EDF ENERGY PLC (FORMERLY LONDON ELECTRICITY GROUP PLC)

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2003

Registered Number 2366852

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Directors

Michel Crémieux (Chairman)
Vincent de Rivaz (Chief Executive)
Humphrey A E Cadoux-Hudson
Gérard Creuzet
Yann V R Laroche
Anne le Lorier

Company Secretary

Robert Ian Higson

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered Office

40 Grosvenor Place
Victoria
London
SW1X 7EN

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activities of EDF Energy plc (formerly London Electricity Group plc) (the "Group") 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.

Results and dividends

The profit for the year, before taxation, amounted to £427.6 million (2002: restated profit of £197.2 million) and after taxation to £264.4 million (2002: restated profit of £105.8 million). Dividends totalled £76.2 million for the year (2002: £88.0 million).

Review of the business and future developments

The year 2003 was the first full year of trading for the Group as it currently stands with no major acquisitions during the year. During 2002, the Group made three significant acquisitions. On 18 January 2002, the Group purchased TXU Europe Group plc's UK distribution network and a further 50% stake in EDF Energy Networks Ltd (formerly 24seven Utility Services Ltd) (which maintains the electricity distribution network in London and the East of England) so that it is now a wholly owned subsidiary of EDF Energy plc (formerly London Electricity Group plc). On 29 July 2002, the Group acquired the SEEBOARD group of companies including the electricity distribution network in the South East of England, its electricity and gas retail business and private asset management interests.

The acquisitions increased the Group's market share considerably, making it the largest distribution Group in the UK and one of the largest retail suppliers. The Directors believe that the Group now has the right balance between generation, distribution and retail supply.

Directors and their interests

Directors who held office during the year were as follows:

Vincent de Rivaz (Chief Executive) (E)	
Michel Crémieux (Chairman) (NE)	Appointed 7 May 2003
Gérard Creuzet (NE)	Appointed 7 May 2003
Yann V R Laroche (NE)	Appointed 7 May 2003
Anne le Lorier (NE)	Appointed 7 May 2003
Humphrey A E Cadoux-Hudson (E)	Appointed 30 June 2003
Bo Källstrand (Chairman) (NE)	Resigned 25 February 2003
Bernard Cottrant (E)	Resigned 7 May 2003
Philippe Roblique (NE)	Resigned 7 May 2003
Paul A Cuttill (E)	Resigned 7 May 2003
Michel Francony (NE)	Resigned 7 May 2003
Ian R Beament (NE)	Resigned 31 December 2003

(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.

DIRECTORS' REPORT Continued

Political and charitable contributions

During the year, the Group made no political contributions (2002: £Nil) and various charitable contributions totalling £1,244,187 (2002: £1,229,593).

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.

Creditors payment policy

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

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

The payment policy applies to all payments to creditors or suppliers for revenue and capital supplies of goods and services without exception. At 31 December 2003, the Company had an average of 23 days purchases outstanding in trade creditors (2002: 22 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 Group performance.

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.

Going concern

The financial statements have been prepared on the going concern basis. The Directors are satisfied that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. The company is wholly owned by 'Electricité de France' (EDF), a French state owned utility company, which is fully committed to its investment in the UK.

By order of the Board

Robert Ian Higson
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 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 disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 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.

The Directors confirm that they have complied with these requirements and having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

REPORT ON CORPORATE GOVERNANCE

Statement of compliance

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

The Group supports the principles set out in the Turnbull Committee Guidelines on risk management. Since EDF Energy plc is a subsidiary of Electricité de France there is no statutory compliance obligation to comply. However, 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.

During 2003 a Corporate Risk Assurance Policy was implemented. The policy is a statement of what the Group 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 the Group, 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 the Group; and
- promote the development of risk control as a core business process and to provide a framework and awareness for exploiting opportunities, and containing or preventing loss.

In addition, risk management guidelines have been developed to provide a standard approach to risk management and 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.

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.

REPORT ON CORPORATE GOVERNANCE Continued

During the year the emphasis has been on the identification and assessment of risks. The focus in 2004 will be on the assessment of the adequacy of mitigating controls and the implementation of corrective action where required.

Control environment

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 Group 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 business unit/subsidiary against which performance is monitored in detail and agreements under which relationships with partners in joint ventures are controlled. High level reporting is made by business units/subsidiaries and functional heads at corporate level to the Group Executive Committee and the Board. The Group Executive Committee defines authority given to individual officers of the Group. The Executive 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 Executive Committee comprises the Group Chief Executive Officer, Chief Financial Officer, Branch Chief Operating Officers and Corporate Directors.

Information and communication

Staff policies are in place to ensure that employees are competent, have appropriate skills and receive information required to effectively perform their roles. The Group's Intranet is widely used to communicate information to staff.

Monitoring and corrective action

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

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

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

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

REPORT ON CORPORATE GOVERNANCE Continued

Effectiveness review

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

- internal control should be truly risk based;

- control characteristics should be a core philosophy across the organisation;

- mechanisms should be in place to give the Board assurance in relation to how key risks are assessed and managed; and

- the Board is actively involved in reviewing the effectiveness of the system.

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

Material weaknesses

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EDF ENERGY PLC (FORMERLY LONDON ELECTRICITY GROUP PLC)

We have audited the Group's financial statements for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Group Shareholder's Funds, Group Cash Flow Statement and the related notes 1 to 36. 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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 Group 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 Group's circumstances, 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 (FORMERLY LONDON ELECTRICITY GROUP PLC) Continued

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

Date 15.3.2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £m	Restated 2002 £m
Turnover			
Turnover – group and share of joint ventures		**3,621.0**	2,870.4
Less : share of joint ventures turnover		**(114.6)**	(35.2)
Continuing operations - ongoing		**3,506.4**	2,108.3
- acquisitions		**-**	726.9
Group turnover	2	**3,506.4**	2,835.2
Cost of sales		**(2,005.7)**	(1,466.2)
Gross profit		**1,500.7**	1,369.0
Net operating costs		**(944.2)**	(1,025.8)
Operating profit			
Continuing operations - ongoing		**556.5**	123.4
- acquisitions		**-**	219.8
Group operating profit		**556.5**	343.2
Share of operating profit in joint ventures		**23.8**	2.4
Share of operating profit in associate undertakings		**9.9**	6.3
Total operating profit – group and share of joint ventures and associates		**590.2**	351.9
Profit on disposal of fixed assets	7	**53.7**	5.9
Profit on ordinary activities before investment income, interest and taxation		**643.9**	357.8
Investment income		**3.9**	0.4
Interest receivable and similar income	8	**36.5**	37.1
Interest payable and similar charges	9	**(256.7)**	(198.1)
Profit on ordinary activities before taxation		**427.6**	197.2
Tax on profit on ordinary activities	10	**(163.2)**	(91.4)
Profit on ordinary activities after taxation		**264.4**	105.8
Minority interests		**(0.8)**	(3.6)
Profit for the financial year		**263.6**	102.2
Dividends	11	**(76.2)**	(88.0)
Retained profit for the financial year	27	**187.4**	14.2

Prior year figures have been restated to show the effect of the changes in accounting policies (note 35).

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £m	Restated 2002 £m
Profit for the financial year		**187.4**	14.2
Total recognised gains and losses relating to the year		**187.4**	14.2
Prior year adjustment – changes in accounting policy	*35*	**(143.6)**	
Total recognised gains and losses since last annual report		**43.8**	

Prior year figures have been restated to show the effect of the changes in accounting policies (note 35).

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDER'S FUNDS FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £m	Restated 2002 £m
Profit for the financial year		**263.6**	102.2
Dividends	*11*	**(76.2)**	(88.0)
Retained profit for the year		**187.4**	14.2
New share capital subscribed		**-**	920.1
Net increase in equity shareholder's funds		**187.4**	934.3
Opening equity shareholder's funds		**1,649.6**	715.3
Closing equity shareholder's funds		**1,837.0**	1,649.6

Prior year figures have been restated to show the effect of the changes in accounting policies (note 35).

BALANCE SHEET
AT 31 DECEMBER 2003

		Group		Company	
			Restated		Restated
		2003	2002	**2003**	2002
	Note	**£m**	£m	**£m**	£m
Fixed assets					
Intangible assets					
Goodwill		**1,297.2**	1,375.7	-	-
Negative goodwill		**(39.9)**	(42.2)	-	-
Total intangible assets	12	**1,257.3**	1,333.5	-	-
Tangible assets	13	**5,157.8**	4,910.4	**129.3**	98.1
Investments in subsidiary undertakings	14	-	-	**2,340.6**	2,313.3
Investments in joint ventures:					
Share of gross assets		**175.4**	153.8	-	-
Share of gross liabilities		**(159.0)**	(151.2)	-	-
Share of net assets in joint ventures	15	**16.4**	2.6	-	-
Investments in associates	16	**1.3**	57.2	**8.5**	8.5
Other investments	17	**10.5**	7.1	**10.5**	6.3
		6,443.3	6,310.8	**2,488.9**	2,426.2
Current assets					
Stock	18	**118.1**	115.9	**64.5**	77.7
Debtors – amounts falling due:					
After more than one year	19	-	-	**1.0**	13.0
Within one year		**982.9**	839.6	**502.6**	348.2
Less – securitisation of trade debtors		**(175.5)**	(190.4)	-	-
Net debtors falling due within one year	19	**807.4**	649.2	**502.6**	348.2
Investments: unlisted money market investments		**26.2**	37.1	**1.0**	-
Cash at bank and in hand		**120.1**	110.0	-	43.6
Total current assets		**1,071.8**	912.2	**569.1**	482.5
Creditors (amounts falling due within one year)	20	**(2,100.8)**	(2,352.0)	**(1,312.2)**	(1,297.4)
Net current liabilities		**(1,029.0)**	(1,439.8)	**(743.1)**	(814.9)
Total assets less current liabilities		**5,414.3**	4,871.0	**1,745.8**	1,611.3
Creditors (amounts falling due after more than one year)	21	**(2,749.3)**	(2,335.6)	**(347.0)**	(227.7)
Provision for liabilities and charges	24	**(824.2)**	(881.6)	**(29.7)**	(66.6)
Minority interest		**(3.8)**	(4.2)	-	-
Net assets		**1,837.0**	1,649.6	**1,369.1**	1,317.0
Capital and reserves					
Called up share capital	26	**1,296.6**	1,296.6	**1,296.6**	1,296.6
Share premium account	27	**13.9**	13.9	**13.9**	13.9
Capital redemption reserve	27	**11.0**	11.0	**11.0**	11.0
Profit and loss account	27	**515.5**	328.1	**47.6**	(4.5)
Equity shareholder's funds		**1,837.0**	1,649.6	**1,369.1**	1,317.0

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

The accounts on pages 10 to 48 were approved by the Board of Directors on 15 March 2004 and were signed on its behalf by:

Vincent de Rivaz
Chief Executive

Humphrey A E Cadoux-Hudson
Director

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	28	**675.5**	762.5
Returns on investments and servicing of finance			
Interest received		**8.8**	10.0
Interest paid		**(200.1)**	(168.6)
Interest element of finance lease rental payments		**(23.4)**	(26.8)
Dividends received from investments		**2.0**	0.4
Dividends paid to minority interests		**(1.2)**	-
		(213.9)	(185.0)
Taxation			
Corporation tax paid		**(30.2)**	(80.5)
		(30.2)	(80.5)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(535.1)**	(536.7)
Receipts of customer contributions		**124.0**	135.5
Receipts from sales of tangible fixed assets		**57.3**	18.1
Loans to other EDF group companies		**(29.1)**	(157.2)
Receipts from sale of investments		**3.7**	0.3
Receipts from repayment of loan from joint venture		**-**	1.2
Receipts from repayment of loan from investment		**0.8**	-
		(378.4)	(538.8)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**-**	(1,049.3)
Net cash acquired with subsidiary undertakings		**-**	61.6
Receipts from sale of associate		**56.1**	-
		56.1	(987.7)
Equity dividends paid		**(76.2)**	(108.0)
Net cash outflow before management of liquid resources and financing		**32.9**	(1,137.5)
Management of liquid resources			
Decrease/(increase) in short-term deposits		**10.9**	(2.8)
		10.9	(2.8)

GROUP CASH FLOW STATEMENT Continued
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £m	2002 £m
Financing		
Issue of ordinary share capital	-	920.1
Increase/(decrease) in short term borrowing	**(832.4)**	376.0
New long-term loans	**807.1**	345.4
Repayments of long-term loans	-	(411.5)
Repayments of capital element of finance leases	**(8.4)**	(5.2)
	(33.7)	1224.8
Increase in cash for the year	**10.1**	84.5

Reconciliation of net cash flow to movement in net debt

	Note	2003 £m	2002 £m
Increase in cash for the year		**10.1**	84.5
(Decrease)/increase in liquid resources		**(10.9)**	2.8
Increase/(decrease) in short term loans		**832.4**	(376.0)
Increase in long term loans		**(807.1)**	(345.4)
Repayment of long-term loans		-	411.5
Repayments of capital element of finance leases		**8.4**	5.2
Change in net debt resulting from cash flows		**32.9**	(217.4)
Net non-cash movements – amortisation of fair value adjustments, amortisation of debt issue costs and index linked bond loan accretion		**21.5**	33.0
Exchange differences		-	4.8
Net debt on acquisitions		-	(1,719.8)
Movement in net debt		**54.4**	(1,899.4)
Net debt at 1 January	*28*	**(3,341.7)**	(1,442.3)
Net debt at 31 December	28	**(3,287.3)**	(3,341.7)

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of preparation

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

In preparing the financial statements for the current year, the Group has discontinued its policy of discounting of deferred tax assets and liabilities. This change in accounting policy has been reflected in the accounts as a prior year adjustment in accordance with FRS 3. The impact of the change in accounting policy, including restatement of prior year comparatives, is shown in note 35.

The Group is following the transitional arrangements of FRS 17 'Retirement benefits'. The required disclosures are shown in note 29. Full adoption of the standard is required by the year ending 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. No profit and loss account is presented for EDF Energy plc (formerly London Electricity Group plc) (the Company) in accordance with the exemptions allowed by Section 230 of the Companies Act 1985.

Acquisition of subsidiary undertakings and other businesses

The results of subsidiary undertakings and other businesses acquired are included in the Group profit and loss account from the date that control passes. In accordance with FRS 6 and 7, on acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of the identifiable assets and liabilities existing at the date of acquisition and reflecting the conditions at that date.

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair values 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.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. 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 40 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. The Directors expect the business at Sutton Bridge to continue for 40 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.

NOTES TO THE FINANCIAL STATEMENTS Continued

Joint ventures

The Group profit and loss account includes the Group's share of turnover, operating profit, interest and taxation of joint ventures. Investments in joint ventures are shown in the Group balance sheet using the gross equity method. The gross equity method records the Group's share of gross assets and liabilities in its joint ventures. These are taken from the latest management accounts of the undertakings concerned.

Associated undertakings

The Group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the Group's share of their net assets and liabilities is included in the consolidated balance sheet. These amounts are taken from the latest management accounts of the undertakings concerned.

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.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation (no allowance is made for residual value), based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

		2003 Years	2002 Years
Generation assets	–	10 to 30	10 to 30
Network assets	–	10 to 60	10 to 60
Freehold land	–	Not depreciated	Not depreciated
Other buildings			
- freehold	–	Up to 40	Up to 40
- leasehold	–	Lower of lease period or 40	Lower of lease period or 40
Vehicles and mobile plant	–	5 to 10	5 to 10
Fixtures and equipment including computer hardware and software	–	3 to 8	3 to 8

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 requirements 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.

Interest

Interest payable/receivable is charged/credited to the profit and loss account as it is accrued.

Previously, the Group capitalised interest gross during the period of construction where it related either to the financing of major projects with long periods of development or to dedicated financing of other projects. As explained in note 35, this policy has changed. Comparative figures have been restated as required.

NOTES TO THE FINANCIAL STATEMENTS Continued

Stock

Stock is stated at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of labour and materials. The cost elements of progress invoices are deducted in arriving at the amounts stated.

Profit is taken on contracts whilst the contract is in progress, having regard to the proportion of the total contract which has been completed at the balance sheet date. Provision is made for all foreseeable future losses.

Long term contracts

Long term contracts are valued at cost plus attributable profit less any foreseeable losses. Profit is recognised when the outcome of a contract can be assessed with reasonable certainty. The excess of turnover over payments on account is included in debtors. To the extent payments on account exceed turnover and long-term contract balances they are included as payments on account within creditors. The amount of expenditure on long term contracts net of amounts transferred to cost of sales and payments on account are separately included within stock.

The contract between SEEBOARD Powerlink and London Underground for the operation, maintenance and upgrade of the electricity supply network for the London Underground railway is being accounted for as a long term contract, with profits being recognised in line with progress on defined segments of the contract.

Fixed asset investments including subsidiary undertaking and joint ventures

Fixed asset investments are shown at cost less any provision for permanent diminution in value.

Current asset investments

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, this is a commitment to dispose of the replacement assets with no likely subsequent rollover or available capital losses.

- Provision is made for gains on 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. Previously, deferred tax was measured on a discounted basis. Comparative figures have been restated as required (note 35).

Research and development

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

NOTES TO THE FINANCIAL STATEMENTS Continued

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases are, leases where substantially all the risks and rewards of ownership of the asset have passed to the Group and hire purchase contracts which are capitalised in the balance sheet. Assets held under finance leases are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts, and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Pensions

At the year end the Group operated both defined contribution pension schemes and defined benefit pension schemes. Contributions in respect of the defined contribution pension schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

The costs of providing pensions in respect of defined benefit pension schemes are 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.

The Group has included the disclosure requirements of FRS 17 in note 29, together with details of pension and funding arrangements.

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 borrowings 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 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.

NOTES TO THE FINANCIAL STATEMENTS Continued

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 interest rate swaps were to be sold or terminated, any gain or loss would be deferred and amortised over the remaining life of the debt instrument being hedged by the interest rate swaps. 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, profit and net assets by business

Class of business	Turnover 12 months to December 2003 £m	Turnover Restated 12 months to December 2002 £m	Operating profit 12 months to December 2003 £m	Operating profit Restated 12 months to December 2002 £m	Net operating assets 12 months to December 2003 £m	Net operating assets Restated 12 months to December 2002 £m
Networks Branch						
Continuing	**874.6**	272.5	**393.5**	129.8	**3,142.6**	836.0
Acquisition	-	406.3	-	225.9	-	1,644.3
Total Networks	**874.6**	678.8	**393.5**	355.7	**3,142.6**	2,480.3
Customers and Energy Branches						
Continuing	**2,790.1**	2,026.7	**126.4**	44.7	**965.4**	838.8
Acquisition	-	275.0	-	(4.5)	-	19.4
Total Customers and Energy	**2,790.1**	2,301.7	**126.4**	40.2	**965.4**	858.2
Development Branch						
Continuing	**152.3**	28.5	**26.0**	15.6	**140.6**	2.2
Acquisition	-	44.1	-	2.9	-	75.4
Total Development	**152.3**	72.6	**26.0**	18.5	**140.6**	77.6
Other						
Continuing	**6.7**	8.2	**(2.8)**	(68.4)	**858.1**	1,288.7
Acquisition	-	1.5	-	(4.5)	-	226.7
Total Others	**6.7**	9.7	**(2.8)**	(72.9)	**858.1**	1,515.4
	3,823.7	3,062.8	**543.1**	341.5	**5,106.7**	4,931.5
Less: Inter business transactions	**(317.3)**	(227.6)	**13.4**	1.7	-	-
Total Continuing and Acquired operations	**3,506.4**	2,835.2	**556.5**	343.2	**5,106.7**	4,931.5
Net debt before joint ventures and associates			-	-	**(3,287.3)**	(3,341.7)
Share of joint ventures and associates			**33.7**	8.7	**17.6**	59.8
Profit on sale of fixed assets			**53.7**	5.9	-	-
Net interest and income from investments			**(216.3)**	(160.6)	-	-
Profit on ordinary activities before taxation			**427.6**	197.2		
Net assets					**1,837.0**	1,649.6

NOTES TO THE FINANCIAL STATEMENTS Continued

Explanation of terminology used in the profit and loss account

Turnover

Turnover represents the value 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, exclusive of Value Added Tax.

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.

Geographical analysis

Turnover arises entirely in the United Kingdom.

3. Operating profit

Operating profit is stated after charging/(crediting):

		2003 £m	2002 £m
Staff costs (Note 6)		**312.5**	299.0
Depreciation of owned fixed assets		**198.1**	180.2
Depreciation of assets held under finance leases		**19.8**	19.7
Amortisation of goodwill (Note 12)		**60.4**	33.1
Auditors' remuneration:			
Statutory audit services	- Ernst & Young	**0.9**	0.8
	- Deloitte & Touche (for SEEBOARD audit)	**0.1**	0.4
Other services	- Ernst & Young	**0.6**	0.9
	- Deloitte & Touche	**-**	1.1
Operating lease rentals	- plant, machinery	**13.6**	9.5
	- land and buildings	**11.3**	9.7
Rental income from operating leases		**(3.2)**	(4.3)

NOTES TO THE FINANCIAL STATEMENTS Continued

4. Operating items

Operating exceptionals	2003 £m	2002 £m
SEEBOARD integration provision	-	68.0
	-	68.0

On 29 July 2002, EDF Energy plc (formerly London Electricity Group plc) acquired the entire share capital of CSW Investments, the holding company of the SEEBOARD group of companies for £499.9 million. The SEEBOARD integration provision of £68 million relates to the costs of integrating SEEBOARD business activities into the Group. This amount is included within net operating costs in the consolidated profit and loss account.

5. Directors' emoluments

	2003 £000	2002 £000
Emoluments	**1,056.7**	1,275.2
Company contribution paid to money purchase pension scheme	-	12.2
	1,056.7	1,287.4

Emoluments payable to the highest paid Director were as follows:	2003 £000	2002 £000
Aggregate emoluments	**499.0**	338.0
Company contribution paid to money purchase pension scheme	-	12.2
	499.0	350.2

Retirement benefits are accruing to no Directors (2002: one) under money purchase schemes and to two Directors (2002: Nil) under defined benefit schemes.

NOTES TO THE FINANCIAL STATEMENTS Continued

6. Staff costs

	2003 £m	2002 £m
Wages and salaries	**294.6**	293.8
Social security costs	**17.3**	19.8
Other pension costs	**57.5**	27.3
Less: Capitalised expenditure	**(56.9)**	(41.9)
Charged to profit and loss account	**312.5**	299.0

The monthly average number of employees during the year were as follows:

	2003 Number	Restated 2002 Number
Networks Branch	**4,052**	3,116
Customers and Energy Branches	**4,908**	4,586
Development Branch	**1,063**	538
Other	**434**	252
	10,457	8,492

7. Profit on sale of fixed assets

Fixed assets

	2003 £m	2002 £m
Sales proceeds	**71.9**	18.1
Net book value	**(18.2)**	(12.2)
	53.7	5.9

8. Interest receivable and similar income

	2003 £m	2002 £m
Group interest	**35.5**	36.6
Share of joint ventures' interest	**0.3**	0.4
Share of associates' interest	**0.7**	0.1
	36.5	37.1

NOTES TO THE FINANCIAL STATEMENTS Continued

9. Interest payable and similar charges

	2003 £m	Restated 2002 £m
Bank loans and overdrafts	**36.6**	36.5
Finance charges under finance lease	**23.4**	26.8
Unwinding of discount on provisions	**8.5**	6.0
Bonds	**172.1**	125.5
Group interest payable and similar charges	**240.6**	194.8
Share of associates' interest	**5.5**	-
Share of joint ventures' interest	**10.6**	3.3
	256.7	198.1

NOTES TO THE FINANCIAL STATEMENTS Continued

10. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

UK current tax	**2003 £m**	Restated 2002 £m
UK corporation tax charge on profits of the year	**(70.2)**	(18.6)
Group relief payable	**-**	(8.5)
Adjustment in respect of previous years	**(5.9)**	(4.1)
Group current tax	**(76.1)**	(31.2)
Share of joint venture's tax	**(0.8)**	(3.1)
Share of associate's tax	**(2.2)**	(1.5)
Total current tax charge (Note 10b)	**(79.1)**	(35.8)
UK deferred tax		
Origination and reversal of timing differences	**(79.8)**	(55.6)
Adjustment in respect of previous years	**(1.6)**	-
Group deferred tax	**(81.4)**	(55.6)
Share of joint venture's tax	**(2.7)**	-
Total deferred tax charge	**(84.1)**	(55.6)
Tax charge on profit on ordinary activities	**(163.2)**	(91.4)

(b) Factors affecting tax charge for the year:

	2003 £m	2002 £m
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 tax	**427.6**	197.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	**(128.3)**	(59.2)
Effect of:		
Adjustment to prior year tax charge	**(5.9)**	(4.1)
Disallowed expenses and non-taxable income	**(6.7)**	(16.4)
Capital allowances in excess of/(lower than) depreciation	**54.9**	43.4
Other deferred tax items	**24.9**	10.8
Amortisation of goodwill	**(18.0)**	(10.3)
Current tax charge for the year	**(79.1)**	(35.8)

In June 2001, the Inland Revenue issued Tax Bulletin 53. The provisions included in 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.

NOTES TO THE FINANCIAL STATEMENTS Continued

11. Dividends

	2003 £m	2002 £m
Equity dividends on ordinary shares:		
Interim paid	**-**	9.5
Final paid	**76.2**	78.5
	76.2	88.0

12. Intangible fixed assets

	Positive Goodwill £m	Negative Goodwill £m	**Total £m**
Cost			
At 1 January 2003	1,382.9	(46.9)	**1,336.0**
Prior year adjustment	78.6	-	**78.6**
At 1 January 2003 (restated)	1,461.5	(46.9)	**1,414.6**
Fair value adjustments			
EDF Energy Networks Ltd	(7.5)	-	**(7.5)**
SEEBOARD	(8.3)	-	**(8.3)**
At 31 December 2003	1,445.7	(46.9)	**1,398.8**
Amortisation			
At 1 January 2003	85.8	(4.7)	**81.1**
Charged/(credited) to profit and loss account	62.7	(2.3)	**60.4**
At 31 December 2003	148.5	(7.0)	**141.5**
Net book value			
At 31 December 2003	**1,297.2**	**(39.9)**	**1,257.3**
At 31 December 2002 (restated)	1,375.7	(42.2)	1,333.5

The positive and negative goodwill with the exception of Sutton Bridge goodwill is being amortised over a period of 20 years. Sutton Bridge goodwill is amortised over a period of 40 years and is reviewed annually. All goodwill is amortised on a straight-line basis.

The provisional fair values assigned to EDF Energy Networks Ltd (formerly 24seven Utility Services Ltd) and the SEEBOARD Group of Companies were reviewed, which resulted in a reduction in net assets of £7.5m and £8.3m respectively.

The affect on goodwill from the discontinuation of the policy to discount deferred tax (see note 35) is:

Prior year adjustment	**2003 £m**
SEEBOARD group of companies	**89.6**
West Burton power station	**(11.0)**
	78.6

The Directors have reviewed the net book value of goodwill at 31 December 2003 and in their opinion this amount is fully supported by their valuation of the Group's net assets.

NOTES TO THE FINANCIAL STATEMENTS Continued

13. Tangible fixed assets

Group	Generation Assets	Network assets	Other land and buildings	Vehicles & mobile plant	Fixtures & equipment	Deduct consumers' contributions	**Total tangible assets**
	£m	£m	£m	£m	£m	£m	**£m**
Cost							
At 1 January 2003	1,202.5	5,091.4	147.3	31.5	461.7	(1,108.0)	**5,826.4**
Prior year adjustment	(2.2)	123.4	-	-	-	-	**121.2**
At 1 January 2003 (restated)	1,200.3	5,214.8	147.3	31.5	461.7	(1,108.0)	**5,947.6**
Fair value adjustment	-	24.3	5.1	-	(4.3)	-	**25.1**
Additions	57.2	432.0	17.1	8.8	70.7	(123.3)	**462.5**
Transfer	-	18.5	(18.5)	-	-	-	**-**
Disposals	(4.2)	-	(20.5)	(3.5)	(135.5)	-	**(163.7)**
At 31 December 2003	**1,253.3**	**5,689.6**	**130.5**	**36.8**	**392.6**	**(1,231.3)**	**6,271.5**
Depreciation							
At 1 January 2003	92.2	693.4	29.7	13.9	322.2	(114.2)	**1,037.2**
Charge for the year	60.9	134.5	3.9	5.9	37.3	(24.6)	**217.9**
Disposals	-	-	(2.6)	(3.3)	(135.5)	-	**(141.4)**
At 31 December 2003	**153.1**	**827.9**	**31.0**	**16.5**	**224.0**	**(138.8)**	**1,113.7**
Net book value							
At 31 December 2003	**1,100.2**	**4,861.7**	**99.5**	**20.3**	**168.6**	**(1,092.5)**	**5,157.8**
At 31 December 2002 (restated)	1,108.1	4,521.4	117.6	17.6	139.5	(993.8)	4,910.4

The cost of tangible fixed assets includes £Nil (2002:£Nil) capitalised interest.

Company	Land and buildings	Fixtures & equipment	**Total tangible assets**
	£m	£m	**£m**
Cost			
At 1 January 2003	23.7	202.4	**226.1**
Additions	8.8	45.1	**53.9**
Disposals	(4.5)	(56.2)	**(60.7)**
At 31 December 2003	**28.0**	**191.3**	**219.3**
Depreciation			
At 1 January 2003	5.4	122.6	**128.0**
Charge for the year	1.3	15.7	**17.0**
Disposals	-	(55.0)	**(55.0)**
At 31 December 2003	**6.7**	**83.3**	**90.0**
Net book value			
At 31 December 2003	**21.3**	**108.0**	**129.3**
At 31 December 2002	18.3	79.8	98.1

NOTES TO THE FINANCIAL STATEMENTS Continued

Net book value of other land and buildings comprises:

	Group		Company	
		Restated		
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Freehold	**78.0**	89.4	**6.3**	2.1
Long leasehold (over 50 years)	**-**	1.7	**15.0**	16.2
Short leasehold (50 years or less)	**21.5**	26.5	-	-
	99.5	117.6	**21.3**	18.3

Net book value of tangible fixed assets includes the following:

	Group		Company	
		Restated		
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Assets in the course of construction	**154.6**	137.4	**59.9**	19.5
Land not depreciated	**16.8**	43.1	**1.0**	1.0
Generation assets held under finance lease	**336.4**	356.2	-	-

NOTES TO THE FINANCIAL STATEMENTS Continued

14. Investments in subsidiary undertakings

Company

	Shares £m	Loans £m	**Total £m**
At 31 December 2002	1,103.0	1,210.3	**2,313.3**
Additions	23.9	3.4	**27.3**
At 31 December 2003	**1,126.9**	**1,213.7**	**2,340.6**

The principal undertakings at 31 December 2003, 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 (formerly SEEBOARD Asset Management Limited)*	100%	Investment company
EDF Energy (Contract Services) Limited (formerly 24seven Contract Services Limited)*	100%	Maintenance of distribution networks
EDF Energy (Cottam Power) Limited (formerly Cottam Power Limited)*	100%	Provision and supply of electricity generation
EDF Energy (Energy Branch) plc (formerly The London Power Company plc)	100%	Investment in electricity generation
EDF Energy (Enterprises) Limited (formerly London Electricity Enterprises Limited)	100%	Investments in commercial projects
EDF Energy (London Heat & Power) Limited (formerly London Heat & Power Limited)*	100%	Generation and supply of electricity and heat
EDF Energy (Metro Holdings) Limited (formerly SEEBOARD Metro Holdings Limited)*	100%	Investment company
EDF Energy (Northern Offshore Wind) Limited (formerly Northern Offshore Wind Limited)*	100%	Development of generation and supply
EDF Energy (Powerlink Holdings) Limited (formerly SEEBOARD Powerlink Holdings Limited)*	100%	Investment company
EDF Energy (Projects) Limited (formerly SEEBOARD Projects Limited)*	100%	Investment company
EDF Energy (Services) Limited (formerly London Electricity Services Limited)	100%	Electricity distribution project
EDF Energy (South East Generation) Limited (formerly SEEBOARD (Generation) Limited)*	100%	Holding company
EDF Energy (South East) plc (formerly SEEBOARD plc)*	100%	Holding company
EDF Energy (South Eastern Services) Limited (formerly South Eastern Services Limited)*	100%	Property management
EDF Energy (Sutton Bridge Holdings) Limited (formerly Sutton Bridge Holdings Limited)*	100%	Investment in power generation company

NOTES TO THE FINANCIAL STATEMENTS Continued

EDF Energy (Sutton Bridge Power) Limited (formerly Sutton Bridge Power Limited)*	100%	Provision and supply of electricity generation
EDF Energy (Transport Services) Limited (formerly London Electricity Transport Services Limited)	100%	Provision and supply of transport services
EDF Energy (West Burton Power) Limited (formerly West Burton Power Limited)*	100%	Power generation
EDF Energy Networks (EPN) plc (formerly EPN Distribution Limited)	100%	Contract management for distribution network
EDF Energy Networks (LPN) plc (formerly London Power Networks plc)	100%	Contract management for distribution network
EDF Energy Networks (SPN) plc (formerly SEEBOARD Power Networks plc)*	100%	Contract management for distribution network
EDF Energy Networks Limited (formerly 24seven Utility Services 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 GroupTrustee 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 (formerly London Electricity plc)	100%	Electricity retailing
London Power Insurance Limited (Isle of Man)	100%	Insurance
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
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
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
Virgin HomeEnergy Limited*	75%	Customer acquisition services
Virgin HomePhone Limited*	75%	Telecoms retailing
West Burton Property Limited*	100%	Power generation

*Indirectly held

NOTES TO THE FINANCIAL STATEMENTS Continued

15. Investments in joint ventures

Group

	Share of net assets £m	**Total £m**
At 1 January 2003	2.6	**2.6**
Share of profits retained by joint ventures	13.8	**13.8**
At 31 December 2003	**16.4**	**16.4**

The joint ventures at 31 December 2003, 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
Metronet SSL Limited*	20%	Maintaining and renewing underground network
Metronet BCV Limited*	20%	Maintaining and renewing underground network
Trans4m Limited*	25%	Engineering contractor

*Investment held indirectly

EDF Energy plc (formerly London Electricity Group 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 and the Metronet companies is 31 March.

16. Investments in associates

Group	Share of net assets/ (liabilities) £m	Goodwill £m	**Total £m**
At 1 January 2003	49.7	7.5	**57.2**
Share of profit retained by associate	1.9	-	**1.9**
Disposals	(57.3)	-	**(57.3)**
Amortisation of goodwill	-	(0.5)	**(0.5)**
At 31 December 2003	**(5.7)**	**7.0**	**1.3**

Company	Shares £m	**Total £m**
At 1 January 2003	8.5	**8.5**
At 31 December 2003	**8.5**	**8.5**

NOTES TO THE FINANCIAL STATEMENTS Continued

The associate at 31 December 2003, which is incorporated in Great Britain and is registered and operates in England and Wales, is as follows:

	Description of shares held	Proportion of nominal value of shares held	Principal activity
Paypoint Limited	Ordinary shares	26.9%	Cash collection services
	Preference shares	16.1%	
	Deferred shares	27.9%	

The accounting reference date for Paypoint Limited is 31 March. Paypoint Limited's preference shares and deferred shares carry no voting rights as at 31 December 2003.

The Group disposed of its 37.5% holding in Medway Power Limited on 3 November 2003.

17. Other investments

Group

	Shares £m	Loans £m	**Total £m**
At 1 January 2003	5.0	2.1	**7.1**
Additions	-	6.7	**6.7**
Redemption/repayments	(2.5)	(0.8)	**(3.3)**
At 31 December 2003	**2.5**	**8.0**	**10.5**

Company

	Shares £m	Loans £m	**Total £m**
At 1 January 2003	5.0	1.3	**6.3**
Additions	-	6.7	**6.7**
Repayments	(2.5)	-	**(2.5)**
At 31 December 2003	**2.5**	**8.0**	**10.5**

Other investments at 31 December 2003, 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
London & Continental Railways Limited	11.27%	Rail operator

18. Stock

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Raw materials and consumables	**84.4**	93.0	**64.5**	77.7
Amounts recoverable on contract	**33.7**	22.9	-	-
	118.1	115.9	**64.5**	77.7

NOTES TO THE FINANCIAL STATEMENTS Continued

19. Debtors

	Group		Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade debtors	**336.6**	317.0	**91.3**	48.1
Unbilled consumption	**389.2**	280.2	**-**	-
	725.8	597.2	**91.3**	48.1
Less Securitisation	**(175.5)**	(190.4)	**-**	-
	550.3	406.8	**91.3**	48.1
Other debtors	**29.7**	38.9	**19.5**	22.5
Debtors: outstanding receipts of fixed assets sales	**14.7**	-	**7.3**	-
Prepayments and accrued income	**46.6**	55.7	**8.2**	3.5
Amounts owed by parent company	**143.5**	131.2	**143.5**	131.2
Amounts owed by other group companies	**19.5**	8.2	**225.5**	128.7
Amounts owed by joint ventures	**3.1**	8.4	**-**	-
Corporation tax	**-**	-	**7.3**	3.0
Deferred tax asset (see note 24)	**-**	-	**-**	11.2
	807.4	649.2	**502.6**	348.2
Amounts falling due after more than one year:				
Pension scheme prepayment	**-**	-	**1.0**	13.0
	-	-	**1.0**	13.0
Total debtors	**807.4**	649.2	**503.6**	361.2

In September 2000, EDF Energy plc (formerly London Electricity Group plc) entered into a commercial paper securitisation programme involving the sale of billed and unbilled trade debtors to a trust. Interest is charged monthly on trade debtors securitised based on a margin above the sterling equivalent of the US commercial paper rate payable by the issuer of the facility. The amount available under the securitisation is £100 million over a revolving term of 5 years, increasing to £175 million at the option of EDF Energy plc (formerly London Electricity Group plc). Funds based on the amount of trade debtors are advanced to EDF Energy plc (formerly London Electricity Group plc) on a monthly basis, with a percentage of collected receivables deferred to cover interest, costs and bad debts. EDF Energy plc (formerly London Electricity Group plc) is not obliged to support any losses suffered by the trust as a result of securitisation, nor does it intend to do so. Furthermore, the trust has agreed in writing that it will seek repayment of the funds advanced to EDF Energy plc (formerly London Electricity Group plc), including funding costs, only to the extent that sufficient funds are generated by the assets securitised and that it will not seek recourse in any other form.

SEEBOARD Energy Limited and SEEBOARD Energy Gas Limited have securitised £75.5 million of trade debtors in a similar 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 and is payable monthly. SEEBOARD Energy Limited and SEEBOARD Energy Gas Limited are not obliged to support any losses suffered by the trust as a result of the securitisation, nor do they intend to do so. At the year-end, the current excess of securitisation proceeds over the current billed debt sold to the trust of £99.5 million has been included in creditors.

NOTES TO THE FINANCIAL STATEMENTS Continued

20. Creditors: amounts falling due within one year

	Group		Company	
		Restated		
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Bank overdraft	**-**	-	**441.4**	-
Borrowings (note 22)	**693.3**	1,157.6	**485.1**	1,038.9
Obligations under finance leases (note 23)	**11.4**	9.7	**-**	-
Payments on account on long-term contracts	**255.5**	163.4	**0.5**	0.8
Advances on securitisation (note 19)	**99.5**	84.6	**-**	-
Amounts owing for purchase of energy	**354.8**	472.7	**314.3**	178.7
Amounts owed to parent company	**10.0**	-	**10.0**	-
Corporation tax	**87.6**	34.6	**-**	-
Other taxes and social security costs	**78.6**	10.8	**40.3**	3.8
Other creditors	**218.8**	251.5	**20.6**	60.8
Accruals	**226.3**	114.0	**-**	14.4
Pension scheme accrual	**65.0**	53.1	**-**	-
	2,100.8	2,352.0	**1,312.2**	1,297.4

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

	Group		Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Borrowings (note 22)	**2,371.9**	1,954.4	**347.0**	227.7
Obligations under finance leases (note 23)	**357.0**	367.1	**-**	-
Other creditors	**20.4**	14.1	**-**	-
	2,749.3	2,335.6	**347.0**	227.7

NOTES TO THE FINANCIAL STATEMENTS Continued

22. Borrowings

	Group		Company	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Short term borrowing	**693.3**	1,157.6	**485.1**	**1,038.9**
Amounts falling due after more than one year:				
£350m EPN 8.375% Eurobond due March 2004 (i)	-	360.4	-	-
£100m 8.625% Eurobonds due October 2005 (ii)	**99.8**	99.6	-	-
£100m 8.5% Eurobond due October 2005	**105.1**	108.0	-	-
$200m 8.75% Bonds due August 2006	**135.7**	138.2	-	-
£100m 8.875% Bonds due September 2006	**107.5**	110.2	-	-
€500m 4.375% Eurobond due December 2010 (iii)	**347.0**	-	**347.0**	-
£200m 8.75% Eurobond due March 2012	**233.1**	237.1	-	-
Sutton Bridge Bonds due June 2022 (iv)	**267.9**	285.9	-	-
£50m Index Linked Bond due June 2023 (iii)	**49.8**	-	-	-
£200m 8.5% Eurobond due March 2025	**265.5**	268.6	-	-
£300m 5.50% Eurobond due June 2026 (iii)	**296.3**	-	-	-
£300m/£200m 6.125% Bonds due June 2027 (v)	**306.5**	197.7	-	-
£150m 3.125% Index Linked Bonds due June 2032	**153.4**	148.7	-	-
Loans due to subsidiary undertakings	-	-	-	227.7
Other borrowings	**4.3**	-	-	-
	2,371.9	1,954.4	**347.0**	227.7
	3,065.2	3,112.0	**832.1**	1,266.6

(i) Reclassified as short term borrowing in 2003.

(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 EDF Energy (Sutton Bridge Power) Limited (formerly 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 £189.2 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%. Sutton Bridge Financing Limited has entered into currency swap agreements with EDF Energy plc (formerly London Electricity Group plc) (who in turn have entered into swap agreements with third parties) in order to convert the principal and interest payment on the US dollar 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 £95.4 million and an effective interest rate of 8.13%. 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.

(v) An additional £100m extra was issued during the year under same terms as the existing bond.

NOTES TO THE FINANCIAL STATEMENTS Continued

23. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2003 £m	Restated 2002 £m
Amounts payable:		
Within one year	**39.4**	31.8
In two to five years	**155.8**	156.2
In more than five years	**467.8**	506.8
Less: finance charges allocated to future periods	**(294.6)**	(318.0)
	368.4	376.8
Finance leases and hire purchase contracts are analysed as follows:		
Current obligations (note 20)	**11.4**	9.7
Non-current obligations (note 21)	**357.0**	367.1
	368.4	376.8

24. Provisions for liabilities and charges

Group	Restated At 1 January 2003 £m	Utilised during the year £m	Released during the year £m	Arising during the year £m	At 31 December 2003 £m
Insurance	4.9	(1.6)	(1.7)	10.8	**12.4**
Restructuring costs	62.1	(36.3)	-	-	**25.8**
Dilapidation	0.9	-	-	0.2	**1.1**
Legal disputes	53.6	(12.4)	(28.3)	2.1	**15.0**
Other costs	4.2	-	(0.1)	0.4	**4.5**
Deferred tax*	479.7	-	-	74.7	**554.4**
Acquisition provisions					
Power Trading	17.1	(16.4)	-	-	**0.7**
Medway contract	184.5	(34.6)	-	-	**149.9**
Teesside Power	74.6	(14.2)	-	-	**60.4**
	881.6	**(115.5)**	**(30.1)**	**88.2**	**824.2**

Company	At 1 January 2003 £m	Utilised during the year £m	Released during the year £m	Arising during the year £m	At 31 December 2003 £m
Insurance	1.9	(0.4)	-	-	**1.5**
Restructuring costs	62.1	(36.3)	-	-	**25.8**
Dilapidation	0.9	-	-	0.1	**1.0**
Other costs	1.7	-	(0.3)	-	**1.4**
	66.6	**(36.7)**	**(0.3)**	**0.1**	**29.7**

NOTES TO THE FINANCIAL STATEMENTS Continued

The insurance provision is based on an assessment of the Group's known liabilities as at 31 December 2003.

The restructuring provision relates to business restructuring following the acquisition of SEEBOARD (note 4).

The provision for dilapidation 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 long-term energy 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 £8.5 million (2002: £7.6 million) relating to the unwinding of the discount and has been included within interest payable.

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

	Group £m	Company £m
At 1 January 2003	136.3	(10.0)
Prior year adjustment – change in accounting policy	343.4	(1.2)
At 1 January 2003 (restated)	479.7	(11.2)
Fair value adjustment	(6.7)	-
Charge for the year (note 10)	81.4	11.2
At 31 December 2003	**554.4**	-

Deferred taxation provided in the financial statements is as follows:

Group	**2003 £m**	Restated 2002 £m
Accelerated capital allowances	685.5	641.3
Other timing differences	(131.1)	(161.6)
	554.4	479.7

Company	**2003 £m**	Restated 2002 £m
Accelerated capital allowances	10.9	(1.3)
Other timing differences	(10.9)	(9.9)
	-	(11.2)

NOTES TO THE FINANCIAL STATEMENTS Continued

25. 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 2003 £m	**Fair value 2003 £m**	Book value 2002 £m	Fair value 2002 £m
Long term investments	**10.6**	**10.6**	7.1	7.1
Current asset investments	**26.2**	**26.2**	37.1	37.1
Cash at bank and in hand	**120.1**	**120.1**	110.0	110.0
Short term borrowing	**693.3**	**695.0**	(1,157.6)	(1,158.6)
Long term borrowings	**2,371.9**	**2,446.0**	(1,954.4)	(2,070.0)
Cross currency swaps	-	**(27.3)**	-	(7.1)
Forward rate agreement	-	**25.1**	-	(2.3)
Interest rate swap	-	-	-	0.2

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 2003 was as follows:

	Fixed rate £m	Floating rate £m	**Total £m**
Pound Sterling	2,536.9	528.3	3,065.2
	2,536.9	528.3	3,065.2

The interest rate profile of fixed rate debt is as follows:

Weighted average interest rate (%)	6.8
Weighted average period (years)	9.3

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

At 31 December 2003, the Group had no interest rate swaps (2002: £8.0 million). The fair value of the interest rate swap outstanding at 31 December 2002 was £0.2 million.

NOTES TO THE FINANCIAL STATEMENTS Continued

Maturity of borrowings

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

	2003 £m	2002 £m
In one year or less or on demand	**693.3**	1,157.6
In more than one year but not more than two years	**221.6**	360.4
In more than two years but not more than five years	**293.4**	456.0
In more than five years	**1,856.9**	1,138.0
	3,065.2	3,112.0

Borrowing facilities

The Group has a £500.0 million committed bank facility which matures on 15 December 2008. At the year-end £360.0m (2002: £425.0 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 their functional currencies. 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 £m	Total £m
Pound Sterling	13.9	**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

	2003 £m	2002 £m
Gains/(losses) on hedges at beginning of year	**(9.2)**	0.5
Gains arising in previous years that were recognised in the year	**0.2**	-
	(9.0)	0.5
Profits/(losses) arising in the year that were not recognised in the year	**6.8**	(9.7)
Net losses on hedges at end of year	**(2.2)**	(9.2)

In the table above the carried forward unrecognised net loss at 31 December 2003 of £2.2 million equates to the difference between the fair value and book value of hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS Continued

26. Share capital

Group and Company

Authorised

	2003 £m	2002 £m
2,228,713,439 ordinary shares of £0.5833 each	1,300.0	1,300.0
300,000,002 ordinary shares of £0.50 each	150.0	150.0
	1,450.0	1,450.0

Allotted, called up and fully paid

	2003 Number	2002 Number	2003 £m	2002 £m
Ordinary shares of £0.5833 each	2,222,739,164	2,222,739,164	1,296.6	1,296.6

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

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total shareholder's funds £m
At 1 January 2002	376.5	13.9	11.0	411.6	813.0
Prior year adjustment	-	-	-	(97.7)	(97.7)
At 1 January 2002 (restated)	376.5	13.9	11.0	313.9	715.3
Retained profit for the year (restated)	-	-	-	14.2	14.2
Ordinary share issue	920.1	-	-	-	920.1
At 31 December 2002 (restated)	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**

NOTES TO THE FINANCIAL STATEMENTS Continued

28. Notes to the Cash Flow Statement

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

	2003 £m	2002 £m
Group operating profit	**556.5**	343.2
Depreciation of tangible fixed assets	**217.9**	199.9
Amortisation and impairment of goodwill	**60.4**	41.9
(Increase)/decrease in debtors	**(88.0)**	139.9
(Increase)/decrease in stocks	**(2.2)**	(45.4)
Increase/(decrease) in creditors	**71.5**	45.6
Increase/(decrease) in provisions	**(140.6)**	37.4
Net cash inflow from operating activities	**675.5**	762.5

(b) Analysis of net debt

	At 1 January 2003 £m	Cash flow £m	Other non-cash movements £m	At 31 December 2003 £m
Cash at bank and in hand	110.0	10.1	-	**120.1**
Current asset investments	37.1	(10.9)	-	**26.2**
Debt due within one year	(1,157.6)	832.4	(368.1)	**(693.3)**
Debt due after one year	(1,954.4)	(807.1)	389.6	**(2,371.9)**
Finance leases	(376.8)	8.4	-	**(368.4)**
	(3,341.7)	**32.9**	**21.5**	**(3,287.3)**

(c) Cash flows in relation to exceptional items

In 2002, payments of £6.3 million were made in respect of the restructuring provision of £68 million. There were no exceptional items in 2003.

NOTES TO THE FINANCIAL STATEMENTS Continued

29. Pension commitments

(a) Group pension schemes

The principal pension scheme available to employees of EDF Energy plc (formerly London Electricity Group plc) was the London Electricity Group of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. Since April 1994, new employees have been offered membership of the London Electricity 1994 Retirement Plan (LERP), a defined contribution scheme. New employees of EDF Energy Networks Ltd (formerly 24seven Utility Services Ltd) and EDF Energy (Contract Services) Limited (formerly 24seven Contract Services Limited) have been offered membership of the 24seven Group Personal Pension Plan (24seven GPP), a defined contribution scheme.

The principal pension scheme available to employees of SEEBOARD was the SEEBOARD Group of the ESPS, a defined benefit scheme. Since July 1995, new employees have been offered the choice of membership of the SEEBOARD Final Salary Pension Plan and the SEEBOARD Pension Investment Plan. The first of these schemes is a defined benefit scheme and the second is a defined contribution scheme.

The majority of employees of SEEBOARD Powerlink Limited are members of the LRT Pension Fund, a defined benefit scheme.

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, replaces these for future service from 1 March 2004. It is anticipated that a special contribution of around £2 million will be made to the EDF Energy Pension Scheme at inception, 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.

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

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 2001. The valuation method adopted was the projected unit method. At 31 March 2001 the market value of assets relating to the London Electricity Group of the ESPS was £1,089 million, which represented 118.0% of the actuarial value of the accrued benefits. The market value of assets relating to the SEEBOARD Group of the ESPS was £791 million, which represented 107.4% 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 resulted in regular costs of £18 million for the London Electricity Group and £10 million for the SEEBOARD Group. These regular costs were increased due to an accounting deficit of £16 million in the London Electricity Group which is spread over the average remaining service life of employees of 10 years, and early retirement deficiency costs of total for both schemes £9 million, giving total pension costs of £53 million (2002: £23 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.

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 are set out below.

	29 July 2002 **% p.a.**
Discount rate	**6.0**
Inflation rate	**2.4**
Increase to pensions	**2.6**
Increase to deferred benefits	**2.6**
Salary increases	**3.4**

NOTES TO THE FINANCIAL STATEMENTS Continued

(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 (formerly London Electricity Group plc). The amount paid for the year ended 31 December 2003 was £4.5 million (2002: £4.3 million).

The total charge for pension schemes in the accounts for the year ended 31 December 2003 is £57.5 million (2002: £27.3 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 and SEEBOARD Groups of ESPS. An updated actuarial valuation was prepared by Hewitt Bacon & Woodrow as at 31 December 2003 for this purpose.

The updated valuation was determined using the projected unit credit method ("PUC method"). Both groups are generally 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 following contributions were made to the Group pension schemes during 2003:

London Electricity Group of ESPS	**£m**
Group contributions	**27**
Member contributions	**3**

SEEBOARD Group of ESPS	**£m**
Group contributions	**11**
Member contributions	**2**

The major assumptions used were as follows:

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

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

	London Electricity Group of ESPS £m	SEEBOARD Group of ESPS £m	**Total 2003 £m**	Total 2002 £m
Current service cost	19	7	**26**	17
Past service cost	3	-	**3**	35
Past service cost met from reserve for future benefit improvements	-	-	**-**	(35)
Curtailments	5	4	**9**	4
Total operating cost	**27**	**11**	**38**	21

NOTES TO THE FINANCIAL STATEMENTS Continued

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	**Total**	Total
			2003	2002
	£m	£m	**£m**	£m
Expected return on pension plan assets	63	41	**104**	87
Interest on pension plan liabilities	(61)	(39)	**(100)**	(67)
Net return	**2**	**2**	**4**	20

Reconciliation to balance sheet if FRS 17 had been fully implemented:

London Electricity Group of ESPS	**2003**	2002
	£m	£m
Equities	**784**	629
Bonds	**272**	296
Total market value of assets	**1,056**	925
Defined benefit obligation (DBO)	**(1,292)**	(1,128)
Deficit in scheme	**(236)**	(203)
Reserve for future benefit improvements	**(10)**	(10)
Deferred tax asset	**74**	64
Net pension liability	**(172)**	(149)

At 31 December 2003 the total market value of assets include estimates of transfer payments due to be received of £NIL (2002: £15.0m). At 31 December 2003 DBO includes estimates of obligations due to be transferred in of £NIL (2002: £15m).

SEEBOARD Group of ESPS	**2003**	2002
	£m	£m
Equities	**475**	422
Bonds	**209**	198
Total market value of assets	**684**	620
Defined benefit obligation (DBO)	**(802)**	(736)
Deficit in scheme	**(118)**	(116)
Deferred tax asset	**35**	35
Net pension liability	**(83)**	(81)

NOTES TO THE FINANCIAL STATEMENTS Continued

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

	London Electricity Group of ESPS	SEEBOARD Group of ESPS	**Total**	Total
			2003	2002
	£m	£m	**£m**	£m
Surplus/(deficit) in scheme at beginning of year	(203)	(116)	**(319)**	97
Current service cost	(19)	(7)	**(26)**	(17)
Contributions	27	11	**38**	4
Past service costs	(3)	-	**(3)**	(35)
Curtailments	(5)	(4)	**(9)**	(4)
Other financial income	2	2	**4**	20
Actuarial loss	(35)	(4)	**(39)**	(311)
Loss on TXU acquisitions	-	-	**-**	(10)
Loss on SEEBOARD acquisition	-	-	**-**	(63)
Deficit in scheme at end of year	**(236)**	**(118)**	**(354)**	(319)

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	**Total**	Total
			2003	2002
	£m	£m	**£m**	£m
Actual return less expected return on pension scheme assets	92	50	**142**	(245)
Experience (losses)/gains arising on the scheme liabilities	(21)	7	**(14)**	(24)
Changes in assumptions underlying the present value of the scheme liabilities	(106)	(61)	**(167)**	(42)
Actuarial loss recognised in STRGL	**(35)**	**(4)**	**(39)**	(311)

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	**Total**	Total
			2003	2002
Difference between expected and actual return on scheme assets:				
Amount (£m)	92	50	**142**	(245)
Percentage of scheme assets	9%	7%	**8%**	(16%)
Experience (losses)/gains on scheme liabilities:				
Amount (£m)	(21)	7	**(14)**	(24)
Percentage of scheme liabilities	(2%)	1%	**(1%)**	(1%)
Total amount recognised in STRGL:				
Amount (£m)	(35)	(4)	**(39)**	(311)
Percentage of scheme liabilities	(3%)	0%	**(2%)**	(17%)

NOTES TO THE FINANCIAL STATEMENTS Continued

30. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £186.5 million (2002: £304.5 million).

31. Commitments and contingent liabilities

Under Part II A of the Environmental Protection Act 1990 a retroactive liability may be imposed on landowners for the clean up of land identified by local authorities as contaminated. Land can be identified as contaminated if significant harm is being caused, pollution of controlled waters is occurring and there is a significant possibility of controlled waters being contaminated. If EDF Energy plc (formerly London Electricity Group plc) sites are contaminated, clean up costs may be incurred in the future. However, it is not currently possible to calculate a reliable estimate of clean up costs.

Other than the matters noted above, there were no other material commitments, contingent liabilities or guarantees apart from those given in respect of certain subsidiaries in the ordinary course of business.

32. Other financial commitments

At 31 December 2003, the Group and Company had annual commitments under non-cancellable operating leases as set out below:

Group

	Land and buildings 2003 £m	**Other 2003 £m**	Land and buildings 2002 £m	Other 2002 £m
Operating leases which expire:				
Within one year	**0.3**	-	1.4	-
In two to five years	**2.1**	-	0.6	-
In over five years	**10.9**	**16.6**	8.3	-
	13.3	**16.6**	10.3	-

Company

	Land and buildings 2003 £m	**Other 2003 £m**	Land and buildings 2002 £m	Other 2002 £m
Operating leases which expire:				
Within one year	**0.3**	-	0.6	-
In two to five years	**1.6**	-	0.4	-
In over five years	**8.4**	-	7.2	-
	10.3	-	8.2	-

NOTES TO THE FINANCIAL STATEMENTS Continued

33. Related parties

During the year the Group purchased services from and provided services to its joint venture and associate companies as follows:

	2003 £m	2002 £m
Sales:		
Services supplied	1.6	-
Purchases:		
Services received	(120.4)	(56.8)
Tangible fixed assets	0.2	-
Amounts due to Group at 31 December	3.8	15.3

34. Post balance sheet events

On 8 March 2004, the Group issued £300m - 5.75% bonds due 2024. The proceeds of the issue will be used to refinance a maturing bond.

35. Prior year adjustment

The Directors have decided to make the following policy changes in order to reduce the difference in the Group's accounting policies with those of the Company's ultimate parent company, Electricité de France ("EDF"), which prepares its financial statements in accordance with French GAAP.

i) *Discontinue the policy of discounting deferred tax assets and liabilities*
Under French GAAP, the discounting of deferred tax assets and liabilities is not permitted.

ii) *Discontinue the policy of capitalising interest*
EDF do not currently capitalise interest during the construction of fixed assets where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects.

These changes in accounting policy have been reflected in the accounts as a prior year adjustment in accordance with FRS 3.

The effect on the Group profit and loss account for the years ended 31 December 2003 and 31 December 2002 is shown below.

	2003 £m	2002 £m
Increase in interest charge as a result of the expensing of interest financing assets under construction	5.2	5.9
Increase in tax charge as a result of not discounting deferred tax assets and liabilities	17.2	40.0
Total net profit decrease	22.4	45.9
As previously reported	-	(60.1)
As restated	-	(14.2)

NOTES TO THE FINANCIAL STATEMENTS Continued

The effect on the Group balance sheet at 31 December 2003 and 31 December 2002 is shown below.

	2003			2002		
	Under previous policy £m	**Accounting policy change £m**	**Per accounts £m**	As previously reported £m	Accounting policy change £m	Per accounts (Restated) £m
Net goodwill	**1,178.7**	**78.6**	**1,257.3**	1,254.9	78.6	1,333.5
Fixed assets	**5,041.8**	**116.0**	**5,157.8**	4,789.2	121.2	4,910.4
Provisions for liabilities and charges	**(463.6)**	**(360.6)**	**(824.2)**	(538.2)	(343.4)	(881.6)
Movement in equity shareholder's funds	**-**	**166.0**	**-**	-	143.6	-

36. Parent undertaking and controlling party

At 31 December 2003, EDF Energy plc's (formerly London Electricity Group plc's) immediate parent company was EDF Energy Group Holdings plc (formerly London Electricity Group Holdings plc).

At 31 December 2003, 'Electricité de France', a French state owned company is regarded by the Directors as the Company's ultimate parent company. This is the largest group for which consolidated accounts are prepared. Copies of Electricité de France's consolidated accounts may be obtained from Electricité de France, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.