EDF ENERGY NETWORKS (EPN) PLC
(formerly EPN Distribution Limited)
(DISTRIBUTION BUSINESS)

Regulatory Accounts

for the year ended 31 March 2004

EDF ENERGY NETWORKS (EPN) PLC – (formerly EPN Distribution Limited)

EDF ENERGY NETWORKS (EPN) PLC – (formerly EPN Distribution Limited)

OPERATIONAL REVIEW
for the year ended 31 March 2004

Operation

EDF Energy Networks (EPN) plc - ("EPN"), formerly EPN Distribution Limited, distributes electricity to around 3.4 million customers in the East Anglia and the North 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 Nil staff (2003: 30).

The reorganisation of EDF Energy plc (formerly London Electricity Group plc) has resulted in the development of a branch structure. 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).

As part of the reorganisation, staff have been transferred from the electricity distribution businesses and are now employed by EDF Energy Networks Ltd, who operate the network on the company's behalf.

Company name

The Company re-registered as EPN Distribution plc on 16 April 2003 and changed its name to EDF Energy Networks (EPN) plc on 30 June 2003. On the same day 24 Seven Utility Services Ltd changed its name to EDF Energy Networks Ltd.

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.

During the year the business operated a risk and control self-assessment regime facilitated by a Risk Monitoring Committee ("RMC"). The RMC 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:

- replacement of oil-filled cables;
- provision of oil bunds at grid and primary substations;
- Incident and injury free – initiative to make safety a value;
- Education in electricity – scheme to educate school children on the dangers of a live network;
- Fit for work – occupational health programme;
- reduction in use of herbicides; and
- a commitment to amenity under-grounding.

These measures are those that are specifically attributed to health, safety and the environment. In addition to the specific measures a significant element of 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
for the year ended 31 March 2004

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 focussed 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 £785.4m (2003: £757.4m) which represents approximately 66% (2003: 65%) of the Regulatory Asset Value. The net debt includes £693.4m in bonds (2003: £745.7m) and bank overdrafts of £Nil (2003: £11.7m). The debt was secured at competitive fixed rates of interest and the weighted average interest rate is 7.4% (2003: 8.7%). Interest is payable annually on the bond in March.

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 last 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 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 a one off reduction of 28% from 1 April 2000 and in subsequent years by 3% below 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 2004 the Company has over recovered revenue by £7.9m (2003: £7.8m under recovery).

OPERATIONAL REVIEW
for the year ended 31 March 2004

Performance

Cumulative operational capital expenditure in the current price control (commencing 1 April 2000) was £459.9m against a price control allowance of £541.2m. Reasons for the cumulative under-spend are difficult to determine as a robust breakdown of Ofgem's allowances is not available. However, savings have been achieved from a range of efficiency initiatives including, the introduction of an enhanced investment management process, better asset condition assessment, project design efficiency, and procurement savings. These and other initiatives have allowed the efficient deferral of some expenditure to future periods.

The weighted average cost of debt for EPN in the year was 7.4% and is the result of past efficient funding decisions.

Operating costs, including non-operational capital expenditure, totalled £261.3m, compared to a price control allowance of £287.2m. This under-spend relates primarily to Non Trading Rechargeable ("NTR") activity (which includes cable damage cost recovery and chargeable diversions). NTR is now undertaken by EDF Energy Networks Ltd and NTR costs are included within their financial statements. NGC exit charges, which are primarily a pass through cost, were £7.8m below the price control allowance. Standard controllable costs were £7.1m above price control allowance reflecting the increased pension costs, as a result of the company's share of EDF Energy's pension fund deficit.

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.

REPORT OF THE DIRECTORS
for the year ended 31 March 2004

The Directors of EDF Energy Networks (EPN) plc (formerly EPN Distribution Limited re-registered as a plc on 16 April 2003 and changed its name to EDF Energy Networks (EPN) plc on 30 June 2003) are pleased to present their report and the audited Regulatory Accounts for the year ended 31 March 2004.

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 before taxation was £118.0m (2003: £136.0m) and after taxation was £82.3m (2003: £95.0m).

Dividends of £30.0m (2003: £29.0m) 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:

	Appointed	Resigned
Vincent de Rivaz (Chairman)		
Humphrey Cadoux-Hudson	25 June 2003	
Paul Cuttill		
Kevin Morton		25 June 2003

None of the Directors has a service contract with the Company. One of the Directors is employed by and has a service contract with the ultimate parent company, Electricité de France ("EDF"). The remaining Directors are employed by EDF Energy plc (formerly London Electricity Group plc) and have service contracts with that company.

There were no contracts of significance during or at the end of the financial year in which a Director of the Company was materially interested.

None of the Directors who held office at the end of the year had an interest in the shares of the Company or any other EDF Energy plc company.

REPORT OF THE DIRECTORS
for the year ended 31 March 2004

Statement of Directors' responsibilities

Condition 42 of the Distribution licence requires the directors to prepare Regulatory Accounts, for each accounting reference period, which give a true and fair view of the assets, liabilities, reserves and provisions of, or reasonably attributable to, separate businesses as defined for that purpose in the licence and of the revenues, costs and cash flows of or reasonably attributable to those businesses 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 or where different the Regulatory Accounting Guidelines have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare 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. 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.

Creditors payment policy

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

- settle 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. At 31 March 2004, the creditor days for the regulatory year ended totalled 50 days (2003: 38 days).

REPORT OF THE DIRECTORS
for the year ended 31 March 2004

Donations

The Company did not make any charitable donations or political donations during either 2003 or 2004.

Going concern

The Regulatory Accounts have been prepared on a going concern basis because EDF Energy plc, the immediate parent company, has agreed to continue to support the company financially and not to recall amounts advanced to the company until the claims of all creditors have been met.

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.

By order of the Board

R I Higson
Company Secretary

REPORT ON CORPORATE GOVERNANCE
for the year ended 31 March 2004

Statement of compliance

The Combined Code introduced 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 this requirement.

EDF Energy supports the principles set out in the Turnbull Committee Guidelines on risk management. Since EDF Energy plc is a wholly owned subsidiary there is no statutory compliance obligation to comply. However, the EDF Energy 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.

During 2003 a Corporate Risk Assurance Policy was implemented. The policy is a statement of what EDF Energy is seeking to achieve by actively managing risk. It defines a governance structure together with roles and responsibilities that will allow EDF Energy to:

- promptly and continuously identify, evaluate, effectively control and report new 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 to the Group; 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 EDF Energy Board (through the Audit Committee) is responsible for the overall 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 system of internal control include:

Risk identification and control

The Head of Risk Assurance is responsible for maintaining an oversight of 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 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 quality assurance structure and policies and developing a consistent approach to quality.

The main interfaces are between Management Audit and Risk Assurance whereby Risk Assurance will be primarily responsible for ensuring the identification of risks and their mitigation and Internal Audit will be 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 identification and assessment of risks. The focus in 2004 will be on the assessment of the adequacy of mitigating controls and the implementation of corrective action where required.

Control environment

EDF Energy is committed to the highest standard of business conduct. EDF Energy is appropriately structured according to business areas, which allows for the effective operations to achieve overall objectives. Lines of responsibility and levels of authority are formally documented.

Control activities

Control procedures have been implemented throughout EDF Energy and are designed to ensure complete and accurate accounting for financial transactions, safeguard 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 Executive Committee and the Board. The Executive Committee defines authority given to individual officers of EDF Energy. 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 Chief Executive Officer of EDF Energy, Branch Chief Operating Officers and Corporate Directors.

Information and communication

Policies exist to ensure that employees are competent, have appropriate skills and receive information required to effectively perform their roles. The Intranet is widely used to communicate information to staff.

Monitoring and corrective action

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 control. This covers all aspects of risk management and the system of internal control including financial, operational and compliance controls. The scope includes all EDF Energy companies but ultimate responsibility remains with the Board. Membership includes the Chairman and 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 ensures that the risks are adequately managed.

The Group Management Audit department reviews the operation of internal controls using a risk-based methodology. The Head of Management Audit reports to the Director of Business Performance and to the Director, Technology and Business Performance. The Group Management Audit department reports quarterly to the Group Executive Committee and half yearly to the Audit Committee. Assignments are determined by reference to the risk and control framework and discussions with senior management including members of the Group Executive Committee.

Effectiveness review

EDF Energy is continually making improvements to the system of internal control. This specific effectiveness review forms part of that system. At the end of the 2003 Management Audit reviewed the extent of current compliance within the business regarding the key Turnball guidance, in particular those concerning the identification of risk and progress towards implementation of an embedded system of risk management. The review assessed the progress against the following criteria:

- internal control should be truly risk based;
- control characteristics should be a core philosophy across the organisation;
- mechanisms should be in place to give the Board assurance in relation to how key risks are assessed and managed; and
- the Board is actively involved in reviewing the effectiveness of the system.

The review identified that whilst EDF Energy has made satisfactory progress during the year, further improvements are required to achieve EDF Energy's objective of a fully embedded risk management process. These include developing awareness of risk management and the completion and monitoring of action plans.

Material weaknesses

Significant weaknesses in internal control are reported to the Executive Committee and, if appropriate, to the Audit Committee. In 2003 there were no significant weaknesses.

INDEPENDENT ACCOUNTANTS' REPORT TO THE OFFICE OF GAS AND ELECTRICITY MARKETS ("THE REGULATOR") AND EDF ENERGY NETWORKS (EPN) PLC ("THE COMPANY")

for the year ended 31 March 2004

We have audited the Regulatory Accounts of EDF Energy Networks (EPN) Plc ("the Company") on pages 11 to 28 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, cash flow statement and the related notes to the Regulatory Accounts.

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 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 (as modified by the revaluation of certain fixed assets) and in accordance with condition 42 of the Company's Regulatory Licence issued by the Regulator and the accounting policies set out in the statement of accounting policies.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not 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 conditions 42 of the Regulatory Licence are set out in the statement of directors' responsibilities on page 5.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards 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 our opinion as to whether the Regulatory Accounts present fairly, in accordance with condition 42 of the Company's Regulatory Licence and the accounting policies set out on pages 14 to 15, 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.

Basis of audit opinion

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

INDEPENDENT ACCOUNTANTS' REPORT TO THE OFFICE OF GAS AND ELECTRICITY MARKETS ("THE REGULATOR") AND EDF ENERGY NETWORKS (EPN) PLC ("THE COMPANY")

for the year ended 31 March 2004

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 Auditing Standards.

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 April 2004, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements 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 condition 42 of the Company's Regulatory Licence and the accounting policies set out on pages 14 to 15, the state of the Company's affairs at 31 March 2004 and of its profit and cash flow for the year then ended, and have been properly prepared in accordance with those conditions and accounting policies.

Ernst & Young LLP
London

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2004

	Note	2004 £m	Restated 2003 £m
Turnover		**359.8**	363.4
Cost of sales		**(17.8)**	(18.1)
Gross profit		**342.0**	345.3
Distribution costs	2	**(156.0)**	(141.9)
Administrative expenses	2	**(2.0)**	(5.7)
Operating profit		**184.0**	197.7
Net interest payable	3	**(66.0)**	(61.7)
Profit on ordinary activities before taxation		**118.0**	136.0
Tax on profit on ordinary activities	6	**(35.7)**	(41.0)
Profit for the financial year		**82.3**	95.0
Dividends		**(30.0)**	(29.0)
Profit retained for the financial year	17	**52.3**	66.0

Prior year figures have been restated to show the effect of the change in accounting policy (note 8).

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2004

	Note	2004 £m	2003 £m
Profit for the financial year		**82.3**	95.0
Total recognised gains and losses relating to the year		**82.3**	95.0
Prior year adjustment – change in accounting policy	8	**(136.5)**	
Total recognised gains and losses since last regulatory accounts		**(54.2)**	

Prior year figures have been restated to show the effect of the change in accounting policy (note 8).

EDF ENERGY NETWORKS (EPN) PLC – (formerly EPN Distribution Limited)

BALANCE SHEET
as at 31 March 2004

	Note	**2004** £m	Restated 2003 £m
Fixed assets			
Tangible assets	9	**1,333.1**	1,252.4
Current assets			
Debtors	10	**59.9**	59.3
Cash at bank and in hand		**0.1**	-
		60.0	59.3
Creditors (amounts falling due within one year)	11	**(172.2)**	(462.5)
Net current liabilities		**(112.2)**	(403.2)
Total assets less current liabilities		**1,220.9**	849.2
Creditors (amounts falling due after more than one year)	12	**(693.4)**	(396.0)
Provisions for liabilities and charges	15	**(247.5)**	(225.5)
Net assets		**280.0**	227.7
Capital and reserves			
Called up share capital	16	**125.8**	125.8
Share premium	17	**5.6**	5.6
Other reserves	17	**10.6**	10.6
Profit and loss account	17	**138.0**	85.7
Equity shareholder's funds		**280.0**	227.7

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

Humphrey Cadoux-Hudson
Director

Paul Cuttill
Director

EDF ENERGY NETWORKS (EPN) PLC – (formerly EPN Distribution Limited)

CASH FLOW STATEMENT
for the year ended 31 March 2004

	Note	2004 £m	2003 £m
Reconciliation of operating profit to operating cash flows			
Operating profit		**184.0**	197.7
Non cash items	20a	**35.7**	44.0
Movement in working capital	20b	**(35.2)**	10.2
Net cash inflow from operating activities		**184.5**	251.9
Cash flow statement			
Cash flow from operating activities		**184.5**	251.9
Returns on investments and servicing of finance	20c	**(64.2)**	(127.4)
Taxation		**-**	(17.1)
Capital expenditure and financial investment	20d	**(117.5)**	(128.9)
Equity dividends paid		**(30.0)**	(29.0)
Decrease in cash in the year		**(27.2)**	(50.5)
Reconciliation of net cash flow to movement in net debt			
Net debt at 1 April		**(757.4)**	(706.2)
Net debt at 31 March	20e	**(785.3)**	(757.4)
Movement in net debt in the year		**(27.9)**	(51.2)
Other non-cash changes		**0.7**	0.7
Decrease in cash in the year		**(27.2)**	(50.5)

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

1 Accounting policies

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 draft Regulatory Accounting Guidelines ("RAGS"), issued on 3 October 2003, by the Office of Gas and Electricity Markets ("OFGEM") as modified by derogations applied for by the company.

The RAGS require the Regulatory Accounts to be prepared under the historical cost convention and in accordance with UK GAAP and the Companies Act 1985, as required of a UK company listed on the London Stock Exchange, except where amended by the RAGS and in respect of the treatment of customers' contributions. The departure from the Companies Act 1985 in respect of customers' contributions is described below under "Depreciation". The RAGS exclude the use of any disclosure and other exemptions available under the Companies Act 1985 or accounting standards applicable to subsidiary and unlisted companies. Derogations were obtained from OFGEM from compliance with the RAGS in respect of the following items:

- The RAGS require the Regulatory Accounts to be prepared incorporating the results of the Company.
- The Regulatory Accounts have been prepared in respect of the Licensed Distribution Business only, and therefore exclude the results of elements of the business not subject to the regulatory Licence.

In preparing these Regulatory Accounts for the current year, the Company has discontinued its policy of discounting deferred tax assets and liabilities. This change in accounting policy has been reflected in the financial statements as a prior year adjustment in accordance with FRS 3. Further details are given in note 8.

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

Fundamental accounting concepts

The Regulatory Accounts have been prepared under the going concern concept because EDF Energy plc, the immediate parent company, has agreed to continue to support the company financially and not to recall amounts advanced to the company until the claims of all creditors have been met.

Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom from continuing activities and represents the value of electricity distributed during the year 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.

Cost of sales, net operating costs and administrative expenses

Cost of sales includes costs incurred to the point of sale. Other costs are analysed between distribution costs and administrative expenses. Distribution costs, include all other costs with the exception of finance and administrative expenses.

Pension costs

The Company's pension contributions are defined by EDF Energy and are fully expensed to the profit and loss account so as to spread the cost of pensions over employees' working lives with EDF Energy. The capital cost of ex-gratia and supplementary pensions is charged to the profit and loss account in the accounting period in which they are granted.

The Company is unable to identify its share of the pension fund's underlying assets and liabilities or of any surplus or deficit arising from actuarial revaluations, hence the contributions are accounted for as if it was a defined contribution scheme.

1 Accounting policies continued

Deferred taxation

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, this 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 not be rolled over or eliminated by capital losses.
- 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. Previously deferred tax was measured on a discounted basis. Comparative figures have been restated as required (note 8).

Tangible fixed assets

The cost of individual tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation

Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost 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	4 to 60 years
Fixtures, equipment and vehicles	4 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable.

Customers' contributions towards distribution network assets are credited to the profit and loss account at the same rate as the network is depreciated. 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 9.

2 Net operating costs and administrative expenses

		2004 £m	2003 £m
Net operating costs	- depreciation	**36.8**	41.9
	- other	**119.2**	100.0
		156.0	141.9
Administrative expenses		**2.0**	5.7
		158.0	147.6

Auditors' remuneration in respect of the regulatory accounts was £0.1m (2003: £0.1m).

3 Net interest payable

	2004 £m	2003 £m
Interest payable		
Interest payable on loans from other group companies	**(0.6)**	(2.6)
Bond interest	**(65.7)**	(62.2)
Capitalised interest	**-**	1.9
	(66.3)	(62.9)
Interest receivable		
From group undertakings	**-**	1.2
Other	**0.3**	-
	0.3	1.2
Net interest payable	**(66.0)**	(61.7)

4 Directors emoluments

None of the Directors received any remuneration from the Company during the year. One of the Directors who held office during the year is employed by the ultimate parent company, Electricité de France (EDF). The remaining Directors are employed by EDF Energy plc companies.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

5 Staff Costs

The aggregate remuneration of all employees comprised:

	2004 £m	2003 £m
Wages and Salaries	**0.5**	1.3
Social security costs	**0.1**	0.1
Pension costs	**7.7**	0.2
	8.3	1.6
Average number of employees	**16**	30

Staff previously employed by EDF Energy Networks (EPN) plc were transferred to EDF Energy Networks Ltd on 1 January 2004. Included within the pension cost is a charge of £7.6m (2003: £nil) representing the Company's share of additional contributions towards funding the deficit in the various Electricity Supply Pension Schemes to which current and former employees of the Company are members.

6 Tax on profit on ordinary activities

	2004 £m	Restated 2003 £m
(a) Analysis of tax charge for the year		
(i) Current tax		
UK corporation tax at 30% (2003: 30%)	**12.6**	13.9
Total current tax charge for the year	**12.6**	13.9
(ii) Deferred tax		
Origination and reversal of timing differences	**23.1**	27.1
Total deferred tax charge for the year	**23.1**	27.1
Tax on profit on ordinary activities	**35.7**	41.0

(b) Factors affecting current tax charge for the year

The tax assessed for the year on profit on ordinary activities before tax differs from the standard rate of in the UK of 30% (2003: 30%). The difference is explained below:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**118.0**	136.0
Tax on profit on ordinary activities at 30%	**35.4**	40.8
Effect of		
Permanent difference	**0.3**	-
Accelerated capital allowances	**(23.1)**	(27.1)
Expenses not deductible for tax purposes	**-**	0.2
Total current tax charge for the year	**12.6**	13.9

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

7 Deferred tax

	2004 **£m**	Restated 2003 £m
(a) Movement in deferred tax provision during the year		
At 1 April	**223.4**	196.3
Charged to profit and loss account (note 6)	**23.1**	27.1
At 31 March	**246.5**	223.4
(b) Analysis of deferred tax balance at year end		
Capital allowances in excess of depreciation	**246.5**	223.4

8 Prior year adjustments

The Directors have decided to discontinue the policy of discounting deferred tax assets and liabilities in order to reduce the difference in the Company's accounting policies with those of the Company's ultimate parent company, EDF, which prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). Under IFRS, the discounting of deferred tax assets and liabilities is not permitted. This change in accounting policy has been reflected in the financial statements as a prior year adjustment in accordance with FRS 3.

The effect on the Company profit and loss account and balance sheet for the year ended 31 March 2004 and 31 March 2003 is shown below:

	2004 **£m**	2003 £m
Increase in tax as a result of accounting policy change	**14.1**	4.1
Total net profit (decrease)	**(14.1)**	(4.1)
As previously reported		99.1
As restated		95.0
Balance sheet		
Provisions for liabilities and charges previously reported	**96.9**	89.0
Accounting policy change	**150.6**	136.5
Per restated accounts	**247.5**	225.5
Decrease in net assets	**150.6**	136.5
Shareholder's funds		
Decrease in profit & loss reserves	**150.6**	136.5
Decrease in shareholder's funds	**150.6**	136.5

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

9 Tangible fixed assets

(a)

	Network	Non-network land & buildings	Fixtures & equipment	Customer contributions	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2003	2,474.7	7.0	2.7	(609.1)	1,875.3
Additions	184.1	-	-	(66.6)	117.5
Reclassification	7.0	(7.0)	-	-	-
At 31 March 2004	2,665.8	-	2.7	(675.7)	1,992.8
Depreciation					
At 1 April 2003	772.0	1.2	0.1	(150.4)	622.9
Charge for the year	49.6	1.1	0.2	(14.1)	36.8
Reclassification	2.3	(2.3)	-	-	-
At 31 March 2004	823.9	-	0.3	(164.5)	659.7
Net book amount					
At 31 March 2004	**1,841.9**	**-**	**2.4**	**(511.2)**	**1,333.1**
At 31 March 2003	1,702.7	5.8	2.6	(458.7)	1,252.4

(b) The net book amount of non-network land and buildings comprised:

	2004 £m	2003 £m
Freehold land	**-**	0.4
Freehold buildings	**-**	5.4
	-	5.8

(c) Included in fixed assets are:

	2004 £m	2003 £m
Assets in course of construction	**17.1**	-

10 Debtors

	2004 £m	2003 £m
Trade debtors	**54.2**	34.8
Amounts owed by group undertakings	**3.7**	4.3
Other debtors	**-**	2.9
Prepayments and accrued income	**2.0**	17.3
	59.9	59.3

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

11 Creditors: Amounts falling due within one year

	2004 £m	2003 £m
Bonds (Note 13)	**-**	349.7
Bank loans and overdrafts (Note 13)	**92.0**	11.7
Payments received on account	**4.9**	2.5
Trade creditors	**0.6**	15.2
Amounts owed to group undertakings	**31.0**	50.3
Corporation tax	**16.5**	3.9
Other taxation and social security	**9.4**	5.0
Accruals and deferred income	**17.8**	24.2
	172.2	462.5

12 Creditors: Amounts falling due after more than one year

	2004 £m	2003 £m
Bonds (Note 13)	**693.4**	396.0

13 Borrowings

	2004 £m	2003 £m
Amounts falling due within one year		
£350m EPN 8.375% Eurobond due March 2004	**-**	349.7
Loan due to parent company	**42.0**	-
£50m Bank of Australia	**50.0**	-
	92.0	349.7
Amounts falling due after more than one year		
£200m 8.75% Eurobond due March 2012	**198.5**	198.3
£300m 5.75% Eurobond due March 2024	**297.1**	-
£200m 8.5% Eurobond due March 2025	**197.8**	197.7
	693.4	396.0
	785.4	745.7

14 Derivatives and financial instruments

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 the Board of 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

All of the Company's long term debt has been issued at fixed rates of interest. Exposure to short term interest rate movements is limited to short-term investments and borrowings resulting from 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 **£m**	**Weighted average interest rate** **%**	**Weighted average fixed period** **Years**
As at 31 March 2004	**785.4**	**7.4**	**17.9**
As at 31 March 2003	745.7	8.7	8.5

(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 2004 £m**	**Fair value 2004 £m**	Carrying amount 2003 £m	Fair value 2003 £m
Within one year	**92.0**	**92.0**	349.7	364.8
In one to two years	**-**	**-**	-	-
In two to five years	**-**	**-**	-	-
In more than five years	**693.4**	**816.2**	396.0	516.4
	785.4	**908.2**	745.7	881.2

15 Provisions for liabilities and charges

	At 1 April 2003 (restated) £m	Released in the year £m	Arising during the year £m	**At 31 March 2004 £m**
Deferred tax	223.4	-	23.1	**246.5**
Other	2.1	(1.1)	-	**1.0**
	225.5	(1.1)	23.1	**247.5**

16 Called up share capital

	2004 £000	2003 £000
Authorised:		
400,000 Ordinary shares of £0.50 each	**200**	200

Allotted, called up and fully paid

	2004 Number	2003 Number	**2004 £000**	2003 £000
Ordinary shares of £0.50 each	**251,513,142**	**251,513,142**	125.8	125.8

17 Reconciliation of movements in shareholder's funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	Equity share holder's funds £m
At 1 April 2002	125.8	5.6	10.6	152.1	294.1
Prior year adjustment	-	-	-	(132.4)	(132.4)
At 1 April 2002 (restated)	125.8	5.6	10.6	19.7	161.7
Profit retained for the year financial (restated)	-	-	-	66.0	66.0
At 31 March 2003 (restated)	125.8	5.6	10.6	85.7	227.7
Profit retained for the financial year	-	-	-	52.3	52.3
At 31 March 2004	**125.8**	**5.6**	**10.6**	**138.0**	**280.0**

18 Pension costs

(a) Pension schemes

Most of the Company's employees were members of TXU's section of the Electricity Supply Pension Scheme ("ESPS") which provides pension and other related benefits based on final pensionable pay to employees throughout the Electricity Supply Industry. On 1 April 2002, membership was transferred to EDF Energy plc's section of the ESPS. The assets of the scheme are held in a separate trustee administered fund and a full actuarial valuation of the scheme is carried out on a triennial basis, the latest full actuarial valuation being carried out at 31 March 2001.

The Company's contributions are defined by EDF Energy and are fully expensed to the profit and loss account. The Company is unable to identify its share of the pension fund's underlying assets and liabilities or of any surplus or deficit arising from actuarial revaluations, hence the contributions are accounted for as if it were a defined contribution scheme. Pension costs charged to the profit and loss account during the year amounted to £7.7m (2003: £0.2m).

Following EDF Energy plc's acquisition of the Company, new employees have been offered membership of the EDF Energy, 1994 Retirement Plan, a defined contribution pension scheme. The Company's contributions are charged against profits in the year in which contributions are made.

(b) SSAP 24 - Accounting for pension costs

The Group has continued to account for pension costs in accordance with Statement of Standard Accounting Practice (SSAP) 24 – 'Accounting for Pension Costs'. The latest full actuarial valuation of EDF Energy's section of the ESPS was carried out as at 31 March 2001.

The projected unit method was used for the valuation. The principal assumptions used to assess the long-term funding target under SSAP 24 are set out below:

	31 March 2001
Post retirement discount rate	5.3%
Pre retirement discount rate	6.5%
Inflation rate	2.3%
Increase to pensions	2.5%
Increase to deferred benefits	2.5%
Salary increases	3.8%

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

18 Pension costs (continued)

(c) FRS 17 – Retirement benefits – transitional disclosures
Whilst the financial statements for the year ended 31 March 2004 continue to include a pension charge calculated under the principles of SSAP 24, due to the Accounting Standards Board deferring the date for full adoption of FRS 17 to the year ended 31 December 2005, transitional arrangements for the adoption of FRS 17 require the disclosures set out below.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation of EDF Energy's section of the ESPS at 31 March 2001 and updated to assess the liabilities of the Scheme at 31 March 2004. Scheme assets are also stated at their market value as at 31 March 2004. The other pension schemes have been treated as defined contribution schemes for FRS 17 disclosure purposes.

(i) The principal financial assumptions used to calculate ESPS liabilities under FRS 17 are set out below:

	2004	2003
Discount rate	**5.4%**	5.4%
Inflation rate	**2.9%**	2.5%
Increase to pensions	**2.9%**	2.5%
Increase to deferred benefits	**2.9%**	2.5%
Salary increases	**3.9%**	3.5%

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 2001, which determined EDF Energy's contribution rate for future years.

(ii) The assets and liabilities in EDF Energy's section of the ESPS and the expected rate of return are set out below.

	Long-term rate of Expected return		Market value	
	2004	2003	**2004 £m**	2003 £m
Equities	**8.0%**	8.0%	**779.5**	595.7
Gilts	**4.7%**	4.5%	**188.7**	254.1
Corporate Bonds	**5.1%**	4.5%	**83.2**	-
Cash	**4.5%**	4.0%	**12.8**	27.3
Property	**7.1%**	6.5%	**2.2**	4.7
Total market value of scheme assets			**1,066.4**	881.8
Present value of scheme liabilities			**(1,329.4)**	(1,212.5)
Deficit in the scheme			**(263.0)**	(330.7)
Related deferred tax asset			**78.9**	99.2
Net pension liability			**(184.1)**	(231.5)

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

18 Pension costs (continued)

(iii) Movement in surplus during the year

	2004 £m
Deficit in the scheme at 1 April 2003	**(330.7)**
Net charge to the profit and loss account	
Amounts that would be charged to operating profit under FRS 17	
Current service cost	**(21.7)**
Past service cost	**(2.6)**
Curtailment cost	**(6.3)**
Total operating charge	**(30.6)**
Amounts that would have been included as other finance income under FRS 17	
Expected return on pension assets	**59.6**
Interest on pension liabilities	**(64.6)**
Net return	**(5.0)**
Net charge to the profit and loss account	**(35.6)**
Contributions	**26.9**
Amounts that would have been recognised in the statement of 'Total recognised gains and losses' (STRGL) under FRS 17	
Annual return less expected return on pension scheme assets	**151.0**
Experience gain on pension liabilities	**(18.3)**
Change in financial assumptions underlying pension scheme liabilities	**(56.3)**
Actuarial loss recognised in STRGL	**76.4**
Deficit in the scheme at 31 March 2004	**(263.0)**

18 Pension costs (continued)

(iv) History of experience gains and losses

	2004
(a) Difference between actual and expected return on scheme assets	
Amount	**£151.0m**
Percentage of scheme assets	**14.2%**
(b) Experience gains on scheme liabilities	
Amount	**£18.3m**
Percentage of present value of scheme liabilities	**1.4%**
(c) Total actuarial loss	
Amount	**£76.4m**
Percentage of present value of scheme liabilities	**5.7%**

19 Capital and contingent liabilities

The company has a material commitment relating to the outsourced operations. The Company has a contract with EDF Energy Networks Ltd, a fellow subsidiary company of EDF Energy plc for the operation of its distribution system.

Under Part II A of the Environmental Protection Act 1990, retrospective liability may be imposed on landowners for the clean up of land identified by local authorities as contaminated. Land can be identified as contaminated if significant harm is being caused, pollution of controlled waters is occurring and there is a significant possibility of controlled waters being contaminated. If Company sites are contaminated, clean up costs may be incurred in the future, however, it is not currently possible to calculate a reliable estimate of such costs. Full provision has been made, however, where a problem has been identified and quantifiable liability established.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2004

20 Notes to the cash flow statement

	2004 £m	2003 £m
(a) Non cash items		
Depreciation	**36.8**	41.9
(Decrease) / increase in provisions	**(1.1)**	2.1
	35.7	44.0
(b) Movement in working capital		
Increase in debtors	**(0.6)**	(26.3)
(Decrease) / increase in creditors	**(34.6)**	36.5
	(35.2)	10.2

Analysis of cash flows for headings netted in the cash flow statement

	2004 £m	2003 £m
(c) Returns on investments and servicing of finance		
Interest received	**0.3**	1.2
Interest paid	**(64.5)**	(128.6)
	(64.2)	(127.4)
(d) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(184.1)**	(199.7)
Customers' contributions	**66.6**	70.8
	(117.5)	(128.9)

(e) Analysis of net debt

	Balance 1 April 2003 £m	Cash flow £m	Non cash £m	**Balance 31 March 2004 £m**
Cash at bank and in hand	-	0.1	-	**0.1**
Bank overdrafts	(11.7)	11.7	-	**-**
Loans	-	(92.0)	-	**(92.0)**
Bonds	(745.7)	53.0	(0.8)	**(693.5)**
	(757.4)	(27.2)	(0.8)	**(785.4)**

21 Ultimate holding company and ultimate controlling company

The ultimate holding company and the largest group for which consolidated financial statements are prepared is Electricité de France, a French state-owned company. Copies of that company's consolidated financial statements may be obtained from Electricité de France, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.

EDF Energy plc, holds a 100% interest in EDF Energy Networks (EPN) plc and is considered to be the immediate parent company. This is the smallest group for which consolidated financial statements are prepared.