



EDF ENERGY PLC

Registered Number 2366852

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2004

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Directors

Vincent de Rivaz (Chief Executive)
Daniel Camus (Chairman)
Humphrey Cadoux-Hudson
Yann Laroche
Gerard Menjon
Didier Calvez

Company Secretary

Thibaut Brac de la Perriere

Auditors

Deloitte & Touche LLP
London

Registered Office

40 Grosvenor Place
Victoria
London
SW1X 7EN

DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 December 2004.

Principal activities

The principal activities of EDF Energy plc and subsidiaries (the "Group" or "EDF Energy") throughout the year were the licensed distribution of electricity, the supply of electricity and gas to commercial, residential and industrial customers, the provision of services relating to energy, including purchasing of fuel for power generation, the generation of electricity and the operation of private distribution networks. It will continue in these activities for the foreseeable future.

Results and dividends

The profit for the year, before taxation, amounted to £413.5 million (2003: £427.6 million) and after taxation, but before minority interests and dividends, to £306.0 million (2003: £264.4 million). Dividends totalled £85.7 million for the year (2003: £76.2 million).

Review of the business and future developments

The directors consider that significant progress was made during 2004 in drawing out further synergies following the acquisition of SEEBOARD and TXU's distribution network in the East of England in 2002. Profit before tax remained steady during the year despite significant increases in the cost of gas and electricity and intense competition for customers in the retail market. The Group also concluded negotiations with the Regulator to set the regulated revenue for the three licensed electricity distribution networks in the South, East and in London over the next five year period from 1 April 2005. The directors consider that the final settlement, which included a significant increase in the capital investment allowance over the next five years, was satisfactory.

Directors and their interests

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

Vincent de Rivaz (Chief Executive) (E)	
Daniel Camus (Chairman) (NE)	Appointed 14 March 2005
Michel Crémieux (NE)	Resigned 14 March 2005
Humphrey A E Cadoux-Hudson (E)	
Gérard Creuzet (NE)	Resigned 14 March 2005
Yann V R Laroche (NE)	
Gerard Menjon (NE)	Appointed 14 March 2005
Didier Calvez (NE)	Appointed 14 March 2005
Anne le Lorier (NE)	Resigned 14 March 2005

(E) – Executive director

(NE) – Non executive director

No contract or arrangement has been entered into at any time during the year or subsisted at the end of the year in which any Director had a material interest which was significant in relation to the Group's business.

None of the Directors who held office at the end of the financial year had an interest in the shares of the Company or any other Group company requiring disclosure under the Companies Act 1985.

Political and charitable contributions

During the year, the Company made no political contributions (2003:£nil) but various charitable contributions totalling £1,923,889 (2003:£1,244,187).

DIRECTORS' REPORT Continued

Research and development

The Group undertakes a programme of research covering operational efficiency, customer service and environmental impact in conjunction with EA Technology Limited at Capenhurst. ERA Technology and the National Grid Research Laboratories, both at Leatherhead, also carry out research work for the Group whilst product development work for specific Group requirements is addressed in conjunction with a number of suppliers. Expenditure on research and development in 2004 was £3.1million (£1.0 million in 2003).

Creditors payment policy

The Group's current policy concerning the payment of the majority 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;
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors or suppliers for revenue and capital supplies of goods and services without exception. At 31 December 2004, the Group had an average of 51 days purchases outstanding in trade creditors (2003: 46 days).

Employees

The Group is fully committed to ensuring that all current and potential future employees and customers are treated fairly and equally, regardless of their gender, marital status, disability, race, colour, nationality or ethnic origin in accordance with the appropriate legislation and Government guidelines. The Group provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities. In the event of employees becoming disabled during employment, where possible, assistance and retraining is given so that they may attain positions compatible with their ability.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting their employment and on the various factors affecting the performance of the Group.

The Group's policies and procedures relating to Health and Safety at work continued to exceed the requirements of current legislation and are kept under constant review to ensure a safe and healthy working environment for all employees.

Auditors

Deloitte & Touche LLP were appointed as auditors during the current year, following the resignation of Ernst & Young LLP. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Humphrey A E Cadoux-Hudson
Director
Date

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures, explained and disclosed in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company or Group 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 Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT ON CORPORATE GOVERNANCE

The 2003 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) which was published in September 1999, provides guidance to directors in respect of this requirement.

As a company holding listed debt, as well as being a subsidiary of Electricité de France SA, EDF Energy plc has no requirement to comply with the Combined Code. However, EDF Energy supports 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 the Group to:

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

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

Internal Control

The Board (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.

REPORT ON CORPORATE GOVERNANCE Continued

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 within the Group.

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 Management 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 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 effective operations to achieve the Group's objectives. Lines of responsibility and levels of authority are formally documented.

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 business branches 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.

REPORT ON CORPORATE GOVERNANCE Continued

Monitoring and corrective action

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

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

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

From 1 January 2005 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 continuously 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 progress in the following areas:

- the 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 2004 there were no such significant weaknesses.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EDF ENERGY PLC

We have audited the financial statements of EDF Energy plc for the year ended 31 December 2004 which comprise the consolidated profit and loss account, the reconciliation of movements in Group shareholder's funds, the Group and Company balance sheets, the Group cash flow statement, the reconciliation of net cash flow to movement in net debt and the related notes numbered 1 to 34. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the Directors' report and other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EDF ENERGY PLC Continued

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

Date

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Note</i>	2004 £m	2003 £m
Turnover			
Turnover – Group and share of Joint Ventures		4,041.8	3,621.0
Less : Share of Joint Ventures turnover		(151.1)	(114.6)
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Group turnover	2	3,890.7	3,506.4
Cost of sales		(2,252.7)	(2,005.7)
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Gross profit		1,638.0	1,500.7
Net operating costs		(1,097.2)	(944.2)
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Group operating profit	2,3	540.8	556.5
Share of operating profit in joint ventures		20.3	23.8
Share of operating profit in associate undertakings	6	18.5	9.9
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Total operating profit – group and share of joint ventures and associates		579.6	590.2
Profit on disposal of fixed assets	7	82.6	53.7
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Profit on ordinary activities before investment income, interest and taxation		662.2	643.9
Income from other fixed asset investments		0.8	3.9
Interest receivable and similar charges	8	9.7	36.5
Interest payable and similar charges	9	(259.2)	(256.7)
<hr/>			
Profit on ordinary activities before taxation		413.5	427.6
Tax on profit on ordinary activities	10	(107.5)	(163.2)
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Profit on ordinary activities after taxation		306.0	264.4
Minority interests	25	1.8	(0.8)
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Profit for the financial year		307.8	263.6
Dividends	11	(85.7)	(76.2)
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Retained profit for the financial year	28	222.1	187.4

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

There were no recognised gains or losses in either year other than the profit for that year.

**RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDER'S FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2004**

	<i>Note</i>	2004 £m	2003 £m
Profit for the financial year		307.8	263.6
Dividends	11	(85.7)	(76.2)
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Retained profit for the year and net increase in equity shareholder's funds		222.1	187.4
Opening equity shareholder's funds		1,837.0	1,649.6
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Closing equity shareholder's funds		2,059.1	1,837.0
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**CONSOLIDATED AND COMPANY BALANCE SHEETS
AT 31 DECEMBER 2004**

	Notes	Group		Company	
		2004 £m	2003 £m	2004 £m	2003 £m
Fixed assets					
Intangible assets					
Goodwill	12	1,230.3	1,297.2	-	-
Negative goodwill	12	(37.0)	(39.9)	-	-
Total goodwill	12	1,193.3	1,257.3	-	-
Tangible assets	13	5,379.1	5,157.8	116.3	129.3
Investments in subsidiary undertakings	14	-	-	2,328.6	2,340.6
Investment in joint ventures:					
Share of gross assets		169.6	175.4	-	-
Share of gross liabilities		(156.8)	(159.0)	-	-
Share of net assets	15	12.8	16.4	-	-
Investments in associates	16	26.9	1.3	-	8.5
Other investments	17	2.5	10.5	2.5	10.5
Current assets		6,614.6	6,443.3	2,447.4	2,488.9
Stock	18	123.5	118.1	77.9	64.5
Debtors – amounts falling due:					
After more than one year	19	-	-	-	1.0
Within one year	19	1,054.8	982.9	606.9	502.6
Less – securitisation of trade debtors	19	(320.0)	(175.5)	-	-
Net debtors falling due within one year	19	734.8	807.4	606.9	502.6
Investments: unlisted money market investments		106.5	26.2	-	1.0
Cash at bank and in hand		70.1	120.1	-	-
		1,034.9	1,071.8	684.8	569.1
Creditors (amounts falling due within one year)	20	(1,898.5)	(2,100.8)	(1,424.3)	(1,312.2)
Net current liabilities		(863.6)	(1,029.0)	(739.5)	(743.1)
Total assets less current liabilities		5,751.0	5,414.3	1,707.9	1,745.8
Creditors (amounts falling due after more than one year)	21	(2,836.3)	(2,749.3)	(347.0)	(347.0)
Provision for liabilities and charges	24	(853.6)	(824.2)	(22.3)	(29.7)
Net assets		2,061.1	1,840.8	1,338.6	1,369.1
Capital and reserves					
Called up share capital	27	1,296.6	1,296.6	1,296.6	1,296.6
Share premium account	28	13.9	13.9	13.9	13.9
Capital redemption reserves	28	11.0	11.0	11.0	11.0
Profit and loss account	28	737.6	515.5	17.1	47.6
Shareholder's funds	28	2,059.1	1,837.0	1,338.6	1,369.1
Minority interests (including non-equity interests)	25	2.0	3.8	-	-
Total capital employed		2,061.1	1,840.8	1,338.6	1,369.1

The accounts on pages 10 to 49 were approved by the Board of Directors on and were signed on its behalf by:

Vincent de Rivaz
Director

Humphrey A E Cadoux-Hudson
Director

GROUP CASH FLOW STATEMENT

	<i>Note</i>	2004 £m	2003 £m
Net cash inflow from operating activities	30	864.1	675.5
Returns on investments and servicing of finance			
Interest received		8.7	8.8
Interest paid		(195.2)	(200.1)
Interest element of finance lease rental payments		(27.4)	(23.4)
Dividends received from investments		0.8	2.0
Dividends paid to minority interests		-	(1.2)
		(213.1)	(213.9)
Taxation			
Corporation tax paid		(80.2)	(30.2)
		(80.2)	(30.2)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(672.3)	(535.1)
Receipts of customer contributions		142.8	124.0
Receipts from sales of tangible fixed assets		74.4	57.3
Receipts from sale of investments		-	3.7
Receipts from repayment of loan from investment		-	0.8
Payments to increase share in associates		(9.2)	-
		(464.3)	(349.3)
Acquisitions and disposals			
Receipts from sale of associate		32.4	56.1
		32.4	56.1
Equity dividends paid		(85.7)	(76.2)
Net cash inflow before management of liquid resources and financing		53.2	62.0
Management of liquid resources			
(Decrease)/increase in short-term deposits		(80.3)	10.9
Net cash outflow before financing		(27.1)	72.9

GROUP CASH FLOW STATEMENT

	2004 £m	2003 £m
Financing		
(Decrease) in short term borrowing	(306.8)	(832.4)
Increase in bank overdraft	0.2	-
New long-term loans	323.2	807.1
Loans to other EDF group companies	(32.4)	(29.1)
Repayments of capital element of finance leases	(6.9)	(8.4)
	(22.7)	(62.8)
(Decrease) / Increase in cash for the year	(49.8)	10.1

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2004 £m	2003 £m
Increase in bank overdraft for the year		(0.2)	-
(Decrease)/increase in cash for the year		(50.0)	10.1
Increase/(decrease) in liquid resources		80.3	(10.9)
Increase in short term loans		306.8	832.4
Decrease in long term loans		(323.2)	(807.1)
Repayments of capital element of finance leases		6.9	8.4
Change in net debt resulting from cash flows		20.6	32.9
Net non-cash movements – amortisation of fair value adjustments, amortisation of debt issue costs and index linked bond loan accretion		7.6	21.5
Movement in net debt		28.2	54.4
Net debt at 1 January	30	(3,287.3)	(3,341.7)
Net debt at 31 December	30	(3,259.1)	(3,287.3)

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.

Basis of preparation

These financial statements have been 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.

The Company is following the transitional arrangements of FRS 17 'Retirement benefits'. The required disclosures are shown in note 31. Full adoption of the standard is required by the year ended 31 December 2005.

Consolidation

The Group accounts incorporate the accounts of the Company and all subsidiary undertakings after eliminating intercompany transactions for the financial year. Acquisitions are accounted for under the acquisition method. No profit and loss account is presented for EDF Energy plc (the Company) in accordance with the exemptions allowed by Section 230 of the Companies Act 1985. Retained loss for the company was £30.5 million (2003: profit of £52.1 million).

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and business, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life. Provision is made for any impairment.

Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Goodwill which arose on the acquisition of the assets and liabilities of Sutton Bridge power station is being amortised over 30 years. The Directors consider that businesses within the UK generation industry commonly have useful lives in excess of the 20 years presumed by FRS 10 'Goodwill and Intangible Assets'. The Directors expect the business at Sutton Bridge to continue for 30 years. This period of amortisation has been chosen, as it is management's best estimate of the useful life of goodwill. Other goodwill is amortised over 20 years. Sutton Bridge goodwill is reviewed every year for impairment and other goodwill is reviewed if events or changes in circumstances indicate that the carrying value may not be recoverable.

Joint ventures

The consolidated financial statements include investments in joint ventures using the gross equity method of accounting. A joint venture is an entity in which the Group has a long term interest and exercises joint control. Under the gross equity method, a form of the equity method of accounting, the Group's share of the aggregate gross assets and liabilities underlying the investment in the joint venture is included in the balance sheet and the Group's share of the turnover of the joint venture is disclosed in the profit and loss account.

Associated undertakings

In the Group financial statements investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profits and losses while the Group's share of the net assets of associates is included in the consolidated balance sheet. Goodwill arising on the acquisition of the associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

NOTES TO THE FINANCIAL STATEMENTS Continued

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, of each asset evenly over its expected useful life, as follows:

	Years
Generation assets	– 10 to 30
Network assets	– 10 to 60
Freehold land	– Not depreciated
Other buildings	
- freehold	– Up to 40
- leasehold	– Lower of lease period or 40
Vehicles and mobile plant	– 5 to 10
Fixtures and equipment including computer hardware and software	– 3 to 8

Residual value is calculated on prices prevailing at the date of acquisition.

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.

Major systems development software costs are capitalised during the development phase and depreciated from the date of commissioning over a maximum period of eight years.

Consumers' contributions towards distribution network assets, which include capital grants, are credited to the profit and loss account over the lives of the distribution network assets to which they relate. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 1985 which require 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 13.

Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

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. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

NOTES TO THE FINANCIAL STATEMENTS Continued

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale :
Purchase cost on an average price basis

Work in progress and finished goods :
Cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Provisions are made for obsolete, slow moving or defective items where appropriate.

Long term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included in long-term contract balances in stock.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

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, 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 revalued fixed assets only where there is a commitment to dispose of the revalued assets and the attributable gain can neither 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 evaluated without taking account of the time value of money.

NOTES TO THE FINANCIAL STATEMENTS Continued

Research and development

Expenditure on research is written off to the profit and loss account in the period in which it is incurred.

Leasing and hire purchase commitments

Assets held under finance leases are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, whilst the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term, even if payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the lease term, in which case the shorter period is used.

Pensions

The Company operates both a defined contribution pension scheme and a defined benefit pension scheme. Contributions in respect of the defined contribution pension scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

The cost of providing pensions in respect of defined benefit pension scheme is charged to the profit and loss account so as to spread the cost of pensions over employees working lives under SSAP24. The pension cost is assessed in accordance with the advice of qualified actuaries.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Derivatives and other financial instruments

The Group holds or issues financial instruments for three main purposes:

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

The Group finances its operations by a mixture of retained profits, bank borrowings, medium-term loans, long-term loans and commercial paper. The Group has borrowings denominated in Sterling, Euros and US Dollars at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest rate basis.

The majority of the Group's sales of electricity and gas are at fixed prices. The Group utilises fixed price contracts such as forward purchase contracts to hedge the risks arising from this exposure.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and commodity price risk. The Group's policy for managing these risks is summarised below and is defined in

NOTES TO THE FINANCIAL STATEMENTS Continued

Derivatives and other financial instruments (continued)

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, treasury and/or energy purchasing departments.

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings and deposits is managed by using fixed rate debt instruments and derivative financial instruments. The Group's policy is to use derivatives to reduce exposure to short term interest rates and not for speculative purposes.

Amounts payable or receivable in respect of swaps are recognised as adjustments to interest expense over the period of the contract. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year-end. If the debt instrument being hedged by the interest rate swaps were to be extinguished, any gain or loss attributable to the swaps would be recognised in the period of the transaction.

Foreign currency risk

The Group's present exposure to foreign currency risk is limited to the hedging of the currency exposure on the service of interest and capital on US dollar and Euro denominated debt, and the purchase of energy sources for generation activity. The Group policy is to hedge/fix known currency exposures as they arise. The currency swap agreement fixes the Sterling equivalent that will be required to service the debt.

The foreign exchange rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed, or probable, future transaction, are deferred until the transaction occurs.

Commodity price risk

Due to the vertically integrated nature of the Group the electricity demand from the retail business provides a natural hedge for the electricity procured from the generation business. Any residual exposure to movements in the price of electricity, gas or coal is mitigated by entering into contracts and hedging options on the forward markets. Risk of loss is monitored through establishment of approved counterparties and maximum counterparty limits and minimum credit ratings.

Gains and losses on these contracts and option premia paid are deferred and recognised in the income statement when the hedged transaction occurs.

NOTES TO THE FINANCIAL STATEMENTS Continued

2. Turnover & Segmental Reporting

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of electricity and gas sales during the year, including an estimate of the sales value of units and therms supplied to consumers between the date of the last meter reading and the year end, distribution charges to other electricity suppliers within the Group's distribution areas, rents and the invoice value of other goods sold and services provided.

Class of business	Turnover		Operating profit		Net operating assets	
	12 months to December 2004	12 months to December 2003	12 months to December 2004	12 months to December 2003	12 months to December 2004	12 months to December 2003
	£m	£m	£m	£m	£m	£m
Networks Branch	851.3	874.6	392.2	393.5	2,867.3	3,142.6
Customers and Energy Branches	3,148.3	2,790.1	163.6	126.4	1,133.2	965.4
Development Branch	183.8	152.3	20.2	26.0	136.7	140.6
Other	6.9	6.7	(35.2)	(2.8)	1,141.3	858.1
	4,190.3	3,823.7	540.8	543.1	5,278.5	5,106.7
Less: Inter business transactions	(299.6)	(317.3)	-	13.4	-	-
Total Continuing and Acquired operations	3,890.7	3,506.4	540.8	556.5	5,278.5	5,106.7
Net debt before joint ventures and associates			-	-	(3,259.1)	(3,287.3)
Share of joint ventures and associates			38.8	33.7	39.7	17.6
Profit on sale of fixed assets			82.6	53.7	-	-
Net interest and income from investments			(248.7)	(216.3)	-	-
Profit on ordinary activities before taxation			413.5	427.6	-	-
Shareholder's funds					2,059.1	1,837.0

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 2 Turnover & Segmental Reporting Continued

Networks branch

Transfer of electricity from the points where it is received in bulk across the distribution systems and its delivery to consumers.

Customers and Energy Branches

Retail and generation includes the generation, purchase and supply of electricity to customers and purchase and supply of gas to customers.

Development Branch

Operation, maintenance and expansion of private electrical distribution systems.

Other

This primarily includes the provision of services to the Group (e.g. facilities, property and insurance) and other Investments.

3. Operating profit

Operating profit is stated after charging / (crediting):

	2004	2003
	£m	£m
Staff costs (note 5)	385.1	312.5
Depreciation of fixed assets	228.6	198.1
– owned		
– held under finance leases and hire purchase contracts	19.8	19.8
Amortisation of goodwill	64.0	60.4
Research and development	3.1	1.0
Foreign currency (gains)/losses	(2.9)	0.2
Auditors' remuneration:		
Statutory audit services		
– Ernst & Young LLP	-	0.9
– Deloitte & Touche LLP	0.9	0.6
Other services		
– Ernst & Young LLP	-	0.6
– Deloitte & Touche LLP	0.5	-
Operating lease rentals		
– plant and machinery	17.3	13.6
– other	10.6	11.3
Rental income	(4.5)	(3.2)

Amounts payable by the Company to Deloitte & Touche LLP in respect of statutory audit services was £0.1 million (2003: amounts payable to Ernst & Young LLP of £0.1 million)

NOTES TO THE FINANCIAL STATEMENTS Continued

4. Directors' emoluments

	2004	2003
	£m	£m
Emoluments	0.8	1.1

	2004	2003
	Number	Number
Members of defined benefit pension scheme	1	1

	2004	2003
	£m	£m
Emoluments payable to the highest paid director were as follows:		
Aggregate emoluments	0.5	0.5

5. Staff costs

	2004	2003
	£m	£m
Wages and salaries	340.6	294.6
Social security costs	26.0	17.3
Other pension costs	61.7	57.5
Less: capitalised staff costs	(43.2)	(56.9)
	385.1	312.5

The monthly average number of employees, including directors, during the year was as follows:

	2004	2003
	Number	Number
Networks	3,710	4,052
Customers & Energy Branches	5,174	4,908
Development Branch	1,196	1,063
Other	350	434
	10,430	10,457

NOTES TO THE FINANCIAL STATEMENTS Continued

6. Share of operating profit in associate undertakings

	2004	2003
	£m	£m
Share of operating profit for the year	18.5	9.9
Amortisation of goodwill	(0.3)	(0.5)
	18.2	9.4

7. Profit on sale of fixed assets

	2004	2003
	£m	£m
Sales proceeds	90.3	71.9
Net book value	(7.7)	(18.2)
	82.6	53.7

8. Interest receivable and similar income

	2004	2003
	£m	£m
Interest receivable on loans to group undertakings	9.3	35.5
Share of joint ventures' interest receivable	0.3	0.3
Share of associates' interest receivable	0.1	0.7
	9.7	36.5

9. Interest payable and similar charges

	2004	2003
	£m	£m
Bank loans and overdrafts	32.5	36.6
On finance leases and hire purchase contracts	27.4	23.4
Unwinding of discount on provisions	11.3	8.5
Interest on bonds	165.8	172.1
Group interest payable and similar charges	237.0	240.6
Share of associates' interest payable	8.0	5.5
Share of joint ventures' interest payable	14.2	10.6
	259.2	256.7

NOTES TO THE FINANCIAL STATEMENTS Continued

10. Tax on profit on ordinary activities

a) Analysis of tax charge in the year

UK current tax	2004	2003
	£m	£m
UK corporation tax charge on profit for the year	(75.6)	(70.2)
Adjustment in respect of previous years	32.3	(5.9)
Group current tax	(43.3)	(76.1)
Share of joint venture and associates tax	(4.1)	(3.0)
Total current tax charge	(47.4)	(79.1)
UK deferred tax	2004	2003
	£m	£m
Origination and reversal of timing differences	(64.4)	(79.8)
Adjustment in respect of previous years	3.1	(1.6)
Group deferred tax	(61.3)	(81.4)
Share of joint ventures' tax	1.2	(2.7)
Total deferred tax charge	(60.1)	(84.1)
Tax charge on profit on ordinary activities	(107.5)	(163.2)

(b) Factors affecting tax charge for the year:

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

	2004	2003
	£m	£m
Profit on ordinary activities before tax	413.5	427.6
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	(124.1)	(128.3)
Effect of:		
Adjustment to prior year tax charge	32.3	(5.9)
Disallowed expenses and non-taxable income	0.7	(6.7)
Capital allowances lower than depreciation	49.2	54.9
Other deferred tax items	13.8	24.9
Amortisation of goodwill	(19.3)	(18.0)
Current tax for the period	(47.4)	(79.1)

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 10 Tax on profit on ordinary activities continued

(c) Factors affecting future tax charges

No provision has been made for deferred tax on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would only become payable if the replacement assets were sold without it being possible to claim further rollover relief. The total amount not provided for is £13.5 million (2003: £nil). At present it is not envisaged that any tax will become payable in the foreseeable future.

In June 2001, the Inland Revenue issued Tax Bulletin 53. The provisions included within the Bulletin relating to deferred revenue expenditure will affect the Group from 2005 onwards and will decrease the rate at which corporation tax relief is taken for certain expenditure capitalised in the accounts. The annual current tax charge will increase significantly with a corresponding reduction in the deferred tax charge.

11. Dividends paid

	2004	2003
	£m	£m
Equity dividends on ordinary shares:		
Interim paid	70.0	-
Final paid	15.7	76.2
	85.7	76.2

The interim dividend represented a payment of 3.15 pence per share (2003: £nil). A further final dividend of 0.71 pence per share (2003: 3.43 pence per share) was paid, with the total dividend for the year being 3.86 pence per share (2003: 3.43 pence per share).

12. Intangible fixed assets

	Positive Goodwill	Negative Goodwill £m	Total £m
Cost			
At 1 January 2004	1,445.7	(46.9)	1,398.8
At 31 December 2004	1,445.7	(46.9)	1,398.8
Amortisation			
At 1 January 2004	148.5	(7.0)	141.5
Charge for the year	66.9	(2.9)	64.0
At 31 December 2004	215.4	(9.9)	205.5
Net book value			
At 31 December 2004	1,230.3	(37.0)	1,193.3
At 31 December 2003	1,297.2	(39.9)	1,257.3

Negative goodwill is being written back on a straight line basis over a period of 20 years which is equal to the period over which the related non-monetary assets of the acquired business are being depreciated

NOTES TO THE FINANCIAL STATEMENTS Continued

13. Tangible fixed assets

Group	Generation Assets £m	Network assets £m	Other land and buildings £m	Vehicles & mobile plant £m	Fixtures & equipment £m	Deduct consumers' contributions £m	Total tangible assets £m
Cost							
At 1 January 2004	1,253.3	5,689.6	130.5	36.8	392.6	(1,231.3)	6,271.5
Additions	85.6	481.1	1.7	5.4	45.0	(142.8)	476.0
Transfer	-	19.4	(19.4)	-	-	-	-
Disposals	-	(11.6)	(3.5)	(4.2)	(35.6)	-	(54.9)
At 31 December 2004	1,338.9	6,178.5	109.3	38.0	402.0	(1,374.1)	6,692.6
Depreciation							
At 1 January 2004	153.1	827.9	31.0	16.5	224.0	(138.8)	1,113.7
Charge for the year	71.5	150.1	1.4	4.2	56.4	(35.2)	248.4
Transfer	-	19.4	(19.4)	-	-	-	-
Disposals	-	(9.5)	(1.2)	(3.7)	(34.2)	-	(48.6)
At 31 December 2004	224.6	987.9	11.8	17.0	246.2	(174.0)	1,313.5
Net book value							
At 31 December 2004	1,114.3	5,190.6	97.5	21.0	155.8	(1,200.1)	5,379.1
At 31 December 2003	1,100.2	4,861.7	99.5	20.3	168.6	(1,092.5)	5,157.8

The cost of tangible fixed assets includes £nil (2003:£nil) capitalised interest.

Company	Land and buildings £m	Fixtures & equipment £m	Total tangible assets £m
Cost			
At 1 January 2004	28.0	191.3	219.3
Transfers	(7.2)	7.2	-
Additions	-	13.4	13.4
Disposals	(0.5)	(32.0)	(32.5)
At 31 December 2004	20.3	179.9	200.2
Depreciation			
At 1 January 2004	6.7	83.3	90.0
Charge for the year	1.1	24.2	25.3
Transfers	(0.7)	0.7	-
Disposals	-	(31.4)	(31.4)
At 31 December 2004	7.1	76.8	83.9
Net book value			
At 31 December 2004	13.2	103.1	116.3
At 31 December 2003	21.3	108.0	129.3

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 13 Tangible fixed assets Continued

Net book value of other land and buildings comprises:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Freehold	75.7	78.0	6.3	6.3
Long leasehold (over 50 years)	21.8	21.5	6.9	15.0
	97.5	99.5	13.2	21.3

Net book value of tangible fixed assets includes the following:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Assets in the course of construction	162.5	154.6	27.4	59.9
Land not depreciated	14.9	16.8	1.0	1.0
Generation assets held under finance lease	316.6	336.4	-	-

14. Investments in subsidiary undertakings

Company

	Shares £m	Loans £m	Total £m
At 31 December 2003	1,126.9	1,213.7	2,340.6
Additions	-	24.6	24.6
Disposals	-	(36.6)	(36.6)
At 31 December 2004	1,126.9	1,201.7	2,328.6

Details on movements in loans are as follows:

Movements	Increase in loans £m	Decrease in loans £m	Net £m
Loans to EDF Energy Networks (SPN) plc	21.9	-	21.9
Loans to EDF Energy (Enterprises) Limited	2.7	-	2.7
Loans to EDF Energy (Services) Limited	-	(9.6)	(9.6)
Loans to EDF Energy (Transport Services) Limited	-	(1.3)	(1.3)
Loans to EDF Energy Networks (EPN) plc	-	(25.7)	(25.7)
	24.6	(36.6)	(12.0)

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 14 Investments in subsidiary undertakings Continued

The principal undertakings at 31 December 2004, which are incorporated in Great Britain and are registered and operate in England and Wales (unless otherwise stated), are as follows:

	Percentage of ordinary shares held	Principal activity
51 Degrees Limited*	100%	Telecommunication networks
CSW Investments*	100%	Holding company
Deltabrand Limited	100%	Holding company
ECS Data Services Limited*	100%	Meter reading and related services
ECS Metering Services Limited	100%	Meter operations and related services
EDF Energy (Asset Management) Limited *	100%	Investment company
EDF Energy (Contract Services) Limited *	100%	Maintenance of distribution networks
EDF Energy (Cottam Power) Limited *	100%	Provision and supply of electricity generation
EDF Energy (Energy Branch) plc	100%	Investment in electricity generation
EDF Energy (Enterprises) Limited	100%	Investments in commercial projects
EDF Energy (London Heat & Power) Limited *	100%	Generation and supply of electricity and heat
EDF Energy (Metro Holdings) Limited *	100%	Investment company
EDF Energy (Northern Offshore Wind) Limited *	100%	Development of generation and supply
EDF Energy (Powerlink Holdings) Limited *	100%	Investment company
EDF Energy (Projects) Limited *	100%	Investment company
EDF Energy (Services) Limited	100%	Electricity distribution project
EDF Energy (South East Generation) Limited *	100%	Holding company
EDF Energy (South East) plc *	100%	Holding company
EDF Energy (South Eastern Services) Limited *	100%	Property management
EDF Energy (Sutton Bridge Holdings) Limited *	100%	Investment in power generation company
EDF Energy (Sutton Bridge Power) Limited *	100%	Provision and supply of electricity generation
EDF Energy (Transport Services) Limited	100%	Provision and supply of transport services
EDF Energy (West Burton Power) Limited*	100%	Power generation
EDF Energy Networks (EPN) plc	100%	Contract management for distribution network
EDF Energy Networks (LPN) plc	100%	Contract management for distribution network
EDF Energy Networks (SPN) plc *	100%	Contract management for distribution network
EDF Energy Networks Limited	100%	Maintenance of distribution networks
Green Electron Limited	100%	Investment company
High Hedley Hope Wind Limited*	100%	Renewable power generation
Islington Lighting Limited*	100%	Electrical contracting
Islington Lighting (Finance) Limited*	100%	Investment company
Kirkheaton Wind Limited*	75%	Renewable power generation
Knight Debt Recovery Services Limited	100%	Debt collection and tracing
London Electricity Group Trustee Limited	100%	Trustees of employee benefits
London Electricity Projects Limited	100%	Project management
London Electricity Share Scheme Trustees Limited	100%	Trustees of employee share and benefits funds
London Energy plc	100%	Electricity retailing
London Power Insurance Limited (Isle of Man)	100%	Insurance

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 14 Investments in subsidiary undertakings	Continued	
London Power Sutton Bridge Limited*	100%	Investment in power generation company
Longfield Insurance Company Limited* (Guernsey)	100%	Insurance
Norfolk Offshore Wind Limited*	80%	Renewable power generation
Seeb Limited*	100%	Investment company
EDF Energy Contracting Limited (formerly SEEBOARD Contracting Services Limited)*	100%	Electrical contracting
SEEBOARD Employment Services Limited*	100%	Management company
SEEBOARD Energy Gas Limited*	100%	Gas supply
SEEBOARD Energy Limited*	100%	Energy supply
SEEBOARD Group plc*	100%	Holding company
SEEBOARD Highway Lighting No.2 Limited*	100%	Holding company
SEEBOARD Highway Services Limited*	100%	Holding company
SEEBOARD Insurance Company Limited* (Isle of Man)	100%	Insurance
SEEBOARD International Limited*	100%	Investment Company
SEEBOARD Metering Limited*	100%	Investment Company
SEEBOARD Natural Gas*	100%	Investment Company
EDF Energy Powerlink Limited (formerly SEEBOARD Powerlink Limited)*	80%	Asset management
SEEBOARD Trading Limited *	100%	Investment company
Southern Gas Limited*	100%	Investment company
Sutton Bridge Financing Limited* (Cayman Islands)	100%	Financial activities
Sutton Bridge Investors Limited*	100%	Investment in power generation company
The Barkantine Heat & Power Company Limited*	100%	Generation and supply of electricity and heat
EDF Energy 1 Limited (formerly Virgin HomeEnergy Limited)*	75%	Customer acquisition services
EDF Energy Homephone Limited (formerly Virgin HomePhone Limited)*	75%	Telecoms retailing
West Burton Property Limited*	100%	Power generation

*Indirectly held

15. Investments in joint ventures

Group	Share of net assets £m
At 1 January 2004	16.4
Share of profits retained by joint ventures	8.3
Transfers to investments in associates (note 16)	(11.9)
At 31 December 2004	12.8

As at 30 June 2004, there was a change in the level of control held in Metronet SSL Limited and Metronet BCV Limited. Due to this change in control, these investments no longer qualified for the accounting treatment of joint ventures, and have been transferred to investments in associate undertakings.

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 15 Investments in joint ventures Continued

The joint ventures at 31 December 2004, which are incorporated in Great Britain and are registered and operate in England and Wales, are as follows:

	Percentage of ordinary shares held	Principal activity
Barking Power Limited*	13.475%	Construction and operation of a power station
Thames Valley Power Limited*	50%	Generation and supply
Power Asset Development Company Limited*	50%	Asset Management
Trans4m Limited*	25%	Engineering contractor

*Investment held indirectly

EDF Energy plc has a long-term interest in Barking Power Ltd and shares control under a contractual arrangement. The Directors therefore consider Barking Power Ltd to be a joint venture.

The accounting reference date for Barking Power Limited is 31 March. The results of Barking Power Limited are consolidated to 31 December each year.

EDF Energy plc's interest in Trans4m of 25% has been treated as a joint venture because under the terms of the venture, control and ownership is shared jointly among the joint venture partners. The accounting reference date for Trans4m is 31 March; the results are consolidated to 31 December each year.

16. Investments in associates

Group	Share of net assets/ (liabilities) £m	Goodwill £m	Total £m
At 1 January 2004	(5.7)	7.0	1.3
Amortisation	-	(0.3)	(0.3)
Disposals	5.7	(6.7)	(1.0)
	11.9	-	11.9
Transfer from shares in joint ventures (Note 15)			
Injection of capital	9.2	-	9.2
Share of retained profit for the year	5.8	-	5.8
At 31 December 2004	26.9	-	26.9

Company	Shares £m	Total £m
At 1 January 2004	8.5	8.5
Disposals	(8.5)	(8.5)
At 31 December 2004	-	-

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 16 Investments in associates Continued

The Group disposed of its holding in Paypoint Limited on 20 July 2004.

The Group transferred its holding of Metronet SSL Limited and Metronet BCV Limited to investments in associates on 30 June 2004 (see note 15). The shares held are as follows;

	Description of shares held	Proportion of nominal value of shares held	Principal activity
Metronet SSL Limited*	Ordinary shares	20.0%	Maintaining and renewing underground network
Metronet BCV Limited*	Ordinary shares	20.0%	Maintaining and renewing underground network

These are the only associates held at 31 December 2004

*Investment held indirectly.

The accounting reference date for the Metronet companies is 31 March. The results of Metronet companies are consolidated to 31 December each year.

17. Other investments

	Shares £m	Loans £m	Total £m
GROUP			
At 1 January 2004	2.5	8.0	10.5
Transfer to debtors due within one year	-	(8.0)	(8.0)
At 31 December 2004	2.5	-	2.5
COMPANY			
At 1 January 2004	2.5	8.0	10.5
Transferred to debtors due within one year	-	(8.0)	(8.0)
At 31 December 2004	2.5	-	2.5

The loan balances have been reclassified to debtors due within one year in the current year, as the directors consider this a more appropriate classification.

Other investments at 31 December 2004, which are incorporated in Great Britain and are registered and operate in England and Wales (unless otherwise stated), are as follows:

	Percentage of ordinary shares held	Principal activity
London & Continental Railways Limited	11.27%	Rail operator

NOTES TO THE FINANCIAL STATEMENTS Continued

18. Stocks

	GROUP		COMPANY	
	2004	2003	2004	2003
	£m	£m	£m	£m
Raw materials and consumables	95.7	84.4	77.9	64.5
Work in progress	27.8	33.7	-	-
	123.5	118.1	77.9	64.5

There is no material difference between the balance sheet value of stocks and their replacement costs.

19. Debtors

	GROUP		COMPANY	
	2004	2003	2004	2003
	£m	£m	£m	£m
Amounts falling due within one year				
Trade debtors	346.0	336.6	18.6	91.3
Unbilled consumption	441.2	389.2	-	-
	787.2	725.8	18.6	91.3
Less securitisation (I)	(320.0)	(175.5)	-	-
	467.2	550.3	18.6	91.3
Amounts owed by parent company	150.3	143.5	314.2	143.5
Amounts owed by fellow subsidiary undertakings	45.0	19.5	137.2	225.5
Amounts owed by joint ventures	3.2	3.1	-	-
Intercompany corporation tax balances	-	-	85.4	7.3
Debtors outstanding receipts of fixed assets sales	1.1	14.7	-	7.3
Other debtors	12.2	29.7	34.3	19.6
Prepayments and accrued income	55.8	46.6	11.4	8.1
Deferred tax asset (see Note 24)	-	-	5.8	-
	734.8	807.4	606.9	502.6

Amounts falling due after more than one year:

Pension scheme prepayment	-	-	-	1.0
	734.8	807.4	606.9	503.6

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 19 Debtors continued

(l) In September 2004 EDF Energy plc entered into a 5 year commercial paper securitisation programme involving the sale of billed and unbilled trade debtors to a trust. Interest is charged on trade debtors securitised at a margin above LIBOR. The amount available under the securitisation is £350 million. EDF Energy plc is not obliged to support any losses suffered by the trust as a result of securitisation, nor does it intend to do so.

20. Creditors: amounts falling due within one year

	GROUP		COMPANY	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank overdraft	0.2	-	340.0	441.4
Obligations under finance leases (note 23)	12.2	11.4	-	-
Borrowings (note 22)	587.0	693.3	359.3	485.1
Payments on account on long term contracts	308.7	255.5	0.6	0.5
Advances on securitisation	-	99.5	-	-
Trade creditors:				
Amounts owing for purchase of energy	256.1	354.8	247.7	314.3
Amounts owed to parent company	-	10.0	-	10.0
Amounts owed to other group companies	-	-	380.0	-
Corporation tax	44.7	87.6	-	-
Other taxes and social security costs	75.0	78.6	18.9	40.3
Other creditors	314.3	218.8	77.8	20.6
Accruals and deferred income	214.2	226.3	-	-
Pension scheme accrual	86.1	65.0	-	-
	1,898.5	2,100.8	1,424.3	1,312.2

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

	GROUP		COMPANY	
	2004 £m	2003 £m	2004 £m	2003 £m
Borrowings (Note 22)	2,487.0	2,371.9	347.0	347.0
Obligations under finance leases (Note 23)	349.3	357.0	-	-
Other creditors	-	20.4	-	-
	2,836.3	2,749.3	347.0	347.0

NOTES TO THE FINANCIAL STATEMENTS Continued

22. Borrowings

	GROUP		COMPANY	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts falling due within one year:				
Short-term borrowing	587.0	693.3	359.3	485.1
Amounts falling due after more than one year:				
£100m 8.625% Eurobonds due October 2005 (i) (ii)	-	99.8	-	-
£100m 8.5% Eurobonds due October 2005 (i)	-	105.1	-	-
\$200m 8.75% Bonds due August 2006	133.1	135.7	-	-
£100m 8.875% Bonds due September 2006	104.8	107.5	-	-
€500m 4.375% Eurobond due December 2010	347.0	347.0	347.0	347.0
£200m 8.75% Eurobond due March 2012	229.1	233.1	-	-
Sutton Bridge Bonds due June 2002 (iv)	249.8	267.9	-	-
£50m Index Linked Bond due June 2023	51.9	49.8	-	-
£300m 5.75% Bonds due 2024 (iii)	348.7	-	-	-
£200m 8.5% Eurobond due March 2025	262.1	265.5	-	-
£300m 5.5% Eurobond due June 2026	296.5	296.3	-	-
£300/£200m 6.125% Bonds due June 2027	306.1	306.5	-	-
£150m 3.125% Index Linked Bonds due June 2032	157.9	153.4	-	-
Other borrowings	-	4.3	-	-
	2,487.0	2,371.9	347.0	347.0
	3,074.0	3,065.2	706.3	832.1

(i) Reclassified as short-term borrowing in 2004.

(ii) The 8.625% Eurobonds may be redeemed in full together with accrued interest by either the Issuer or Bondholders upon the occurrence of certain events.

(iii) Bonds were issued during the year.

(iv) The secured bonds which are guaranteed by Sutton Bridge Power Limited comprise two tranches of twenty five year amortising bonds issued by Sutton Bridge Financing Limited. The first tranche comprises a remaining principal amount of £183.9 million at a fixed interest rate of 8.625%. The second tranche comprises a remaining principal amount of US\$145.7 million at a fixed interest rate of 7.97%. The Group has entered into currency swap agreements in order to convert the principal and interest payment on the bonds into sterling for periods up to maturity. The effect of these swaps is to convert the US\$145.7 million payable to an equivalent long term payable with a principal of £95.5 million and an effective interest rate of 8.14%. The bonds are secured by means of fixed and floating charges over substantially the net assets of Sutton Bridge and at all times rank pari passu and without preference among themselves. The Sutton Bridge Bonds mature in June 2022 but principal repayments commenced from June 2002. Principal and interest payments payable on the bonds are due semi-annually in arrears on 30 June and 31 December of each year.

NOTES TO THE FINANCIAL STATEMENTS Continued

23. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2004 £m	2003 £m
Amounts payable:		
Within one year	38.9	39.4
In two to five years	155.9	155.8
In more than five years	428.8	467.8
Less: finance charges allocated to future periods	(262.1)	(294.6)
	361.5	368.4

Finance leases and hire purchase contracts are analysed as follows:

Current obligations (note 20)	12.2	11.4
Non-current obligations (note 21)	349.3	357.0
	361.5	368.4

24. Provisions for liabilities and charges

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

GROUP	At 1 January 2004 £m	Utilised in the year £m	Released in the year £m	Arising during the year £m	At 31 December 2004 £m
Insurance	12.4	(1.4)	(0.3)	9.7	20.4
Restructuring costs	25.8	(11.5)	-	-	14.3
Decommissioning	-	-	-	20.0	20.0
Onerous lease contracts	1.1	-	(0.6)	4.4	4.9
Legal disputes	17.5	(0.3)	(12.2)	5.8	10.8
Other costs	2.0	-	(0.4)	0.6	2.2
Deferred tax (see below)	554.4	-	-	61.3	615.7
Power Trading contract	0.7	(0.7)	-	-	-
Medway Power contract	149.9	(30.8)	-	-	119.1
Teesside Power contract	60.4	(14.2)	-	-	46.2
	824.2	(58.9)	(13.5)	101.8	853.6

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 24 Provisions for liabilities and charges Continued

COMPANY	At 1 January 2004 £m	Utilised in the year £m	Released in the year £m	Arising during the year £m	At 31 December 2004 £m
Insurance	1.5	-	(0.3)	-	1.2
Restructuring costs	25.8	(11.6)	-	-	14.2
Onerous lease contract	1.0	-	(0.6)	4.1	4.5
Legal disputes	-	-	-	1.0	1.0
Other costs	1.4	-	-	-	1.4
	29.7	(11.6)	(0.9)	5.1	22.3

The insurance provision is based on an assessment of the Group's known liabilities as at 31 December 2004.

The restructuring provision relates to future restructuring within the Group.

The provision for onerous lease contracts represents the difference between the projected rental income from various properties and the amounts payable by the Group for those properties under currently existing contracts.

The Teesside Power provision arose on the acquisition of the supply business of South Western Electricity. The Power trading and Medway power contract provisions resulted from the acquisition of SEEBOARD. These provisions represent the difference between the contract price and the estimated market price of energy at the date of acquisition. The discount rate used in arriving at the provisions was a risk adjusted rate. The amount utilised during the year for these provisions is net of £11.3 million (2003: £8.5 million) relating to the unwinding of the discount and has been included within interest payable (see note 9).

The decommissioning provision was created during the year to provide for the future costs of decommissioning Cottam, West Burton and Sutton Bridge power stations. This provision has been calculated on a discounted basis.

The movements in deferred taxation during the current year are as follows:

	GROUP	COMPANY
	£m	£m
At 1 January 2004	554.4	-
Charge/(credit) for the year (note 10)	61.3	(5.8)
At 31 December 2004	615.7	(5.8)

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 24 Provisions for liabilities and charges Continued

Deferred taxation provided in the financial statements is as follows:

Group	2004	2003
	£m	£m
Accelerated capital allowances	734.2	685.5
Other timing differences	(118.5)	(131.1)
Provision for deferred tax	615.7	554.4

Company	2004	2003
	£m	£m
Accelerated capital allowances	11.3	10.9
Other timing differences	(17.1)	(10.9)
Deferred tax (note 19)	(5.8)	-

25. Minority interest

	Group
	£m
At 1 January 2004	3.8
Profit on ordinary activities after taxation	(1.8)
Dividends paid and proposed	-
At 31 December 2004	2.0

The minority interest arises from the Groups holdings in EDF Energy Powerlink Limited. The Group holds 80% of the shares in that company, with the other 20% being held by Balfour Beatty plc.

NOTES TO THE FINANCIAL STATEMENTS Continued

26. Derivatives and other financial instruments

A discussion of the Group's objectives with regards to derivatives and other financial instruments is included within the Group's accounting policies in note 1. Advantage has been taken of FRS 13, 'Derivatives and other financial instruments', in relation to the exemption from disclosures on current debtors and current liabilities.

Fair values of assets and liabilities

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 cashflows at prevailing rates. Significant differences can arise between the fair value and the carrying amount of financial instruments that are recognised at historical cost amounts.

	Book value 2004 £m	Fair value 2004 £m	Book value 2003 £m	Fair value 2003 £m
Long term investments	2.5	2.5	10.5	10.5
Current asset investments	106.5	106.5	26.2	26.2
Cash at bank and in hand	70.1	70.1	120.1	120.1
Short term borrowing	587.0	573.9	693.3	695.0
Long term borrowings	2,487.0	2,728.7	2,371.9	2,446.0
Cross currency swaps	0.1	1.2	-	(27.3)
Forward rate agreement	-	10.5	-	25.1

The Group has not included the fair value of the forward purchase contracts of energy, discussed in note 1, as these are all expected to be settled by physical delivery and are therefore outside the scope of FRS 13.

Interest rate profile of financial liabilities

The interest rate profile of financial liabilities as at 31 December 2004 subsequent to the affect of interest rate swaps was as follows:

	Fixed rate £m	Floating rate £m	Total 2004 £m	Total 2003 £m
Pound Sterling	2,496.0	578.0	3,074.0	3,065.2
	2,496.0	578.0	3,074.0	3,065.2

The interest rate profiles for fixed and floating debt were as follows:

	2004	2003
Weighted average fixed interest rate %	7.0	6.8
Weighted average floating interest rate %	4.3	3.9
Weighted average period for long-term debt (years)	13.0	9.3

All foreign currency denominated debt interest and principal payments have been fully swapped into Sterling.

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 26 Derivatives and other financial instruments Continued

At 31 December 2004, the Group had one interest rate swap (2003: one). The fair value of the interest rate swap outstanding at 31 December 2004 was £(0.1) million (2003: £0.1 million).

Maturity of borrowings

The Group's maturity of debt at 31 December was as follows:

	2004 £m	2003 £m
In one year or less or on demand	587.0	693.3
In more than one year but not more than two years	237.9	221.6
In more than two years but not more than five years	347.0	293.4
In more than five years	1,902.1	1,856.9
	3,074.0	3,065.2

Borrowing facilities

The Group has a £500.0 million committed bank facility which matures on 15 December 2008. At the year-end £500.0 million (2003: £360.0 million) of the facility was undrawn.

Currency exposure

The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than pound sterling. Foreign exchange differences on retranslating of such assets and liabilities are taken to the profit and loss account.

FUNCTIONAL CURRENCY OF GROUP OPERATION	Net foreign currency monetary assets	
	US Dollar 2004 £m	US Dollar 2003 £m
Pound Sterling	-	13.9

Aggregated gains and losses on hedges

Gains and losses on instruments used for hedging are not recognised until the transaction that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements are set out below.

Unrecognised contracts gains/losses

	2004 £m	2003 £m
Losses on hedges at beginning of year	(2.2)	(9.2)
Gains arising in previous years that were recognised in the year	0.2	0.2
	(2.0)	(9.0)
Profits arising in the year that were not recognised in the year	7.1	6.8
	5.1	(2.2)

In the table above the carried forward unrecognised net gain at 31 December 2004 of £5.1 million equates to the difference between the fair value and book value of hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS Continued

27. Share capital

Authorised	2004 Number	2003 Number	2004 £m	2003 £m
Ordinary shares of £0.5833 each	2,228,713,439	2,228,713,439	1,300.0	1,300.0
Ordinary shares of £0.50 each	300,000,002	300,000,002	150.0	150.0
Allotted, called up and fully paid				
	2004 Number	2003 Number	2004 £m	2003 £m
Ordinary shares of £0.5833 each	2,222,739,164	2,222,739,164	1,296.6	1,296.6

All classes of share carry the same voting rights.

28. Reconciliation of Group shareholder's funds and movement on reserves

GROUP

	Share capital £m	Share Premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total share- holder's funds £m
At 1 January 2003	1,296.6	13.9	11.0	328.1	1,649.6
Retained profit for the year	-	-	-	187.4	187.4
At 31 December 2003	1,296.6	13.9	11.0	515.5	1,837.0
Retained profit for the year	-	-	-	222.1	222.1
At 31 December 2004	1,296.6	13.9	11.0	737.6	2,059.1

COMPANY

	Share capital £m	Share Premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total share- holder's funds £m
At 1 January 2003	1,296.6	13.9	11.0	(5.7)	1,315.8
Retained profit for the year	-	-	-	53.3	53.3
At 31 December 2003	1,296.6	13.9	11.0	47.6	1,369.1
Retained profit for the year	-	-	-	(30.5)	(30.5)
At 31 December 2004	1,296.6	13.9	11.0	17.1	1,338.6

NOTES TO THE FINANCIAL STATEMENTS Continued

29. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £111.0 million (2003 - £186.5 million).

30. Notes to the Cash Flow Statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	£m	£m
Group operating profit	540.8	556.5
Depreciation of tangible fixed assets	248.4	217.9
Amortisation and impairment of goodwill	64.0	60.4
(Increase) in debtors	(58.3)	(88.0)
(Increase) in stocks	(5.4)	(2.2)
Increase in creditors	94.4	71.5
(Decrease) in provisions	(19.8)	(140.6)
Net cash inflow from operating activities	864.1	675.5

(b) Analysis of net debt

	At 1 January 2004	Cash flow	Other Non-cash movements	At 31 December 2004
	£m	£m	£m	£m
Bank overdraft	-	(0.2)	-	(0.2)
Cash at bank and in hand	120.1	(50.0)	-	70.1
Current asset investments	26.2	80.3	-	106.5
Debt due within one year	(693.3)	306.8	(200.5)	(587.0)
Debt due after one year	(2,371.9)	(323.2)	208.1	(2,487.0)
Finance leases	(368.4)	6.9	-	(361.5)
	(3,287.3)	20.6	7.6	(3,259.1)

NOTES TO THE FINANCIAL STATEMENTS Continued

31. Pension commitments

(a) Group pension schemes

The principal pension schemes of EDF Energy plc are the EDF Energy Pension scheme (EEPS), London Electricity Group of the Electricity Supply Pension Scheme (ESPS) and the SEEBOARD Group of ESPS. All three of these are defined benefit schemes. The London 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 majority of employees of SEEBOARD Powerlink Limited are members of the LRT Pension Fund, a defined benefit scheme

(b) SSAP 24 – Accounting for pension costs for the ESPS & EEPS

The latest full actuarial valuations of the London Electricity and SEEBOARD Groups of the ESPS were 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 valuation method adopted was the projected unit method. At 31 March 2004 the market value of assets relating to the London Electricity Group of the ESPS was £1,064 million, which represented 83% of the actuarial value of the accrued benefits. The market value of assets relating to the SEEBOARD Group of the ESPS was £688 million, which represented 82% of the actuarial value of the accrued benefits. Accrued benefits include all benefits for pensioners and former members as well as benefits based on service to date for active members, allowing for future salary increases.

In order to calculate the pension charge in accordance with the Group's accounting policy, separate actuarial valuations were prepared by Hewitt Bacon & Woodrow as at 29 July 2002 in respect of the London Electricity Group and the SEEBOARD Group of the ESPS. These valuations have been applied consequently in 2003 and 2004 and resulted in regular costs of £19 million (2003: £18 million) for the London Electricity Group, £6 million (2003: £10 million) for the SEEBOARD Group and £11 million (2003: £nil) for the EEPS scheme. These regular costs were increased due to a recognised deficit of £16 million in the London Electricity Group which is spread over the average remaining service life of employees of 10 years. Early retirement deficiency costs for the London and SEEBOARD Groups of ESPS amounted to £5 million (2003: £9 million). Net interest costs for the SEEBOARD group were £4 million, (2003: £4 million) giving total pension costs of £61 million (2003: £53 million). The valuation and increased regular costs do not take into account the fall in the stock market and the reduction in the gilt yields that has taken place since the valuation date.

If SSAP24 was to be used as the basis for calculating the 2005 pension charge, the latest full actuarial valuation as at 31 March 2004 and associated assumptions would form the basis of the calculation with effect from 1 January 2005. To ensure consistency of treatment the pension fair value adjustment, created on the acquisition of SEEBOARD, would also be amortised from 1 January 2005.

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 31 Pension commitments Continued

The method adopted for the valuations was the projected unit method. The principal assumptions used to assess the long-term ongoing funding target under SSAP24 and those that formed the basis of the 31 March 2004 actuarial valuation are set out below.

	29 July 2002 % p.a.	31 March 2004 % p.a.
Discount rate	6.0	5.4
Inflation rate	2.4	2.9
Increase to pensions	2.6	3.0
Increase to deferred benefits	2.6	3.0
Salary increases	3.4	4.4

(c) SSAP 24 – Accounting for pension costs for the other schemes

Under the other schemes, the charge to profit and loss is the contribution paid by EDF Energy plc. The amount paid for the year ended 31 December 2004 was £0.7 million (2003: £4.5 million).

The total charge for pension schemes in the accounts for the year ended 31 December 2004 is £61.7 million (2003: £57.5 million).

(d) FRS 17 – Retirement benefits – transitional disclosures

Further disclosures are required in accordance with the transitional arrangements of FRS17 – 'Retirement Benefits'. The following notes relate to the London Electricity, SEEBOARD Groups of ESPS and EEPS. An updated actuarial valuation was prepared by Hewitt Bacon & Woodrow as at 31 December 2004 for this purpose.

The updated valuation was determined using the projected unit credit method ("PUC method"). Both groups are closed to new members so, using the PUC method, the current service cost will increase as the active membership of the scheme approaches retirement.

The major assumptions used were as follows:

	2004 % p.a.	2003 % p.a.	2002 % p.a.
Inflation assumption	2.9	2.8	2.3
Rate of increase in salaries	3.9	3.8	3.3
Rate of increase of pensions in payment and deferred pensions	2.9	2.8	2.3
Rate used to discount plan liabilities	5.3	5.4	5.5
Expected rate of return on equities	8.2	8.5	8.0
Expected rate of return on bonds	4.5	4.8	4.5

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 31 Pension commitments Continued

Analysis of amount that would have been charged to operating profit if FRS 17 had been fully implemented:

	London Electricity Group of ESPS	SEEBOARD Group of ESPS	EEPS	Total	Total	Total
	£m	£m	£m	2004 £m	2003 £m	2002 £m
Current service cost	23.0	8.0	11.0	42.0	26.0	17.0
Past service cost	-	-	-	-	3.0	35.0
Past service cost met from reserve for future benefit improvements	(10.0)	-	-	(10.0)	-	(35.0)
Curtailments	3.0	2.0	-	5.0	9.0	4.0
Total operating cost	16.0	10.0	11.0	37.0	38.0	21.0

Analysis of amount that would have been credited to other finance income if FRS 17 had been fully implemented:

	London Electricity Group of ESPS	SEEBOARD Group of ESPS	EEPS	Total	Total	Total
	£m	£m	£m	2004 £m	2003 £m	2002 £m
Expected return on pension plan assets	79.0	49.0	2.0	130.0	104.0	87.0
Interest on pension plan liabilities	(69.0)	(42.0)	(1.0)	(112.0)	(100.0)	(67.0)
Net return	10.0	7.0	1.0	18.0	4.0	20.0

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 31 Pension commitments Continued

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

London Electricity Group of ESPS	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	74.1	839.0	74.2	784.0	68.0	629.0
Bonds	25.9	293.0	25.8	272.0	32.0	296.0
<hr/>						
Total market value of assets		1,132.0		1,056.0		925.0
Defined benefit obligation (DBO)		(1,405.0)		(1,292.0)		(1,128.0)
<hr/>						
Deficit in scheme		(273.0)		(236.0)		(203.0)
Reserve for future benefit improvements		-		(10.0)		(10.0)
Deferred tax asset		82.0		74.0		64.0
<hr/>						
Net pension liability		(191.0)		(172.0)		(149.0)
<hr/>						
Expected rate of return:						
Equities	8.2		8.5		8.0	
Bonds	5.0		5.1		4.5	
<hr/>						
SEEBOARD Group of ESPS	2004 %	2004 £m	2003 %	2003 £m	2002 %	2002 £m
Equities	67.8	487.0	69.4	475.0	68.1	422.0
Bonds	32.2	231.0	30.6	209.0	31.9	198.0
<hr/>						
Total market value of assets		718.0		684.0		620.0
Defined benefit obligation (DBO)		(872.0)		(802.0)		(736.0)
<hr/>						
Deficit in scheme		(154.0)		(118.0)		(116.0)
Deferred tax asset		46.0		35.0		35.0
<hr/>						
Net pension liability		(108.0)		(83.0)		(81.0)
<hr/>						
Expected rate of return:						
Equities	8.2		8.5		8.0	
Bonds	5.0		5.1		4.5	

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 31 Pension commitments Continued

EEPS	2004 %	2004 £m
Equities	52.0	13.0
Bonds	48.0	12.0
Total market value of assets		25.0
Defined benefit obligation (DBO)		(26.0)
Deficit in scheme		(1.0)
Deferred tax asset		-
Net pension liability		(1.0)
Expected rate of return:		
Equities	8.2	
Bonds	5.0	

The EEPS commenced on 1 March 2004.

Analysis of movement in deficit during the year that would have arisen if FRS 17 had been fully implemented:

	London Electricity Group of ESPS	SEEBOARD Group of ESPS	EEPS	Total	Total	Total
	£l	£m	£m	2004 £m	2003 £m	2002 £m
(Deficit) in scheme at beginning of year	(236.0)	(118.0)	-	(354.0)	(319.0)	97.0
Contribution on inception	-	-	(2.0)	(2.0)	-	-
Current service cost	(23.0)	(8.0)	(11.0)	(42.0)	(26.0)	(17.0)
Contributions	21.0	9.0	10.0	40.0	38.0	4.0
Past service costs	-	-	-	-	(3.0)	(35.0)
Curtailments	(3.0)	(2.0)	-	(5.0)	(9.0)	(4.0)
Other financial income	10.0	7.0	1.0	18.0	4.0	20.0
Actuarial loss	(42.0)	(42.0)	1.0	(83.0)	(39.0)	(311.0)
Loss on TXU acquisition	-	-	-	-	-	(10.0)
Loss on SEEBOARD acquisition	-	-	-	-	-	(63.0)
Deficit in scheme at end of year	(273.0)	(154.0)	(1.0)	(428.0)	(354.0)	(319.0)

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 31 Pension commitments Continued

Analysis of amount recognised in Statement of total recognised gains and losses that would have arisen if FRS 17 had been fully implemented:

	London Electricity Group of ESPS	SEEBOARD Group of ESPS	EEPS	Total	Total	Total
	£m	£m	£m	2004 £m	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	30.0	15.0		42.0	142.0	(245.0)
Experience (losses)/gains arising on the scheme liabilities	(8.0)	(26.0)		(29.0)	(14.0)	(24.0)
Changes in assumptions underlying the present value of the scheme liabilities	(64.0)	(31.0)		(96.0)	(167.0)	(42.0)
Actuarial loss recognised in STRGL	(42.0)	(42.0)		(83.0)	(39.0)	(311.0)

History of experience gains and losses that would have arisen if FRS 17 had been fully implemented:

	London Electricity Group of ESPS	SEEBOARD Group of ESPS	EEPS	Total	Total	Total
				2004	2003	2002
Difference between expected and actual return on scheme assets: Amount (£m)	30.0	15.0	(3.0)	42.0	142.0	(245.0)
Percentage of scheme assets	2.7%	2.1%	(10.7%)	2.3%	8.0%	(16%)
Experience (losses)/gains on scheme liabilities: Amount (£m)	(8.0)	(26.0)	5.0	(29.0)	(14.0)	(24.0)
Percentage of scheme liabilities	0.6%	3.2%	16.7%	(1.3%)	(1.0%)	(1.0%)
Total amount recognised in STRGL: Amount (£m)	(42.0)	(42.0)	1.0	(83.0)	(39.0)	(311.0)
Percentage of scheme liabilities	(3.2%)	5.2%	3.3%	(3.8%)	(2.0%)	(17%)

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 31 Pension commitments Continued

The analysis of reserves that would have arisen if FRS 17 had been fully implemented is as follows:

	2004 £m	2003 £m
Profit and loss reserve excluding pension liability	823.7	580.6
Amount relating to defined benefit pension scheme asset, net of related deferred tax	(299.6)	(256.2)
Profit and loss reserve under FRS 17	524.1	324.4

32. Other financial commitments

At 31 December 2004 the Company had annual commitments under non-cancellable operating leases as set out below:

GROUP

	Land and buildings 2004 £m	Other 2004 £m	Land and buildings 2003 £m	Other 2003 £m
Operating leases which expire:				
Within one year	0.1	-	0.3	-
In two to five years	1.3	-	2.1	-
In over five years	9.2	20.5	10.9	16.6
	10.6	20.5	13.3	16.6

COMPANY

	Land and buildings 2004 £m	Other 2004 £m	Land and buildings 2003 £m	Other 2003 £m
Operating leases which expire:				
Within one year	0.1	-	0.3	-
In two to five years	1.2	-	1.6	-
In over five years	9.2	-	8.4	-
	10.5	-	10.3	-

In the normal course of business, the Group may give security in respect of its associates and joint venture undertakings.

NOTES TO THE FINANCIAL STATEMENTS Continued

Note 32 Other financial commitments Continued

The total commitments of the Group under outstanding commodity contracts amounted to £1,086.6 million (2003: £723.7 million). In addition, the Group had commitments of £725.3 million (2003: £408.8 million) in respect of coal contracts.

33. Related Parties

During the year the Group purchased services from and provided services to related parties (Powerlink BCV Limited and PADCo Limited)

	2004 £m	2003 £m
Sales:		
Services supplied	4.0	1.6
Purchases:		
Services received	(101.2)	(120.4)
Tangible fixed assets	-	0.2
Amounts receivable from related parties at 31 December	5.0	3.8

The Group has taken advantage of the exemption within FRS 8 'Related Party Disclosures' not to disclose transactions with subsidiary undertakings where the Group controls 90 per cent or more of the voting rights.

34. Parent undertaking and controlling party

EDF Energy Group Holdings plc holds a 100% interest in EDF Energy plc and is considered to be the immediate parent company.

At 31 December 2004, Electricité de France SA ('EDF'), a French state owned company is regarded by the Directors as the company's ultimate parent company and controlling party. This is the only group for which consolidated accounts are prepared. Copies of that company's consolidated accounts may be obtained from Electricité de France, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.