes was a defined benefit scheme whilst all the others are defined contribution schemes.

The EDF Energy Group closed its non-ESPS pension arrangements (the London Electricity 1994 Retirement Plan, the SEEBOARD Final Salary Pension Plan, the SEEBOARD Pension Investment Plan, and the 24seven Group Personal Pension Plan) with effect from 29 February 2004. A new scheme, the EDF Energy Pension Scheme, a final salary arrangement, replaced these for future service from 1 March 2004. A special contribution of £2 million was made to the EDF Energy Pension Scheme at inception, and the regular ongoing employer's contribution has been assessed as 10% of pensionable pay. This contribution rate will be reviewed as a result of future actuarial valuations.

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.

NOTES TO THE FINANCIAL STATEMENTS Continued

20 Pension commitments continued

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

	2006	2005
	% p.a.	% p.a.
Discount rate	4.9	5.4
Inflation assumption	3.0	2.9
Rate of increase in salaries	4.0	3.9
Rate of increase of pensions increases RPI	3.0	2.9

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:

	2006	2005
	£m	£m
Fair value of scheme assets	766.2	631.4
Present value of defined benefit obligations	(850.1)	(765.4)
Deficit in scheme	(83.9)	(134.0)
Related deferred tax asset	25.2	40.2
Liability recognised in the balance sheet	(58.7)	(93.8)

This amount is presented in pension liabilities.

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

	2006	2005
	£m	£m
Expected return on pension scheme assets	44.5	42.2
Interest on pension scheme liabilities	(40.8)	(40.7)
Net return on pension scheme	3.7	1.5

NOTES TO THE FINANCIAL STATEMENTS Continued

20 Pension commitments continued

Analysis of the actuarial gain in the statement of total recognised gains and losses:

	2006	2005
	£m	£m
Actual return less expected return on pension scheme assets	109.5	19.0
Experience gains and losses arising on scheme liabilities	(1.9)	20.3
Changes in assumptions underlying the present value of the scheme liabilities	(76.5)	(26.7)
	31.1	12.6

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

	2006	2005
	£m	£m
At 1 April 2005	(134.0)	(148.1)
Deficit payments	15.3	-
Net finance income	3.7	1.5
Actuarial gain	31.1	12.6
At 31 March 2006	(83.9)	(134.0)

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

	Expected return		Fair value	
	2006	2005	2006	2005
	%	%	£m	Restated £m
Gilts	4.3	4.7	149.1	97.3
Equities	8.0	8.0	539.1	470.3
Property	7.0	7.0	20.6	1.3
Corporate bonds	4.7	5.1	51.4	53.4
Cash	4.8	5.0	6.0	9.1
			766.2	631.4

NOTES TO THE FINANCIAL STATEMENTS Continued

20 Pension commitments continued

History of experience gains and losses are as follows:

	2006 £m	2005 £m
Fair value of scheme assets	766.2	631.4
Present value of defined benefit obligations	(850.1)	(765.4)
Deficit in the scheme	(83.9)	(134.0)
<hr/>		
Difference between the expected and actual return on scheme assets		
Amount (£m)	109.5	19.0
Percentage of scheme assets	14.3%	3.0%
<hr/>		
Experience gains and losses on scheme liabilities		
Amount (£m)	(1.9)	20.3
Percentage of present value of scheme liabilities	0.2%	2.7%
<hr/>		
Total amount recognised in statement of total recognised gains and losses net of deferred tax on defined pension benefits		
Amount (£m)	21.8	8.8
Percentage of present value of scheme liabilities	2.6%	1.1%
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NOTES TO THE FINANCIAL STATEMENTS Continued

21 Notes to the cash flow statement

	2006	2005
	£m	Restated £m
(a) Reconciliation of operating profit to net cash inflow from operating		
Operating profit	156.5	134.2
Depreciation of tangible fixed assets	31.4	30.5
(Increase) / Decrease in debtors	(17.4)	22.4
Increase / (Decrease) in creditors	7.9	(13.3)
Increase in provisions	-	4.3
FRS 17 pension charge	(13.3)	(1.1)
<hr/>		
Net cash flow from operating activities	165.1	177.0

22 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.

23 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 2006 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.