EDF ENERGY

EDF ENERGY (SERVICES) LIMITED

Registered Number 2228168

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2004

CONTENTS

Page:

Directors

Humphrey A E Cadoux-Hudson
Brian J S Gray
Maria H Maes

Company Secretary

Robert Ian Higson

Auditors

Deloitte & Touche LLP
London

Registered Office

40 Grosvenor Place
Victoria
London
SW1X 7EN

DIRECTORS' REPORT

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

Principal activity and review of the business

The Company's principal activity during the year continued to be the management of electricity distribution systems. It will continue in this activity for the foreseeable future.

Results and dividends

The profit for the year, before taxation, amounted to £8,618,000 (2003: restated profit of £13,405,000) and after taxation, to £6,410,000 (2003: restated profit of £9,853,000). The Directors do not recommend payment of a dividend (2003: £Nil).

Directors and their interests

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

Maria H Maes	(Appointed 1 January 2004)
Andrew K MacAskill	(Resigned 17 September 2004)
Brian J S Gray	(Appointed 17 September 2004)
Humphrey A E Cadoux-Hudson	

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 Company's business.

None of the Directors who held office at the end of the financial year had any 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 various charitable contributions totalling £7,015 (2003: £10,906) and no political contributions (2003: £Nil).

DIRECTORS' REPORT Continued

Creditors payment policy

The Company'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; 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 December 2004, the Company had an average of 29 days purchases outstanding in its trade creditors (2003: 4 days).

Employees

The Company 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 Company 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 Company 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 Company.

The Company'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 in the current year, following the resignation of Ernst & Young LLP. Deloitte & Touche LLP will be re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under section 386 of the Companies Act 1985.

By order of the Board

Robert Ian Higson
Company Secretary
Date 31 October 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 as at the end of the financial year and of the profit or loss of the Company 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 disclosed and explained in the financial statements as necessary; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EDF ENERGY (SERVICES) LIMITED

We have audited the financial statements of EDF Energy (Services) Limited for the year ended 31 December 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes numbered 1 to 24. 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 is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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, 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 (SERVICES) LIMITED Continued

Opinion

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

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

Date 31 October 2005

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £000	Restated 2003 £000
Turnover	2	**40,033**	31,932
Gross profit		**40,033**	31,932
Distribution expenses		**(7,880)**	(5,450)
Administrative expenses	4	**(15,133)**	(6,035)
Operating profit	3	**17,020**	20,447
Profit on ordinary activities before interest and taxation		**17,020**	20,447
Interest payable and similar charges	7	**(8,402)**	(7,042)
Profit on ordinary activities before taxation		**8,618**	13,405
Tax on profit on ordinary activities	8	**(2,208)**	(3,552)
Retained profit for the financial year	18	**6,410**	9,853

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £000	Restated 2003 £000
Profit for the financial year	18	**6,410**	9,853
Total recognised gains and losses relating to the year		**6,410**	9,853
Prior year adjustment – change in revenue recognition policy	23	**2,086**	
Total recognised gains and losses since last annual report		**8,496**	

Prior year figures have been restated to show the effect of the change in revenue recognition policy (note 23).

BALANCE SHEET
AT 31 DECEMBER 2004

	Note	2004 £000	Restated 2003 £000
Fixed assets			
Intangible assets	9	**876**	942
Tangible assets	10	**205,432**	173,886
Total fixed assets		**206,308**	174,828
Current assets			
Stocks	11	**1,283**	3,458
Debtors	12	**11,128**	12,511
Total current assets		**12,411**	15,969
Creditors: amounts falling due within one year	13	**(134,022)**	(105,779)
Net current liabilities		**(121,611)**	(89,810)
Total assets less current liabilities		**84,697**	85,018
Creditors: amounts falling due after more than one year	14	**(26,688)**	(35,100)
Provisions for liabilities and charges	16	**(21,951)**	(20,270)
Net assets		**36,058**	29,648
Capital and reserves			
Called up share capital	17	**10,100**	10,100
Profit and loss account	18	**25,958**	19,548
Equity shareholder's funds		**36,058**	29,648

Prior year figures have been restated to show the effect of the change in revenue recognition policy (note 23).

The financial statements on pages 7 to 20 were approved by the Board of Directors on 31 October 2005. and were signed on its behalf by:

Humphrey A E Cadoux-Hudson
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

The principal accounting policies are set out below. They have all been applied consistently throughout the year and the preceding year, with the exception of the policy for revenue recognition for one of the Company's significant contracts, which is explained in note 23.

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The Company is following the transitional arrangements of FRS 17 'Retirement benefits'. The required disclosures are shown in note 20. Full adoption of the standard is required by the year ended 31 December 2005.

Cash flow statement

The Company is exempt from preparing a cash flow statement under the terms of FRS 1 'Cash flow statements (revised 1996)' as it is a member of a group whose consolidated accounts include a cash flow statement and are publicly available.

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets

The cost of individual tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Cost includes staff costs where employees participate directly in the construction of 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 at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Operational assets:		
Network assets excluding cable	–	Over 30 years
Cable	–	Over 50 years
Leasehold land and buildings	–	Shorter of lease term or 40 years
Non operational assets:		
Fixtures and equipment	–	Over 5 years
Motor vehicles	–	Over 5 years
Software	–	Over 5 years
IT equipment	–	Over 3 years

Assets in the course of construction are not depreciated

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:

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

Net realisable value is based on estimated contract value 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

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. A change in the basis on which turnover and profit are recognised in the year is explained in note 23.

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 measured on an undiscounted basis.

Leasing and hire purchase commitments

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term, even if payments are not made on such a basis.

NOTES TO THE FINANCIAL STATEMENTS Continued

Pensions

The Company participates in both a defined contribution pension scheme and 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. The pension cost is assessed in accordance with the advice of qualified actuaries.

2. Turnover

Turnover, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of the management of various electricity distribution systems.

3. Operating profit

	2004	2003
This is stated after charging:	**£000**	£000
Depreciation of owned fixed assets	**4,733**	3,209
Amortisation of goodwill	**66**	66
Auditors' remuneration for audit services	**25**	15
Operating lease rentals - other	**654**	573

4. Administrative expenses

	2004	2003
Included within administrative expenses are :	**£000**	£000
Provision for debtors owed by London Electricity Contracting	**593**	61
Provision released in relation to warranty and indemnity claims	**-**	(2,227)

5. Directors' emoluments

	2004	2003
	£000	£000
Total emoluments	**236**	125
Emoluments payable to the highest paid director were as follows:		
Aggregate emoluments	**207**	125

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

Three of the directors have service contracts with other EDF Energy plc group companies. No directors (2003: none) held any interest in the shares or debentures of the Company.

NOTES TO THE FINANCIAL STATEMENTS Continued

6. Staff costs

	2004 £000	2003 £000
Wages and salaries	**4,811**	3,331
Social security costs	**466**	299
Other pension costs	**409**	263
Less: capitalised staff costs	**(1,304)**	(1,472)
	4,382	2,421

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

	2004 Number	2003 Number
Administration	**37**	20
Production	**70**	72
	107	92

7. Interest payable and similar charges

	2004 £000	2003 £000
Interest due on loan from EDF Energy plc	**8,402**	7,042

NOTES TO THE FINANCIAL STATEMENTS Continued

8. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

UK current tax	**2004 £000**	Restated 2003 £000
UK corporation tax charge on profit for the year	**(1,120)**	(1,741)
Total current tax charge (Note 8(b))	**(1,120)**	(1,741)
UK deferred tax		
Origination and reversal of timing differences	**(1,666)**	(3,031)
Adjustment in respect of previous years	**578**	1,220
Total deferred tax charge	**(1,088)**	(1,811)
Total tax charge on profit on ordinary activities	**(2,208)**	(3,552)

(b) Factors affecting tax charge for the year:

	2004 £000	Restated 2003 £000
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%).		
The differences are explained below:		
Profit on ordinary activities before taxation	**8,618**	13,405
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	**(2,585)**	(4,022)
Effect of:		
Disallowed expenses and non-taxable income	**(181)**	(730)
Capital allowances in excess of depreciation	**1,844**	2,381
Amortisation of goodwill	**(20)**	(20)
Other	**(178)**	650
Current tax charge for the year	**(1,120)**	(1,741)

Prior year figures have been restated to show the effect of the change in revenue recognition policy (note 23).

NOTES TO THE FINANCIAL STATEMENTS Continued

9. Intangible fixed assets

Goodwill	£000
Cost	
At 1 January and 31 December 2004	1,314
Amortisation	
At 1 January 2004	372
Charge for the year	66
At 31 December 2004	438
Net book value	
At 31 December 2004	876
At 31 December 2003	942

Goodwill is being amortised over a period of 20 years, being its estimated useful life, on a straight line basis.

The Directors have reviewed the net book amount of goodwill at 31 December 2004 and in their opinion this amount is fully supported by their valuation of the net assets to which it relates.

10. Tangible fixed assets

	Network assets	Assets in the course of construction	Non-operational land and buildings	Motor vehicles	Fixtures & Equipment	Total
	£000	£000	£000	£000	£000	**£000**
Cost						
At 1 January 2004	141,755	51,587	247	6	2,015	**195,610**
Additions	118	38,293	-	-	-	**38,411**
Transfers	9,776	(11,552)	-	-	1,776	**-**
Disposals	(3,658)	-	-	(6)	(407)	**(4,071)**
At 31 December 2004	**147,991**	**78,328**	**247**	**-**	**3,384**	**229,950**
Depreciation						
At 1 January 2004	20,958	-	127	6	633	**21,724**
Charge for the year	4,214	-	85	-	434	**4,733**
Transfers	(927)	-	-	-	927	**-**
Disposals	(1,526)	-	-	(6)	(407)	**(1,939)**
At 31 December 2004	**22,719**	-	**212**	-	**1,587**	**24,518**
Net book value						
At 31 December 2004	**125,272**	**78,328**	**35**	-	**1,797**	**205,432**
At 31 December 2003	120,797	51,587	120	-	1,382	173,886

NOTES TO THE FINANCIAL STATEMENTS Continued

11. Stocks

	2004 £000	2003 £000
Work in progress	1,283	3,458

12. Debtors

	2004 £000	Restated 2003 £000
Debtors: amounts falling due within one year		
Trade debtors	2,201	3,463
Amounts owed by other group companies	1,653	175
VAT	344	1,190
Other debtors	33	550
Prepayments and accrued income	1,927	4,153
	6,158	9,531
Debtors: amounts falling due after more than one year		
Prepayments and accrued income	4,970	2,980
	11,128	12,511

13. Creditors: amounts falling due within one year

	2004 £000	Restated 2003 £000
Bank overdraft	100,606	79,312
Borrowings (note15)	14,628	15,228
Trade creditors	2,922	347
Amounts owed to other group companies	785	904
Amounts owed to EDF Energy plc	3,471	2,623
Corporation tax (Group payments)	5,388	4,267
Accruals and deferred income	6,222	3,098
	134,022	105,779

Prior year figures have been restated to show the effect of the change in revenue recognition policy (note 23).

NOTES TO THE FINANCIAL STATEMENTS Continued

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

	2004 £000	2003 £000
Trade creditors	588	-
Borrowings (note15)	26,100	35,100
	26,688	35,100

15. Borrowings

	2004 £000	2003 £000
Loan from EDF Energy plc	40,728	50,328

Maturity

Amounts repayable:	2004 £000	2003 £000
In one year or less, or on demand	14,628	15,228
	14,628	15,228
In more than one year but not more than two years	9,600	9,000
In more than two years but not more than five years	16,500	26,100
	26,100	35,100
	40,728	50,328

NOTES TO THE FINANCIAL STATEMENTS Continued

16. Provisions for liabilities and charges

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

	At 1 January 2004	Released in the year	Arising during the year	**At 31 December 2004**
	£000	£000	£000	**£000**
London Electricity Contracting	1,846	-	593	**2,439**
Deferred tax (note 8)	18,424	-	1,088	**19,512**
	20,270	-	1,681	**21,951**

The provision in relation to London Electricity Contracting (LEC) relates to outstanding contractual obligations, following the sale of that company.

Deferred taxation provided in the financial statements is as follows:

	2004	2003
	£000	£000
Accelerated capital allowances	**20,283**	18,994
Other timing differences	**(771)**	(570)
Provision for deferred tax	**19,512**	18,424

17. Share capital

Authorised

	2004 Number	2003 Number	**2004 £000**	2003 £000
Ordinary shares of £1 each	**15,000,000**	15,000,000	**15,000**	15,000

Allotted, called up and fully paid

	2004 Number	2003 Number	**2004 £000**	2003 £000
Ordinary shares of £1 each	**10,100,000**	10,100,000	**10,100**	10,100

NOTES TO THE FINANCIAL STATEMENTS Continued

18. Reconciliation of shareholder's funds and movement on reserves

	Share capital	Profit and loss account	**Total share-holder's funds**
	£000	£000	**£000**
At 1 January 2003 – as previously stated	10,100	8,437	**18,537**
Prior year adjustment (note 23)	-	1,258	**1,258**
At 1 January 2003 (restated)	10,100	9,695	**19,795**
Retained Profit for the year (restated)	-	9,853	**9,853**
At 31 December 2003 (restated)	10,100	19,548	**29,648**
Retained Profit for the year	-	6,410	**6,410**
At 31 December 2004	**10,100**	**25,958**	**36,058**

19. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £51,299,500 (2003: £115,692,000).

20. Pension commitments

The Company participates in the following group-wide pension schemes and continues to account for these schemes in accordance with SSAP24.

Electricity Supply Pension Scheme

The London Electricity Group segment of the Electricity Supply Pension Scheme (ESPS) is a multi-employer defined benefit scheme. The ESPS which operates throughout the Electricity Supply Industry provides pension and other related benefits based on final pensionable pay of employees. The assets of the scheme are held in a separate trustee-administered fund. The scheme was closed to new employees in 1994.

The directors consider that it is not possible to identify the Company's share of the underlying assets and liabilities in the Group scheme. Accordingly, the Company accounts for the scheme as if it were a defined contribution scheme i.e. the Company pays contributions to the scheme at a fixed contribution rate, defined by the Group, which is charged directly to the profit and loss account.

The latest full actuarial valuations of the London Electricity segment 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. The actuarial valuation at 31 March 2004 indicated the market value of assets in the schemes was £1,064m, which represented 83% of the actuarial value of the accrued benefits. 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. Full disclosure of the pension scheme and its latest actuarial valuation is provided in the accounts of EDF Energy plc.