# EDF ENERGY PLC

## Registered Number 2366852

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## 31 DECEMBER 2007

## DIRECTORS' REPORT

**Page:**



### Directors

Vincent de Rivaz (Chief Executive)
Daniel Camus (Chairman)
Humphrey A E Cadoux-Hudson (Chief Financial Officer)
Yann Laroche
Gérard Menjon
Didier Calvez

### Company Secretary

Thibaut Brac de La Perrière

### Auditors

Deloitte & Touche LLP
2 New Street Square
London
EC4A 3BZ

### Registered Office

40 Grosvenor Place
Victoria
London
SW1X 7EN

## DIRECTORS' REPORT

The Directors present their report and financial statements for the year ended 31 December 2007

### Principal activity and review of the business

The principal activities of EDF Energy plc and subsidiaries (together the "Group" or "EDF Energy") during the year continued to be the provision and 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 public and private distribution networks The Group will continue with these activities for the foreseeable future

### Results and dividends

The profit for the year, before taxation and associates, amounted to £336 9m (2006 £420 8m) and after taxation and contributions from associates to £239 6m (2006 £342 1m) Dividends paid during the year amounted to £110 0m (2006 £105 0m)

EDF Energy plc and its subsidiaries operates through three main divisions or branches These are Customer and Energy, Networks and Corporate The principal activities of these branches continue to be,

- Customer and Energy, the provision and 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 and the generation of electricity
- Networks, the operation of both public distribution networks, private distribution networks and PFI contracts
- Corporate, the provision of support services including property, IT and sustainable solutions

The Group will continue with these activities for the foreseeable future

A summary of the key financial results are set out in the table below and are discussed in this section Further detail of the results of the segments can be found in the segmental reporting note (note 4)

| | Revenue | | Operating profit | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Customer and Energy | **4,618.1** | 4,639 9 | **62.8** | 54 1 |
| Networks | **1,438.9** | 1,351 0 | **480.6** | 493 5 |
| Other and eliminations | **(297 4)** | (302 0) | **11 8** | 46 1 |
| **Group** | **5,759 6** | 5,688 9 | **555 2** | 593 7 |

### Customer and Energy

During 2007 EDF Energy stepped up the nationwide promotion of the EDF Energy brand, an increasingly well-known replacement of the legacy supply brands As of 31 December 2007, EDF Energy had 4 1 million customers and 5 5 million customer accounts It supplied 19 2 TWh of electricity to 3 5 million residential accounts, 271,000 SME accounts and 33 2 TWh of electricity to 191,000 major business accounts It also had 1 6 million gas customer accounts to whom 28 7 TWh of gas were sold in 2007

2007 has seen extreme volatility in wholesale commodity prices Retail tariffs follow the overall trend in commodity prices while limiting short-term volatility Therefore an efficient hedging strategy that smoothes market volatility is a key competitive factor for all suppliers

**DIRECTORS' REPORT continued**

In this high volatility period, the cost of Customer and Energy hedging strategy has led to an increase in operating profit from £54 1m in 2006 to £62 8m in 2007

EDF Energy decreased its sale prices for residential gas customers by 10 2% on 15 June 2007 However due to market conditions, on 18 January, 2008 EDF Energy raised its prices by 7 9% for electricity and 12 9% for gas

**Networks**

The networks branch comprises regulated networks and unregulated networks The operating profit decreased during the year from £493 5m to £522 4m due to provisions made relating to Metronet

Regulated Networks maintain and operate public electricity networks within the South East, East and London areas The networks are regulated by the Office for Gas and Electricity Markets ("OFGEM") Through the Distribution Price Control Mechanism OFGEM sets the tariffs that are allowed to be charged during the period that a licence is granted

In 2007, regulated networks were able to increase profits due to allowable tariff increase and unit growth This increase was also due to greater efficiency within the branch and a concerted effort to reduce operating expenses

Regulated networks have to ensure there is a sufficient amount of investment in the network to support the load growth requirement of the customers and maintenance of the network Capital expenditure relating to the regulated network activity increased from £500 6m to £629 9m during the year

Other Networks construct, maintain and operate a number of private networks including Heathrow Terminal five and the Channel Tunnel Rail Link EDF Energy has built up a portfolio of contracts through PFI/PPP asset infrastructure and electrical distribution networks projects

One of these contracts is Metronet, a 30-year Public-Private Partnership (PPP) contract with London Underground to maintain, renew and upgrade two thirds of London Underground Network's Infrastructure through its two infrastructure companies The operation of Metronet consortium commenced in April 2003

EDF Energy's interests in Metronet are

- a 20% interest in the Metronet Consortium, which holds two of the three London Underground Infrastructure PFI concessions, and
- a 25% interest in Metronet Alliance, which manages the delivery of station modernisations and refurbishments as well as the maintenance, remediation and development of civil assets

As Metronet was not able to renegotiate a sufficient share of anticipated cost overruns on the contracts, the Directors of Metronet placed both Metronet Rail SSL Holdings Limited and Metronet Rail BCV Holdings Limited into administration on 18 July 2007

In addition, on 23 July 2007, Trans4m Limited, one of the members of the Metronet Consortium gave notice to London Underground to withdraw from the contract The termination came into effect on 30 August 2007 At the request of London Underground and Metronet, EDF Energy entered into a Secondment Agreement with Metronet with effect from 30 August 2007 for a period of 3 months to second those EDF Energy staff who had been involved in the project to Metronet Negotiations are still ongoing between the various parties to terminate all contractual links and liabilities A provision has been established against the assets of Metronet to cover future expected losses under the contact as well as all outstanding receivables

EDF Energy also runs three Street Lighting PFI projects, Dorset, Ealing and Islington The PFI projects require the delivery of capital replacement works (in the first 5 years) and maintenance and renewal over a 25-year period Strategic reviews, following the decision to integrate Regulated Networks and Other Networks into a single branch, resulted in the decision to concentrate on core business and sell these projects Preferred bidders were selected in November 2007 The companies were sold on 29 February 2008

**DIRECTORS' REPORT continued**

In the Networks branch, our health and safety performance was overshadowed by the death of three employees at work in August, an employee working for the Contracting Low Voltage Division fell from a mobile scaffolding tower that he was dismantling, in September, an employee working on the Low Voltage Public Network was electrocuted during a Live Jointing operation, in November, a linesman was electrocuted while upgrading a pole-mounted transformer on the Public Network In each case, similar activities were suspended immediately and only re-authorised once causes were identified and appropriate measures taken to prevent a recurrence The three incidents were investigated thoroughly and all recommendations are being implemented in full Our health and safety strategy has been reviewed following these three fatal incidents We need to understand our employees' perceptions and behaviours better, and to help us do this we have appointed an independent expert to carry out a cultural survey early in 2008 We will use the results to determine our future strategy and improve performance

**Long-term strategy and business objectives**

In 2004 the Group launched its goals to achieve five ambitions for the future 2007 was a landmark in this process with clearly set Key Performance Indicators ("KPI"s) to measure how the Group was performing The five key ambitions of the Group are

- "We want to *care* more for our customers and continually improve customer experience"
  - Measured through independent monthly surveys giving annual average % of our major business customers and mass market customers (across distribution, supply and contracting businesses) who are satisfied with the service they receive

- "We want to be known as a learning business and a *great place to work* so that our employees can be proud of their company"
  - Measured through an independent annual survey giving % of our employees satisfied with EDF Energy as an employer

- "We want to meet our *shareholders expectations* and grow the value of our existing business"
  - The measures of this are focused on net income and earnings before interest, tax, depreciation and amortisation (EBITDA) and are assessed subject to market conditions and the relative performance of our main competitors

- "We want to be a *safe and responsible* company regarding our people, the environment, and the community we serve"
  - Measured through an internal index focusing on our effectiveness in managing the identification and control of risk training, involvement and audit, incidents, hazards and actions This is known as the Health and Safety Executive ("HSE") management index

- "We want to be recognised as a leading and respected *point of reference* on matters concerning our business"
  - This is to be assessed through the Group's position on the Business in the Community ("BITC") Corporate Responsibility index which is an independent assessment by Business in the Community of our ranking in their Corporate Responsibility Index of participating UK companies

The results for 2007 were

| Ambition | Measure | 2007 | Target | Performance against target |
|---|---|---|---|---|
| Care more for our customers | Mass Market | 74 1% | 74 5% | (0 4)% |
| | Major Business | 68 8% | 66 0% | 2 8% |
| Great place to work | Employee Satisfaction | 75 1% | 80 0% | (4 9)% |
| Safe and Responsible | HSE management index | 91 2% | 90 0% | 1 2% |
| Point of reference | BITC Corporate Responsibility index | 150 | 100 | 50 |

**DIRECTORS' REPORT continued**

**Principal risks and uncertainties**

The following reflects the key risks facing the Group A discussion of the risks together with a summary of the Group's approach to managing those risks is as follows The accounting basis for dealing with these risks is discussed in the accounting policy section below

***Margin risk***
Margin price risk arises from the necessity to effectively forecast customer demand for gas, coal and electricity, and to adequately procure the various commodities at a price competitive enough to allow a favourable tariff proposition for our customers Due to the vertically-integrated nature of the Group the electricity procured from the generation business provides a natural hedge for the electricity demand from the retail 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 management is monitored through sensitivity analysis and stop loss per commodity and across commodity for the whole of EDF Energy consistently with it's Group risks mandate

***Interest rate risk***
The Group's exposure to interest rate fluctuations on its borrowings and deposits is managed principally through the use of fixed rate debt instruments and swap agreements The Group's policy is to use derivatives to reduce exposure to short-term interest rates and not for speculative purposes

***Foreign currency risk***
The Group's present exposure to foreign currency risk is limited to the currency exposure on the service of interest and capital on US dollar and euro denominated debt, and the purchase of energy and EU emissions certificates The Group policy is to hedge/fix known currency exposures as they arise The US dollar and euro currency swap agreements fix the sterling equivalent that will be required to service the interest and capital repayments of foreign currency debt instruments The Group enters into forward currency purchase contracts to fix the Sterling price for future foreign currency-denominated transactions

***Credit risk***
The Group's credit risk is primarily attributable to its trade receivables and amounts recoverable under long term contracts The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies Risk of loss is monitored through establishment of approved counterparties and maximum counterparty limits and minimum credit ratings

The Group has no significant concentration of credit risk, with exposure spread over a large number of external counterparties and customers Due to the nature of the Group's trading with other EDF Group companies, there are large trading balances with other Group companies, however these are not considered to be a risk because of parent company financial support

***Regulatory risk***
There is a risk that the Networks regulated income stream will be significantly reduced because Ofgem base their calculations on risk free rates This is linked to government securities which have reduced for other regulated industries Potentially the rate could fall to a level that is below EDF Group requirements (including those associated with historic funding costs) Despite ongoing action plans to engage and lobby the regulatory authorities this risk remains critical to the profitability and cash flow of the regulated networks business

***Health and Safety risk***
The health and safety of all our employees, contractors and the public is a key risk given the nature of the Group's business To minimize this risk, the Group is committed to creating a culture that views safe working as the only way of working and to reviewing all our processes and procedures to ensure they deliver this Training is provided to managers to ensure their understanding of their roles as far as safety of the employees they put to work are concerned In addition, a confidential helpline has been set up for the use of anyone within the organisation to help eradicate unsafe practices and safeguard our employees

**DIRECTORS' REPORT continued**

**Directors and their interests**

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

| | |
|---|---|
| Daniel Camus | Chairman |
| Vincent de Rivaz | Chief Executive |
| Humphrey A E Cadoux-Hudson | Chief Financial Officer |
| Yann Laroche | |
| Gerard Menjon | |
| Didier Calvez | |

Humphrey Cadoux-Hudson is employed by and has a service contract with the Company The remaining Directors are employed by and have service contracts with the ultimate parent company Electricité de France S A ("EDF S A")

There are no contracts of significance during or at the end of the financial year in which a Director of the Company has a material interest

None of the Directors who held office at the end of the financial year had any interest in the shares of the Company or any Group company that is required to be disclosed in accordance with the Companies Act 1985

There were qualifying third-party indemnity provisions in place for the benefit of one or more Directors of the Company during the financial year and at the date of approval of the financial statements

**Political and charitable contributions**

During the year, the Group made various charitable contributions totalling £2,724,824 (2006 £2,370,505) and no political contributions (2006 £nil)

**Creditors payment policy**

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

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

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of goods and services without exception At 31 December 2007, the Group had an average of 59 days (2006 58 days) purchases outstanding in its trade creditors

**Employee involvement**

The Group keeps its employees informed on matters affecting them This is carried out in a number of ways, including formal and informal briefings, departmental meetings and regular reports in staff newsletters and on the Group intranet

## DIRECTORS' REPORT continued

### Equal opportunities

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 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

### Going concern

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason the Directors continue to adopt the going concern basis in preparing the financial statements

### Auditors

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

1 so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and

2 the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Thibaut Brac de la Perrière
Company Secretary
19 May 2008

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs However, Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

## REPORT ON CORPORATE GOVERNANCE

EDF Energy plc is a wholly-owned subsidiary of EDF SA EDF SA, which, being a company listed on the Paris Stock Exchange, is required to comply with the Loi de Sécurité Financière (LSF) The LSF requires the Chairman of EDF SA to provide in the annual report a description of the internal controls in the EDF Group and to provide an opinion on their effectiveness The Company is eligible for exemption from the Financial Services Authority's requirements relating to corporate governance disclosures, however the Directors have decided to provide disclosures which they consider would be valuable to readers, as set out below

The Group has adopted the EDF Group Internal Control and Audit Policy which provides for

- management responsibility for Internal Control,
- a requirement to describe the systems of Internal Control,
- management to provide assurances on the effectiveness of the systems of Internal Control,
- the requirement for remediation plans where the systems of Internal Control are assessed as not providing the assurances required, and
- independent verification of the assurance process

The Corporate Risk Assurance Policy, implemented in 2003, is a statement of what the organisation is seeking to achieve by actively managing risk It defines a governance structure together with roles and responsibilities that will allow the Group to

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

Risk Management guidelines have also 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

During 2007 the Board conducted a self assessment of the systems of Internal Control in EDF Energy This assessment enabled the Board to describe and evaluate the systems of internal control of the UK entities and to identify areas where attention is required to improve business performance and effectiveness

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

### Control environment

The Group is committed to the highest standard of business conduct The Group is appropriately structured according to business areas This allows for effective operations to achieve the Group's objectives Lines of responsibility and levels of authority are formally documented The Group Executive Committee comprises the Group Chief Executive Officer, Branch Chief Operating Officers and Corporate Directors This Committee defines authorities given to individual officers of the Group The Committee also approves the five-year medium-term plan and budget which is the basis on which the objectives of the business are agreed and delegated

## REPORT ON CORPORATE GOVERNANCE continued

### Risk identification and control

The Director of Governance and Group Synergies is responsible for maintaining an oversight of Group systems of Internal Control and risk management, working closely with the branches and other corporate functions to ensure that their 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 relationship between Internal Audit and Risk Assurance requires Risk Assurance to be primarily responsible for ensuring the identification of risks and their mitigation and Internal Audit to be independently 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

### 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 This Committee approves individual projects within the medium-term plan and approves the award of contracts either directly or by delegated authority within agreed limits

### Information and communication

The performance management cycle is based upon a balanced scorecard approach, the scorecard translates the company ambitions into key measures required to achieve sustainable value Company measures are cascaded to Branch and Corporate functions and each branch translates the branch measures into team or sub-branch measures with appropriate tracking mechanisms For each performance measure there are agreed targets

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

Internal communication to employees concerning employee duties are communicated through job descriptions, their personal performance is evaluated through the Coaching for Performance Each employee's bonus is a reflection of both the company and their own department's performance, and is provided to employees via the Intranet on a monthly basis

### 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 internal control This covers all aspects of risk management and the system of internal control including both financial, operational and compliance controls The scope includes all EDF Energy plc companies but ultimate responsibility remains with the Board Membership includes appointed non-executive representatives representing finance, risk and audit from EDF S A

**REPORT ON CORPORATE GOVERNANCE continued**

The Group 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

Internal Audit reviews the operation of internal controls using a risk-based methodology and reports periodically to the Group Executive Committee and half yearly to the Audit Committee Assignments are determined by reference to the risk framework and discussions with senior management including members of the Group Executive Committee

**Effectiveness review**

The Group is continuously making improvements to the system of internal control The EDF Group Internal Control and Audit Policy requires, inter alia, the Chief Executive Officer of EDF Energy to provide an annual report to the Chairman of EDF SA of the quality of the internal control system

As a result of the 2007 self assessment of the systems of Internal Control in EDF Energy, areas where attention is required to improve business performance and effectiveness were identified A programme of work is underway to bring about these improvements

The relationship between Internal Audit and Management requires Management to be primarily responsible for ensuring that the systems of internal control are implemented and operated to such an extent as to provide reasonable assurance that the objectives of the business will be met or that the risks or threats to the business are mitigated Internal Audit is independently responsible for review of the mechanisms that provide assurance and for providing advice and guidance to management on the appropriateness of Internal Control mechanisms and systems

**Material weaknesses**

Significant weaknesses in internal control are reported to the Group Executive Committee and, if appropriate, to the Audit Committee

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

We have audited the Consolidated and Company financial statements (the "financial statements") of EDF Energy plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 46 These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and Company'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 continued**

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London

19 May 2008

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2007

| | Notes | **2007 £m** | 2006 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 5 | **5,759 6** | 5,688 9 |
| Fuel and energy purchases | 7 | **(3,524 3)** | (3,343 3) |
| Gains/(losses) on derivative contracts | 6 | **103.9** | (62 9) |
| **Gross margin** | | **2,339 2** | 2,282 7 |
| Materials and contracting costs | | **(450 2)** | (366 3) |
| Other operating expenses | | **(604 8)** | (669 7) |
| Personnel expenses | 9 | **(417 8)** | (377 5) |
| Other operating income | 5 | **8 9** | 22 7 |
| **Profit before depreciation, amortisation, tax and finance costs** | | **875.3** | 891 9 |
| Depreciation and amortisation | 6 | **(320.1)** | (298 2) |
| **Operating profit** | | **555.2** | 593 7 |
| Investment revenue | 5, 11 | **71.4** | 73 4 |
| Finance costs | 12 | **(289 7)** | (246 3) |
| **Profit before taxation and associates** | | **336 9** | 420 8 |
| Share of losses of associates | 22 | **(31.4)** | (20 6) |
| **Profit before taxation** | | **305 5** | 400 2 |
| Taxation | 13 | **(65.9)** | (58 1) |
| **Profit for the financial year** | | **239.6** | 342 1 |
| Attributable to | | | |
| Equity holders of the parent | 40 | **239.4** | 341 9 |
| Minority interest | 35 | **0.2** | 0 2 |
| | | **239.6** | 342 1 |

## BALANCE SHEETS AT 31 DECEMBER 2007

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | *Notes* | **£m** | £m | **£m** | £m |
| **Non-current** | | | | | |
| Goodwill | *16* | **1,260 0** | 1,260 8 | **0.6** | 0 6 |
| Other intangible assets | *18* | **248.7** | 273 7 | **164.8** | 176 3 |
| Property, plant and equipment | *19* | **7,251.0** | 6,750 3 | **43.7** | 45 0 |
| Investments in subsidiary undertakings | *21* | **-** | - | **2,232.2** | 2,416 1 |
| Interests in associates | *22* | **57.6** | 52 9 | **-** | - |
| Investments | *24* | **0.7** | 26 1 | **-** | 2 5 |
| Derivatives and other financial instruments | *32* | **211 0** | 87 4 | **209.9** | 86 5 |
| Finance lease receivables | *25* | **368 2** | 332 0 | **-** | - |
| Deferred tax asset | *34* | **-** | - | **-** | 244 8 |
| | | **9,397.2** | 8,783 2 | **2,651.2** | 2,971 8 |
| **Current assets** | | | | | |
| Investments | *24* | **0.5** | - | **0 5** | - |
| Inventories | *26* | **203.3** | 275 7 | **135 5** | 209 3 |
| Trade and other receivables | *27* | **1,619.8** | 1,695 0 | **1,142 1** | 1,994 3 |
| Current tax receivable | | **33.5** | - | **-** | - |
| Cash and cash equivalents | *29* | **193.8** | 166 3 | **669.4** | - |
| Derivatives and other financial instruments | *32* | **434.4** | 254 7 | **434.4** | 254 7 |
| Finance lease receivables | *25* | **40 7** | 47 3 | **-** | - |
| | | **2,526.0** | 2,439 0 | **2,381 9** | 2,458 3 |
| Non-current assets held for sale | *20* | **-** | 2 1 | **-** | - |
| Assets classified within disposal group | *14* | **37.0** | - | **-** | - |
| **Total assets** | | **11,960 2** | 11,224 3 | **5,033.1** | 5,430 1 |
| **Current liabilities** | | | | | |
| Current tax liabilities | | **-** | (37 1) | **-** | - |
| Obligations under finance lease | *36* | **(13.2)** | (12 5) | **-** | - |
| Borrowings | *31* | **(1,838.0)** | (1,706 5) | **(1,610.0)** | (1,709 7) |
| Derivatives and other financial instruments | *32* | **(158.3)** | (839 9) | **(158 3)** | (838 0) |
| Short-term provisions | *33* | **(225.5)** | (237 8) | **(10.7)** | (12 5) |
| Other liabilities | *30* | **(1,850.1)** | (1,651 7) | **(1,009 1)** | (1,327 2) |
| | | **(4,085.1)** | (4,485 5) | **(2,788.1)** | (3,887 4) |
| **Non-current liabilities** | | | | | |
| Obligations under finance lease | *36* | **(306.2)** | (323 7) | **-** | - |
| Borrowings | *31* | **(2,260.2)** | (2,199 1) | **(367.1)** | (336 9) |
| Deferred tax liability | *34* | **(983 3)** | (646 8) | **(108.4)** | - |
| Long-term provisions | *33* | **(61 9)** | (75 4) | **(3 4)** | (2 6) |
| Post-employment benefits provision | *43* | **(202.4)** | (257 2) | **(15 6)** | (17 1) |
| Other liabilities | *30* | **(1,377.2)** | (1,251 4) | **-** | - |
| Derivatives and other financial instruments | *32* | **(122 7)** | (328 0) | **(95 6)** | (295 6) |
| | | **(5,313.9)** | (5,081 6) | **(590 1)** | (652 2) |
| Liabilities classified within disposal group | *14* | **(28 6)** | - | **-** | - |
| **Total liabilities** | | **(9,427.6)** | (9,567 1) | **(3,378.2)** | (4,539 6) |
| **Net assets** | | **2,532 6** | 1,657 2 | **1,654.9** | 890 5 |

**BALANCE SHEETS continued
AT 31 DECEMBER 2007**

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | *Notes* | **£m** | £m | **£m** | £m |
| **Equity** | | | | | |
| Share capital | *38* | **1,296.6** | 1,296 6 | **1,296.6** | 1,296 6 |
| Share premium account | *39* | **13 9** | 13 9 | **13 9** | 13 9 |
| Capital and redemption reserves | *39* | **21.1** | 21 6 | **13.0** | 13 1 |
| Hedging reserve | *41* | **200.5** | (545 1) | **224.0** | (528 4) |
| Retained earnings | *40* | **997.1** | 867 7 | **107.4** | 95 3 |
| **Equity attributable to equity holders of the parent** | | **2,529.2** | 1,654 7 | **1,654 9** | 890 5 |
| Minority interest | *35* | **3 4** | 2 5 | **-** | - |
| **Total equity** | | **2,532 6** | 1,657 2 | **1,654 9** | 890 5 |

The accounts on pages 14 to 81 were approved by the Board of Directors on 19 May 2008 and were signed on its behalf by

Vincent de Rivaz
**Director**

Humphrey A E Cadoux-Hudson
**Director**

## CASH FLOW STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2007

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | *Notes* | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| **Net cash from operatıng actıvıtıes** | *42* | **867.3** | 641 2 | **674.1** | (908 5) |
| **Investıng actıvities** | | | | | |
| Purchase of property, plant and equıpment | | **(801.0)** | (616 3) | **(10 3)** | (12 2) |
| Purchase of ıntangıble assets | | **(11.8)** | (25 5) | **(7.6)** | (2 9) |
| Receıpts of customer contrıbutıon | | **176.4** | 137 6 | - | - |
| Proceeds from sale of property, plant and equıpment | | **14 4** | 36 4 | **8.2** | 27 1 |
| Proceeds from sale of ıntangıble assets | | - | - | - | 46 3 |
| Payments to ıncrease share of associates | | **(32.0)** | (11 9) | - | - |
| Repayment of loans | | - | - | **183.9** | - |
| Increase ın long-term receıvables | | **(8.5)** | (10 5) | **2 0** | 1 3 |
| Interest element of finance lease rental payments | | **(21.7)** | (22 1) | - | - |
| Dıvıdends receıved from ınvestments | | **9 1** | - | **71 2** | 30 0 |
| Interest receıved | | **24.3** | 46 4 | **92 8** | 93 6 |
| Increase/(decrease) ın finance lease receıvable | | **3.5** | (35 8) | - | - |
| Reclassıfied wıthın dısposal group | | **(3.9)** | - | - | - |
| **Net cash (used ın)/from ınvestıng activitıes** | | **(651.2)** | (501 7) | **340.2** | 183 2 |
| **Fınancıng actıvıtıes** | | | | | |
| Dıvıdends paıd to equıty holders of the parent | | **(110.0)** | (105 0) | **(110 0)** | (105 0) |
| Repayment of oblıgatıons under finance leases | | **(16.7)** | (13 0) | - | - |
| Proceeds from borrowıngs | | **545 2** | 473 0 | **414 7** | 548 8 |
| Repayment of borrowıngs | | **(361 6)** | (258 3) | - | - |
| Issuance of ıntra-group loans | | - | - | - | (118 0) |
| Interest paıd | | **(245 5)** | (236 0) | **(135.2)** | (99 2) |
| **Net cash (used in)/from financıng actıvıtıes** | | **(188 6)** | (139 3) | **169.5** | 226 6 |
| **Net ıncrease in cash and cash equivalents** | | **27.5** | 0 2 | **1,183 8** | (498 7) |
| Cash and cash equıvalents at 1 January | | **166.3** | 166 1 | **(514 4)** | (15 7) |
| **Cash and cash equıvalents at 31 December** | *29* | **193 8** | 166 3 | **669 4** | (514 4) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share Capital £m | Share Premium £m | Capital Reserves £m | Hedging Reserve £m | Retained Earnings £m | Minority Interest £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **At 1 January 2006** | **1,296.6** | **13.9** | **21.6** | **259.6** | **630.8** | **2.2** | **2,224.7** |
| Net losses on cash flow hedges | - | - | - | (1,153 4) | - | - | **(1,153.4)** |
| Deferred taxation on net losses on cash flow hedges | - | - | - | 348 7 | - | - | **348 7** |
| Total income for the year recognised directly in equity | - | - | - | (804 7) | - | - | **(804 7)** |
| Profit for the year | - | - | - | - | 341 9 | 0 2 | **342.1** |
| **Total income for the year** | - | - | - | - | **341.9** | **0 2** | **342 1** |
| Additions | - | - | - | - | - | 0 1 | **0.1** |
| Equity dividends | - | - | - | - | (105 0) | - | **(105 0)** |
| **At 1 January 2007** | **1,296.6** | **13.9** | **21 6** | **(545 1)** | **867.7** | **2.5** | **1,657.2** |
| Net gains on cash flow hedges | - | - | - | 1,057 9 | - | - | **1,057 9** |
| Deferred taxation on net gains on cash flow hedges | - | - | - | (312 3) | - | - | **(312.3)** |
| Total income for the year recognised directly in equity | - | - | - | 745 6 | - | - | **745.6** |
| Profit for the year | - | - | - | - | 239 4 | 0 2 | 239 6 |
| **Total income for the year** | - | - | - | - | 239 4 | 0 2 | 239 6 |
| Capital injection | - | - | - | - | - | 0 7 | **0 7** |
| Share scheme | - | - | (0 5) | - | - | - | **(0 5)** |
| Equity dividends | - | - | - | - | (110 0) | - | **(110.0)** |
| **At 31 December 2007** | **1,296.6** | **13 9** | **21 1** | **200.5** | **997.1** | **3.4** | **2,532.6** |

## COMPANY STATEMENT OF CHANGES IN EQUITY

| | Share Capital £m | Share Premium £m | Capital Reserves £m | Hedging Reserve £m | Retained Earnings £m | Total Equity £m |
|---|---|---|---|---|---|---|
| **At 1 January 2006** | **1,296.6** | **13 9** | **13.1** | **289 8** | **94.6** | **1,708.0** |
| Net losses on cash flow hedges | - | - | - | (1,168 8) | - | (1,168 8) |
| Deferred taxation on net losses on cash flow hedges | - | - | - | 350 6 | - | 350 6 |
| Total income for the year recognised directly in equity | - | - | - | (818 2) | - | **(818.2)** |
| Profit for the year | - | - | - | - | 105 7 | **105.7** |
| Equity dividends | - | - | - | - | (105 0) | **(105 0)** |
| **At 1 January 2007** | **1,296 6** | **13 9** | **13.1** | **(528.4)** | **95.3** | **890 5** |
| Net gains on cash flow hedges | - | - | - | 1,046 0 | - | **1,046.0** |
| Deferred taxation on net gains on cash flow hedges | - | - | - | (293 6) | - | **(293 6)** |
| Share scheme | - | - | (0 1) | - | - | **(0 1)** |
| Total income for the year recognised directly in equity | - | - | (0 1) | 752 4 | - | **752.3** |
| Profit for the year | - | - | - | - | 122 1 | **122 1** |
| Equity dividends | - | - | - | - | (110 0) | **(110.0)** |
| **At 31 December 2007** | **1,296 6** | **13.9** | **13 0** | **224 0** | **107.4** | **1,654.9** |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

EDF Energy plc is a company incorporated in the United Kingdom under the Companies Act 1985 The address of the registered office is given on page 1 The nature of EDF Energy plc and its subsidiaries' (together the "Group" or "EDF Energy") operations and their principal activities are set out in note 4 and in the Directors' Report on pages 2 – 7

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates

### Adoption of new and revised International Financial Reporting Standards

At 1 January 2007 the Group adopted IFRS7 Financial Instruments Disclosures and has prepared comparative information under the standard for 2006 At the date of authorisation of these financial statements, the following Standards and interpretations were in issue but not yet effective and therefore not adopted

- IFRS 8 Operating Segments
- The amendment to IAS 1 relating to the statement of comprehensive income
- The amendment to IAS 23 Borrowing costs relating to qualifying assets
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Directors anticipate that the adoption of these Standards and Interpretations in future periods (with the exception of the amendment to IAS 23) will have no material impact on the financial statements of the Group, except to provide some additional disclosure Due to the nature of the Group's activities, there may potentially be some future capital expenditure on qualifying assets for which borrowing costs should be capitalised At this point in time it is not possible to quantify the size of the impact

### 2. Significant accounting policies

### Basis of preparation

In the current year the Group has adopted all applicable International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007 and endorsed by the EU (IFRS)

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities All intercompany balances, and transactions, including unrealised profits arising from intra-group transactions, are eliminated on consolidation The carrying value of subsidiaries includes equity investment and long term loans to subsidiaries

## NOTES TO THE FINANCIAL STATEMENTS continued

### 2 Significant accounting policies continued

**Basis of consolidation continued**

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses

No income statement is presented for EDF Energy plc (the Company) in accordance with the exemptions allowed by Section 230 of the Companies Act 1985 The profit dealt with in the Company for the year was £122 1m before dividends paid (2006 £105 7m)

**Business combinations**

The Group accounts for purchases of subsidiaries using the purchase method The cost is measured as the total fair value on the date of acquisition of assets, liabilities and equity instruments given as consideration, plus any costs directly incurred in the purchase The assets and liabilities acquired are measured at fair value on the date of acquisition, except for assets and liabilities that are classified as held for sale or in a disposal group in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are measured at fair value less costs of disposal

Any minority interest in the acquired entity is initially measured at the minority proportion of the fair value of assets and liabilities recognised

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the profit or loss

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised

**Investments in associates**

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate less any impairment in the value of individual investments Losses of the associates in excess of the Group's interest in those associates are not recognised

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets, of the associate at the date of acquisition is recognised as goodwill netted against the investment Any deficiency of the cost of acquisition below the Group's share of the fair value of the net identifiable assets of the associate at the date of acquisition (i e discount on acquisition) is credited in the income statement in the period of acquisition

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment

## NOTES TO THE FINANCIAL STATEMENTS continued

### 2 Significant accounting policies continued

**Interest in joint ventures**

The Group's interests in its joint ventures are accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis

Where the Group transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units and these are tested for impairment annually or more frequently when there is an indication that the unit may be impaired If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit Any impairment loss is recognised immediately in the income statement and is not reversed in a subsequent period

**Other intangible assets**

Other intangible assets mainly consist of IT software IT software is initially recognised at cost and is amortised over a useful economic life of 3-8 years

**Foreign currency translation**

The functional and presentation currency of EDF Energy plc is pounds sterling Transactions in foreign currency are initially recorded in the functional currency rate at the rate on the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date All differences are taken to the Consolidated Income Statement

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments)

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured Revenue includes amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes

Energy Supply Revenue is recognised on the basis of electricity and gas supplied during the period and is attributable to the continuing and acquired activities of supply of electricity and gas and the acquired activity of meter reading and related services This includes an estimate of the sales value of units and therms supplied to customers between the date of the last meter reading and the year-end, and the invoice value of other goods sold and services provided Any unbilled revenue is included in trade receivables to the extent that it is considered recoverable, based on historic data

## NOTES TO THE FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

**Revenue recognition continued**

Distribution Revenue relating to Distribution Use of System (DUoS) charges is attributable to the continuing activity of electricity distribution This includes an estimate of the sales value of units supplied to customers between the date of the last meter reading the year end The fees paid by customers upon connection to the network (connection fees) are recorded as deferred income and transferred to sales over a period that depends on the useful life of the assets they contribute to

Long-term contracts Revenue from long-term contracts is recognised in accordance with the Group's accounting policy on construction contracts (see below)

Interest income Interest income is recognised as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value Borrowing costs incurred relating to the construction or purchase of fixed assets is not capitalised and is charged to the income statement as incurred Depreciation is calculated on a straight-line basis over the estimated useful life of the asset and charged to income as follows

| | | |
|---|---|---|
| Generation assets | – | Up to 20 years |
| Overhaul of generation assets | – | 4 years |
| Overhead and underground lines | – | 45 to 60 years |
| Network plant and buildings | – | 20 to 60 years |
| Freehold land | – | Not depreciated |
| Other buildings | | |
| -freehold | – | Up to 40 years |
| -leasehold | – | Lower of lease period or 40 years |
| Vehicles and mobile plant | – | 5 to 10 years |
| Fixtures and equipment | – | 3 to 8 years |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease

Contributions received from third parties towards distribution network assets, which include capital grants, are credited to the balance sheet as deferred income on receipt and amortised to the income statement over the lives of the distribution network assets to which they relate

Assets in the course of construction are carried at cost, less any recognised impairment loss Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use

**Non-current assets and disposal groups classified as held for sale**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition The Group must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification

## NOTES TO THE FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

**Inventories**

Inventories are valued at the lower of cost and net realisable value Cost includes all costs incurred in bringing each product to its present location and condition The cost of raw materials, consumables and goods for resale is calculated using the weighted average cost basis Work-in-progress and finished goods are valued using the cost of direct materials and labour plus attributable overheads based on a normal level of activity Net realisable value represents the estimated selling price less any further costs expected to be incurred in completion and disposal

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

**Borrowing costs**

All borrowing costs are recognised in profit or loss in the period in which they are incurred

**EU Emissions trading scheme**

The Group recognises its free emissions allowances received under the National Allocation Plan at nil cost Purchased emissions allowances are initially recognised at cost (purchase price) within intangible assets A liability is recognised when the level of emissions exceeds the level of allowances granted The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date Movements are recognised within operating profit Forward contracts for the purchase or sale of emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the income statement The intangible assets are surrendered at the end of the compliance period reflecting the consumption of economic benefit As a result no amortisation is recorded during the period

**Long term contracts**

Where the outcome of a long term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date This is normally recognised by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer

Where the outcome of a long term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable Contract costs are recognised as expenses in the period in which they are incurred

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

**NOTES TO THE FINANCIAL STATEMENTS continued**

**2 Significant accounting policies continued**

### Arrangements containing a lease

In compliance with interpretation IFRIC 4, the Group identifies agreements that convey the right to use an asset or group of specific assets to the purchaser although they do not have the legal form of a lease contract, in that the purchaser in the arrangement benefits from a substantial share of the asset's production and payment in not dependent on production or market price

Such arrangements are treated as leases, and analysed with reference to IAS 17 for classification as either operating or finance leases

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability, with charges being recognised directly in the income statement

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income Lease income is recognised over the term of the lease, on a straight-line basis, using the net investment method, which recognises a constant periodic rate of return When assets are leased out under an operating lease, assets are carried on the balance sheet based on the nature of the asset

### Taxation

The income tax expenses represent the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

## NOTES TO THE FINANCIAL STATEMENTS continued

### 2 Significant accounting policies continued

**Taxation continued**

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Deferred tax is measured on an undiscounted basis

**Retirement benefit costs**

The Group operates defined benefit pension schemes The cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at each balance sheet date Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains or losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation or the fair value of plan assets at that date These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested

The retirement benefit obligation recognised on the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of scheme assets Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan

**Financial instruments**

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instruments

*Trade receivables*

Trade receivables are measured at initial recognition at original invoice amount and are subsequently measured at fair value An allowance is recognised in the income statement for irrecoverable amounts when there is evidence that the asset is impaired The allowance is calculated as the difference between the carrying amount and the expected future cash flows from the asset

*Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and other short-term liquid investments which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value

*Financial liabilities and equity*

Financial liabilities are classified according to the nature of the contractual obligations, and are based on the definition of liability An equity instrument is a contract that evidences a residual interest in the assets of the Group

**NOTES TO THE FINANCIAL STATEMENTS continued**

**2. Significant accounting policies continued**

**Financial instruments continued**

*Interest-bearing loans and borrowings*

Interest-bearing bank loans and overdrafts are initially measured at proceeds received, net of direct issue costs Foreign currency denominated bank loans and overdrafts are restated at closing exchange rates with any movements going through the income statement unless it is designated as a cash flow hedge Any differences between the proceeds and the settlement/redemption of the borrowings are measured on an accrual basis and recognised over the life of the instrument

*Trade payables*

Trade payables are measured at fair value

*Derivatives and other financial instruments and hedge accounting*

The Group's activities expose it to fluctuations in foreign exchange rates, interest rates and commodity prices including sale and purchase prices of gas, coal and electricity

The Group uses derivatives and other financial instruments to hedge its risks associated with price fluctuations relating to forecasted transactions and contractual obligations Foreign currency risk arises from bonds which are denominated in foreign currencies and from foreign currency denominated commodity purchases such as coal and carbon The Group's policy is to hedge/fix known currency exposures through currency swap and forward agreements that fix the Sterling equivalent that will be required to service the contractual obligation

Commodity price risk arises from the forward purchases of gas, coal and electricity When commodity contracts have been entered into as part of the Group's normal business activity, the Group seeks to classify them as "own use" contracts and outside the scope of IAS 39 This is achieved when

- a physical delivery takes place under all such contracts,
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements, and
- the contracts are not considered as written options as defined by the standard

Commodity contracts not qualifying as 'own use' which also meet the definition of a derivative are within the scope of IAS 39 This includes both financial and non-financial contracts

The use of derivatives and other financial instruments is governed by the Group's policies, approved by the Board of Directors The Group does not use derivatives and other financial instruments for speculative purposes

Derivatives and other financial instruments are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates Changes in the fair value of derivatives and other financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise Changes in the fair values of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in equity with any ineffective element being recognised immediately in the income statement

The Group classifies hedges in the following categories

*Fair value hedges*

These instruments hedge the exposure to changes in the fair value of an asset or liability recorded in the balance sheet, or a firm commitment to purchase or sell an asset Changes in the fair value of the hedged item attributable to the hedged component of that item are recorded in the income statement and offset by corresponding variations in the fair value of the hedging instrument Only the ineffective portion of the hedge has an impact on income

## NOTES TO THE FINANCIAL STATEMENTS continued

### 2. Significant accounting policies continued

**Financial instruments continued**

*Cash flow hedges*

These instruments hedge highly probable future transactions, the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument The effective portion of accumulated changes in the hedge's fair value is recorded in equity, and the ineffective portion (i e changes in the fair value of the hedging instrument in excess of changes in the fair value of the item) is recorded in the income statement When the hedged cash flows materialise, the amounts previously recognised in equity are transferred to the income statement in the same way as for the hedged item

Hedge accounting

Hedge accounting is discontinued when the hedging instrument is sold, terminated, exercised or no longer qualifies as a hedging instrument At that time, for any forecast transactions, the cumulative gain or loss is retained in equity until the forecasted transaction occurs If the transaction is no longer expected to occur, any gain or loss is recognised immediately in the income statement for the period

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with unrealised gains or losses reported in the income statement

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 mitigated through establishment of approved counterparties and maximum counterparty limits and minimum credit ratings

Gains and losses on gas, electricity and coal contracts designated as cash flow hedges are deferred and recognised in the income statement when the hedged transaction occurs Gains and losses on any contracts which have not been designated as cash flow hedges are credited/charged to the income statement in the period in which they arise

**Share-based payments**

EDF Energy plc's ultimate parent company, Electricité de France S A ("EDF") is listed on Euronext, the French stock exchange Any share-based payments to employees are measured at fair value at the date the shares are issued The fair value is measured using the Black-Scholes model, taking into account any preferential terms offered to staff such as discounts and free shares Any share-based payments to employees which are not issued to employees but transferred (i e no additional share capital) and equity settled are valued at market value on date of announcement Any contribution to the scheme is charged to the income statement in the period in which it arises, at the fair value determined, and apportioned in a straight-line basis over the vesting period A corresponding amount is recognised as a capital contribution from EDF within equity Any repayment required to EDF is measured at the market value of the period end and recognised as a liability and reduced capital contribution

## NOTES TO THE FINANCIAL STATEMENTS continued

### 3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, some critical accounting judgements have been applied by management and some balances are based on estimates

### Critical accounting judgements in applying the Group's accounting policies

*Revenue recognition*

Turnover includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end This is calculated by reference to data received through the settlement systems but not billed together with estimates of consumption not yet processed through settlements and selling price estimates These statistics and estimates are sensitive to the assumptions used in determining the portion of sales not billed at the reporting date

Revenue is valued at average pence per unit, and any unbilled revenue is treated as an unbilled debtor Management adjust this figure based on a judgement of the likelihood of collecting the outstanding debt based on historical data

*Provisions*

Provisions for liabilities are made where a liability exists but is uncertain in respect of amount or when the liability will fall due Provisions are made against bad and doubtful debt as well as obsolete stock Provision against debtors is estimated based on applying a percentage provision rate to the aged debt book at the end of each period The provision rates are based on the comparison of historical rates of collection compared to billing data Any over- or under-statement of the provision is essentially a timing difference to the actual write-off level Provision is made against stock taking account of the age of the asset, using predefined formulae derived from actual experience

*Decommissioning provisions*

The Group has provided for decommissioning its three power stations These provisions are based on the experience of other companies within the EDF Group, adjusted for specific issues associated with each power station and are discounted Expected future costs of decommissioning are monitored to ensure that the provision remains at an adequate level Further information about decommissioning provisions can be found in note 33

*Pensions and other post-employment benefits*

The pension deficit is calculated by independent qualified actuaries, based on actual payroll data and certain actuarial assumptions These actuarial assumptions are made to model potential future costs and benefits and include, life expectancy, rates of returns on plan assets, inflation and expected retirement age These assumptions are reviewed on an annual basis and may change based on current market data Changes in assumptions could lead to additional actuarial gains and losses being recognised Further information is available about pensions in note 43

*Goodwill impairment*

The impairment review for goodwill is based on the Group's medium-term plans and assumptions concerning discount rates Further detail on the assumptions used in the calculation can be found in note 17

*Fair value of energy derivatives*

The valuations of these derivatives are estimates based, where available, on published forward price curves Where published information is not available, valuation techniques have been used to determine fair values

The Group estimates fair values for the commodity contracts using tradable contract prices quoted in the active market and using valuation techniques reflecting market views These are then discounted using the published LIBOR curve for the time value of money and adjusted for counterparty credit risk

## NOTES TO THE FINANCIAL STATEMENTS continued

### 3 Critical accounting judgements and key sources of estimation uncertainty continued

The Group considers that the UK market for commodity contracts including gas and electricity is active for up to two to three years forward, with reliable broker quotes and published prices available, therefore in this active period commodity contracts are valued at forward market prices as at 31 December Outside the active period where liquidity in the market is low, due to the available range of contract quotes limited to seasonal contracts, a number of interpolation/extrapolation methods are used based on market expectations

Counter-party credit risk is applied to cover the risk of default by individual counterparties and the financial benefits of contracts Credit ratings used are based on Standard & Poor's and Moody's published figures and applied to the net position by counterparty where the Group has a legal right and practice of net settlement The majority of significant exposures are with A-rated counterparties or better

The main market-based drivers are power, gas and EU emissions trading allowances, which whilst not actively traded in the period, are derived from current future prices and from a long-term forecast The contract capacity costs have been estimated using the terms of the contract, and the understanding gained of the relevant operating costs that will be passed through

Fair values for foreign exchange derivatives and for interest rate derivatives have been determined with reference to closing market prices at 31 December The Group has designated certain foreign exchange derivatives as fair value hedges In each case, the risk being hedged is foreign exchange risk

The Group has designated certain power, gas and coal derivatives as cash flow hedges of forecast transactions In each case the risk being hedged is commodity price risk

*Financial lease arrangements*

The Group accounts for some long-term contracts as financial lease arrangements In order to evaluate these arrangements, detailed financial models have been drawn up, which include specific assumptions regarding margins on construction, operating costs and maintenance expenditure, as well as forecast capital expenditure, interest rates and inflation rates Any changes in these assumptions would impact upon the profit recognition within the lease models

### 4 Segment information

The Group's primary reporting format is business segments and its secondary format is geographical segments The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets

Networks Branch Transfer of electricity from where it is received in bulk, across the distribution systems and its delivery to consumers It is also responsible for the operation, maintenance and expansion of private electrical distribution systems

Customer and Energy Branch includes the generation, purchase and supply of electricity to customers and purchase and supply of gas to customers

Other This primarily includes the provision of services to the Group, e g facilities, property and insurance All assets held for sale are included within Other

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties

The Group's geographical segment is determined by the location of the Group's assets and operations All revenue, expense and transactions take place in the United Kingdom Also all assets and liabilities are entirely in the United Kingdom and hence no separate tables have been disclosed for the geographical segment

**NOTES TO THE FINANCIAL STATEMENTS continued**

**4 Segment information continued**

**Group segmental analysis 31 December 2007**

| **Year ended 31 December 2007** | **Networks** | **Customer and Energy** | **Other** | **Total Operations** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| **Revenue** | | | | |
| Sales to external customers | 1,152 0 | 4,597 5 | 10 1 | **5,759.6** |
| Inter-segment sales | 286 9 | 20 6 | (307 5) | **-** |
| Segment revenue | 1,438 9 | 4,618 1 | (297 4) | **5,759 6** |
| **Result** | | | | |
| **Operating profit** | 480 6 | 62 8 | 11 8 | **555.2** |
| Investment revenue | | | | **71.4** |
| Finance costs | | | | **(289.7)** |
| **Profit before taxation** | | | | **336.9** |
| Share of losses of associates | | | | **(31 4)** |
| Taxation | | | | **(65.9)** |
| **Profit for the year from operations** | | | | **239 6** |

Inter segment sales are made at prevailing market prices

| | | | | |
|---|---|---|---|---|
| **Assets and liabilities** | | | | |
| Segment assets | 6,407 5 | 3,598 1 | 1,897 0 | **11,902.6** |
| Investment in associates | - | 55 4 | 2 2 | **57.6** |
| Total assets | 6,407 5 | 3,653 5 | 1,899 2 | **11,960 2** |
| Segment liabilities | (4,017 5) | (2,943 7) | (1,483 1) | **(8,444.3)** |
| Unallocated liabilities | - | - | (983 3) | **(983.3)** |
| Total liabilities | (4,017 5) | (2,943 7) | (2,466 4) | **(9,427.6)** |
| **Other segment information** | | | | |
| Capital expenditure | | | | |
| Tangible and intangible fixed assets | 669 9 | 126 8 | 16 1 | **812.8** |
| Depreciation | 193 0 | 91 7 | 11 5 | **296 2** |
| Amortisation | 0 1 | 20 7 | 3 1 | **23.9** |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 4. Segment information continued

**Group segmental analysis 31 December 2006·**

| Year ended 31 December 2006 | Networks | Customer and Energy | Other | Total Operations |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Revenue** | | | | |
| Sales to external customers | 1,059 4 | 4,621 2 | 8 3 | **5,688.9** |
| Inter-segment sales | 291 6 | 18 7 | (310 3) | **-** |
| Segment revenue | 1,351 0 | 4,639 9 | (302 0) | **5,688 9** |
| **Result** | | | | |
| **Operating profit** | 493 5 | 54 1 | 46 1 | **593.7** |
| Investment revenue | | | | **73.4** |
| Finance costs | | | | **(246.3)** |
| **Profit before taxation** | | | | **420.8** |
| Share of profit of associates | | | | **(20.6)** |
| Taxation | | | | **(58.1)** |
| **Profit for the year from operations** | | | | **342 1** |

Inter segment sales are made at prevailing market prices

| Assets and liabilities | Networks | Customer and Energy | Other | Total Operations |
|---|---|---|---|---|
| Segment assets | 6,268 3 | 3,680 9 | 1,222 2 | **11,171 4** |
| Investment in associates | 29 6 | 23 3 | - | **52 9** |
| Total assets | 6,297 9 | 3,704 2 | 1,222 2 | **11,224.3** |
| Segment liabilities | (4,437 1) | (4,099 0) | (384 2) | **(8,920 3)** |
| Unallocated liabilities | - | - | (646 8) | **(646 8)** |
| Total liabilities | (4,437 1) | (4,099 0) | (1,031 0) | **(9,567.1)** |
| **Other segment information** | | | | |
| Capital expenditure | | | | |
| Tangible and intangible fixed assets | 547 8 | 234 5 | 11 8 | **794.1** |
| Depreciation | 166 9 | 86 3 | 23 6 | **276.8** |
| Amortisation | 0 2 | 18 7 | 2 5 | **21.4** |

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During 2007, the Regulated Networks branch and the Development branch merged and hence have been included together within the Networks branch for segmental purposes As a result the 2006 segmental has been restated

## NOTES TO THE FINANCIAL STATEMENTS continued

### 5. Revenue

An analysis of the Group's revenue is as follows

| | **Year ended 2007 £m** | Year ended 2006 £m |
|---|---|---|
| Sales of goods and services | **5,639.6** | 5,566 0 |
| Revenue from long-term contracts (note 28) | **109.5** | 106 2 |
| Property rental income | **6.1** | 6 9 |
| Other revenue | **4.4** | 9 8 |
| | **5,759.6** | 5,688 9 |
| Other operating income | **8.9** | 22 7 |
| Investment revenue (note 11) | **71.4** | 73 4 |
| Total revenue | **5,839.9** | 5,785 0 |

Other operating income relates to the profit on disposal of non-current assets

The estimates used can be validated after year-end through the existing settlement process Such process takes up to 14 months post year-end The effect of this in 2007 for items relating to earlier periods was to reduce reported revenue in the year by approximately £73million

Revenue excludes the gains arising on fair value of contracts under IAS 39

### 6. Profit for the year

| Profit before taxation for the year has been arrived at after charging/(crediting) the following gains and losses | **2007 £m** | 2006 £m |
|---|---|---|
| Net foreign exchange gains | **0 4** | (0 3) |
| Research and development costs | **7 0** | 4 1 |
| Depreciation of property, plant and equipment (note 19) | **296 2** | 276 8 |
| Amortisation of intangible assets (note 18) | **23 9** | 21 4 |
| Impairment of goodwill (note 16) | **0.8** | - |
| Staff costs (note 9) | **417.8** | 377 5 |
| Auditors' remuneration for audit services | **1.1** | 0 9 |
| Auditors' remuneration for non-audit services (see below) | **0 4** | 0 7 |
| Cost of inventories recognised as expense | **639.1** | 454 3 |
| Fair valuation of derivative commodity contracts | **(103.9)** | 62 9 |
| Operating lease rentals | **31.5** | 37 4 |
| Movement in bad debt provision (note 27) | **35.5** | 6 9 |
| Impairment losses recognised on trade receivables | **41.4** | 46 2 |
| Reversal of impairment losses recognised on trade receivables | **(9 1)** | (9 6) |
| Provision for impairment of financial assets and liabilities relating to Metronet, (before tax relief of £15 0m (2006 £nil)) | **41.8** | - |
| Provision for impairment of investment in Metronet | **38 2** | - |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 6. Profit for the year continued

The analysis of Auditors' remuneration is as follows

| | 2007 £m | 2006 £m |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's and Group accounts | **0.2** | 0 1 |
| The audit of the Company's subsidiaries pursuant to legislation | **0.9** | 0 8 |
| Total audit fees | **1 1** | 0 9 |
| Non-statutory interim review | **0.1** | 0 1 |
| Tax services | **0.1** | 0 2 |
| Other services pursuant to legislation | **0.1** | 0 1 |
| Other services | **0.1** | 0 3 |
| Total non-audit fees | **0.4** | 0 7 |

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

### 7. Fuel and energy purchases

| | 2007 £m | 2006 £m |
|---|---|---|
| Purchase of energy | **2,796 7** | 2,742 9 |
| Distribution and transmission | **629 4** | 546 1 |
| Carbon certificates | **130 2** | 83 3 |
| Release of onerous contracts and other provisions | **(32 0)** | (29 0) |
| Total fuel and energy purchases | **3,524 3** | 3,343 3 |

### 8. Directors' emoluments

| | 2007 £m | 2006 £m |
|---|---|---|
| Emoluments | **1 2** | 1 1 |

| | 2007 Number | 2006 Number |
|---|---|---|
| Members of defined benefit pension scheme | **1** | 1 |

| | 2007 £m | 2006 £m |
|---|---|---|
| Emoluments payable to the highest paid director were as follows | | |
| Aggregate emoluments | **0 7** | 0 7 |

**NOTES TO THE FINANCIAL STATEMENTS continued**

## 9. Personnel expenses

Staff costs arising in the year, including Directors' emoluments were as follows

| GROUP | **2007 £m** | 2006 £m |
|---|---|---|
| Wages and salaries | **420.5** | 348 6 |
| Social security costs | **36.4** | 32 3 |
| Pension costs | **59.0** | 53 9 |
| Cost of granting shares to employees | **2.6** | - |
| Less capitalised costs | **(100 7)** | (57 3) |
| | **417.8** | 377 5 |

Capitalised staff costs relates to the cost of employing staff for the purposes of extending the network This includes managerial and technical staff to the extent that they are directly attributable to the improvement of the network These costs have been included within network assets

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

| | **2007 Number** | 2006 Number |
|---|---|---|
| Networks branch | **4,974** | 4,998 |
| Customer and Energy branch | **7,016** | 6,153 |
| Others | **1,045** | 916 |
| | **13,035** | 12,067 |

| COMPANY | **2007 £m** | 2006 £m |
|---|---|---|
| Wages and salaries | **80.1** | 55 2 |
| Social security costs | **8.3** | 7 1 |
| Pension costs | **11 5** | 10 9 |
| Share scheme | **0 4** | - |
| | **100.3** | 73 2 |

The monthly average number of employees in the Company during the year was as follows

| | **2007 Number** | 2006 Number |
|---|---|---|
| Management | **314** | 308 |
| Other staff | **1,146** | 999 |
| | **1,460** | 1,307 |

**NOTES TO THE FINANCIAL STATEMENTS continued**

## 10. Employee share offering

On 30 August 2007 the ultimate parent company, Electricité de France SA announced Actions pour Tous (ACT) 2007, the Free Award Share Plan This plan entitles all persons who, on 30 August 2007, were bound by an employment contract with EDF Energy or one of it's subsidiaries, a free distribution of EDF ordinary shares in accordance with the Rules and Regulations of the plan Each beneficiary was notified of the number of shares, the vesting and holding periods applicable to them and had right of refusal of the plan

Each employee who agreed to take part in the plan is guaranteed to receive 10 free shares Over and above this, employees will receive an additional number of shares proportional to their salary, calculated on the basis of the actual June 2007 annual salary, excluding any other variable compensation items such as bonuses, profit sharing etc The number of shares any one beneficiary can receive is capped at 50 shares

The Award will become final and the beneficiaries will be issued the shares at the end of the vesting period of 2 years, if, at this date both the Performance and Presence criteria have been fulfilled These criteria are

a) Performance Criteria This is based on the EDF group meeting their EBITDA target over the period 2006-2008 The decision as to whether the Performance Criteria has been met will be assessed on the date of the release of the annual consolidated results of EDF Group for the financial year 2008
b) Presence Criteria Each beneficiary must be continuously bound by an employment contract with EDF Energy or one of its subsidiaries throughout the vesting period

After this point the beneficiary is required to keep and not transfer the shares for the holding period relevant to them

The table below shows the movements relating to the share scheme during the year

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| At 1 January | - | - | - | - |
| Granted during the period | **2.6** | - | **0 3** | - |
| Revaluation | **(3.1)** | - | **(0 4)** | - |
| **At 31 December, (included within capital reserves)** | **(0.5)** | - | **(0.1)** | - |

The value of the shares granted during the period represents the charge in the income statement This is accounted for at the share price (base price) on date of announcement of the plan being €72 50 or £48 99 The balance of the liability is valued at the closing share price at 31 December 2007 of €81 48 or £59 75 The difference represents the amount that has been debited to reserves during the period

## 11 Investment revenue

| | **2007** | 2006 |
|---|---|---|
| | **£m** | £m |
| Interest on bank deposits | **12.3** | 17 4 |
| Income from investments | **6.2** | 1 7 |
| Pension scheme interest (note 43) | **13.8** | 27 0 |
| Finance income receivable under finance leases | **33 1** | 24 9 |
| Other finance income | **6.0** | 2 4 |
| Total investment revenue | **71.4** | 73 4 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 12 Finance costs

| | 2007 £m | 2006 £m |
|---|---|---|
| Interest on bank loans and overdrafts | **100.6** | 48 9 |
| Interest on bonds | **123.8** | 134 6 |
| Interest on other loans | **25.6** | 34 2 |
| Finance charges payable under finance leases | **21.7** | 22 0 |
| Unwinding of discount on provisions (note 33) | **18.0** | 6 6 |
| Total borrowing costs | **289.7** | 246 3 |

### 13. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

| **Current tax** | 2007 £m | 2006 £m |
|---|---|---|
| UK corporation tax | **35.2** | 98 5 |
| Adjustments in respect of current income tax of previous years | **6.5** | (90 5) |
| Total current tax expense | **41.7** | 8 0 |

**Deferred tax (note 34)**

| | 2007 £m | 2006 £m |
|---|---|---|
| Current year | **66 4** | 32 5 |
| Adjustment in respect of previous years | **(42.2)** | 17 6 |
| Total deferred tax charge | **24.2** | 50 1 |
| Income tax expense reported in income statement (note 13(b)) | **65.9** | 58 1 |

(b) The charge for the year can be reconciled to the profit per the income statement as follows

| | 2007 £m | 2006 £m |
|---|---|---|
| Profit before tax and associates | **336.9** | 420 8 |
| Tax at the UK Corporation tax rate of 30% (2006 30%) | **101.1** | 126 2 |
| Effect of | | |
| Non-deductible expenses and non-taxable income | **5.2** | 4 8 |
| Adjustment to prior-year corporation tax charge | **6 5** | (90 5) |
| Adjustment to prior-year deferred tax charge | **(42.2)** | 17 6 |
| Current year effect of deferred tax rate change | **(4.7)** | - |
| Income tax expense reported in income statement | **65 9** | 58 1 |

**NOTES TO THE FINANCIAL STATEMENTS contınued**

**13 Tax on profıt on ordinary actıvities continued**

In the current year a deferred tax credıt of £312 3m (2006 charge of £348 7m) has been recognısed ın equıty whıch relates to losses arısıng on derıvatıve ınstruments whıch have been ıncluded as cash flow hedges under IAS 39 Thıs ıncludes £296 9m relatıng to current year losses on derıvatıve ınstruments and £15 4m adjustment to prıor year tax charge as detaıled below

The Fınance Act 2007 announced a reductıon ın the maınstream corporatıon tax rate from 30% to 28% from 1 Aprıl 2008, and also removed the requırement for balancıng adjustments on sale of ındustrıal buıldıngs £15 4m has been debıted to reserves and £58 5m (ıncluded wıthın the £42 2m adjustment to prıor year tax charge) has been credıted to the ıncome statement for the year to reflect these changes

## 14. Dısposal group of companıes

Durıng the year, as part of a Networks branch strategıc revıew, the Group decıded to dıspose of the companıes relatıng to ıts PFI street lıghtıng contracts ın order to focus ıts capıtal expendıture programme on key actıvıtıes The assets and lıabılıtıes of these companıes have been re-classıfied as held for sale ın accordance wıth IFRS 5 On 29 February 2008, the sale was completed and the assets and lıabılıtıes assocıated wıth the dısposal group were sold The proceeds were ın excess of the net book value and accordıngly no ımpaırment losses have been recognısed These companıes contrıbuted £0 8m to net ıncome ın 2007 (2006 £1 8m)

The major classes of assets and lıabılıtıes ıncluded wıthın the operatıons held for sale are as follows

| | **2007 £m** |
|---|---|
| Property, plant and equıpment | **0 2** |
| Long-term receıvables | **20 4** |
| Inventory | **7 8** |
| Trade receıvables | **4.7** |
| Cash | **3.9** |
| Total assets ın dısposal group | **37.0** |
| Other lıabılıtıes | **(4.7)** |
| Borrowıngs | **(23.9)** |
| Total lıabılıtıes ın dısposal group | **(28.6)** |
| Net assets of dısposal group | **8.4** |

## 15. Dıvidends

| | **2007 £m** | 2006 £m |
|---|---|---|
| Amounts recognısed as dıstrıbutıons to equıty holders ın the perıod (note 40) | | |
| Interım dıvıdend paıd | **60.0** | - |
| Fınal dıvıdend paıd | **50.0** | 105 0 |
| | **110.0** | 105 0 |

The dıvıdend per share ın 2007 for the Group and the Company was 4 95p per share (2006 4 72p)

## NOTES TO THE FINANCIAL STATEMENTS continued

### 16. Goodwill

| GROUP | £m |
|---|---|
| **Cost** | |
| At 1 January 2006 | 1,257 3 |
| Recognised on acquisition of trade | 3 5 |
| **At 1 January 2007** | **1,260 8** |
| Impairment | (0 8) |
| **At 31 December 2007** | **1,260 0** |
| **Carrying amount** | |
| **At 31 December 2007** | **1,260.0** |
| At 31 December 2006 | 1,260 8 |

| COMPANY | £m |
|---|---|
| **Cost** | |
| At 1 January 2006 | - |
| Recognised on acquisition of trade | 0 6 |
| **At 31 December 2006 and 31 December 2007** | **0 6** |
| **Carrying amount** | |
| **At 31 December 2007** | **0 6** |
| At 31 December 2006 | 0 6 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 17. Impairment testing of goodwill

| Allocation of goodwill to Branches | **2007 £m** | 2006 £m |
|---|---|---|
| Customer and Energy Branch | **1,142 2** | 1,142 2 |
| Networks Branch | **117 2** | 118 0 |
| Corporate Branch | **0 6** | 0 6 |
| Total goodwill | **1,260.0** | 1,260 8 |

During the year, impairment testing has been carried out at a cash-generating unit ("CGU") level, based on value in use, using the Group's five-year medium-term plans for each CGU An estimated growth rate of 3 0% is used, which is based on current information and industry norms These medium-term plans are based on pre-tax discounted cash flows, using discount rates of between 8 3% - 10 1% Other assumptions applied to each CGU are detailed below

**Customers and Energy**
The impairment review was based on the five-year medium-term plan and included assumptions about customer growth numbers, discount rates, forward electricity and power prices

**Networks**
The impairment review was based on the five-year medium-term plan and included assumptions about the level of premium to be achieved on regulated asset value (RAV), the outcome of the Distribution Price Control Review and the discount rate to be applied An impairment of £0 8m was recognised during the year to write off all the goodwill recognised in connection with a previous acquisition by one of the Company's subsidiary companies

NOTES TO THE FINANCIAL STATEMENTS continued

## 18. Other intangible assets

| GROUP | EU Emissions Trading Certificates £m | IT Software £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 63 2 | 194 5 | **257 7** |
| Additions | 158 4 | 25 5 | **183.9** |
| Disposals | (63 2) | (0 1) | **(63.3)** |
| **At 1 January 2007** | **158.4** | **219.9** | **378.3** |
| Additions | 145 5 | 11 8 | **157.3** |
| Disposals | (158 4) | (0 2) | **(158.6)** |
| **At 31 December 2007** | **145 5** | **231.5** | **377.0** |
| **Amortisation** | | | |
| At 1 January 2006 | - | (83 2) | (83 2) |
| Charge for the year | - | (21 4) | (21 4) |
| **At 1 January 2007** | - | **(104 6)** | **(104 6)** |
| Charge for the year | - | (23 9) | **(23.9)** |
| Disposals | - | 0 2 | **0.2** |
| **At 31 December 2007** | - | **(128.3)** | **(128.3)** |
| **Carrying amount** | | | |
| **At 31 December 2007** | **145.5** | **103 2** | **248.7** |
| At 31 December 2006 | 158 4 | 115 3 | 273 7 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 18. Other intangible assets continued

| COMPANY | EU Emissions Trading Certificates £m | IT Software £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| Cost at 1 January 2006 | **63.2** | **142.0** | **205 2** |
| Additions | 158 4 | 3 1 | **161.5** |
| Disposals | (63 2) | (109 2) | **(172.4)** |
| **At 1 January 2007** | **158.4** | **35.9** | **194.3** |
| Additions | 145 5 | 7 6 | **153.1** |
| Disposals | (158 4) | - | **(158.4)** |
| **At 31 December 2007** | **145.5** | **43.5** | **189 0** |
| **Amortisation** | | | |
| Cost at 1 January 2006 | - | (76 2) | **(76.2)** |
| Charge for the year | - | (4 7) | **(4.7)** |
| Disposals | - | 62 9 | **62.9** |
| **At 1 January 2007** | **-** | **(18.0)** | **(18 0)** |
| Charge for the year | **-** | (6 2) | **(6 2)** |
| **At 31 December 2007** | **-** | **(24.2)** | **(24.2)** |
| **Carrying amount** | | | |
| **At 31 December 2007** | **145.5** | **19.3** | **164 8** |
| At 31 December 2006 | 158 4 | 17 9 | 176 3 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 19. Property, plant and equipment

| GROUP | Land and Buildings | Network Assets | Generation Assets | Motor Vehicles | Equipment and fittings | Assets in the course of construction | Total |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | **£m** |
| **Cost** | | | | | | | |
| At 1 January 2006 | 409 4 | 5,933 9 | 1,353 3 | 30 1 | 272 8 | 53 6 | **8,053 1** |
| Additions | 34 4 | 434 8 | - | (0 1) | 13 3 | 127 8 | **610 2** |
| Transfers | (12 1) | 10 7 | 72 7 | 14 4 | 37 8 | (123 5) | - |
| Transfers to assets held for sale | (2 6) | - | - | - | - | - | **(2 6)** |
| Transfers from assets held for sale | 4 1 | - | - | - | - | - | **4.1** |
| Disposals | 0 1 | (13 5) | (21 2) | (4 7) | (0 8) | 3 2 | **(36.9)** |
| **At 1 January 2007** | **433.3** | **6,365 9** | **1,404 8** | **39 7** | **323 1** | **61.1** | **8,627.9** |
| Additions | 49 7 | 585 4 | - | - | 12 8 | 153 1 | **801.0** |
| Transfers | 8 7 | 25 0 | 55 9 | 11 4 | 17 8 | (118 8) | - |
| Transfers to assets held within disposal group | - | - | - | (0 2) | (0 3) | - | **(0.5)** |
| Disposals | (0 9) | (40 2) | - | (7 5) | (4 8) | (0 4) | **(53.8)** |
| **At 31 December 2007** | **490 8** | **6,936 1** | **1,460.7** | **43 4** | **348 6** | **95.0** | **9,374.6** |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2006 | (115 9) | (998 0) | (299 0) | (5 4) | (219 1) | - | **(1,637.4)** |
| Charge for the year | (5 6) | (150 7) | (84 2) | (7 2) | (29 1) | - | **(276.8)** |
| Transfers | (0 8) | - | - | - | - | - | **(0.8)** |
| Transfers to assets held for sale | 0 5 | - | - | - | - | - | **0 5** |
| Disposals | 0 5 | 10 6 | 21 2 | 4 5 | 0 1 | - | **36 9** |
| **At 1 January 2007** | **(121.3)** | **(1,138 1)** | **(362 0)** | **(8.1)** | **(248 1)** | - | **(1,877.6)** |
| Charge for the year | (6 0) | (166 0) | (88 1) | (8 1) | (28 0) | - | **(296.2)** |
| Transfers | 0 4 | (5 2) | (0 3) | - | 5 1 | - | - |
| Transfers to assets held within disposal group | - | - | - | 0 1 | 0 2 | - | **0 3** |
| Disposals | - | 37 2 | 0 3 | 7 5 | 4 9 | - | **49.9** |
| **At 31 December 2007** | **(126.9)** | **(1,272.1)** | **(450.1)** | **(8.6)** | **(265.9)** | - | **(2,123 6)** |
| **Carrying amount** | | | | | | | |
| **At 31 December 2007** | **363 9** | **5,664 0** | **1,010 6** | **34.8** | **82 7** | **95.0** | **7,251.0** |
| At 31 December 2006 | 312 0 | 5,227 8 | 1,042 8 | 31 6 | 75 0 | 61 1 | 6,750 3 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 19. Property, plant and equipment continued

The carrying amount of the Group's generation assets includes an amount of £257 3m (2006 £277 1m) in respect of assets held under finance leases

| COMPANY | Land and Buildings | Equipment and fittings | Assets in the course of construction | **Total** |
|---|---|---|---|---|
| | £m | £m | £m | **£m** |
| **Cost** | | | | |
| At 1 January 2006 | 26 8 | 43 7 | - | **70.5** |
| Additions | - | - | 12 2 | **12 2** |
| Transfers | (12 0) | 20 1 | (8 1) | **-** |
| **At 1 January 2007** | **14 8** | **63.8** | **4.1** | **82 7** |
| Additions | - | - | 15 4 | **15 4** |
| Transfers | (7 0) | 13 5 | (6 5) | **-** |
| Disposals | - | (2 8) | - | **(2 8)** |
| **At 31 December 2007** | **7.8** | **74.5** | **13 0** | **95 3** |

| | Land and Buildings | Equipment and fittings | Assets in the course of construction | **Total** |
|---|---|---|---|---|
| | £m | £m | £m | **£m** |
| **Accumulated depreciation** | | | | |
| At 1 January 2007 | (1 8) | (26 1) | - | **(27 9)** |
| Charge for the year | (0 2) | (9 6) | - | **(9 8)** |
| **At 1 January 2007** | (2 0) | (35 7) | - | **(37 7)** |
| Charge for the year | - | (9 5) | - | **(9 5)** |
| Disposals | - | (4 4) | - | **(4 4)** |
| **At 31 December 2007** | **(2.0)** | **(49 6)** | - | **(51 6)** |
| **Carrying amount** | | | | |
| **At 31 December 2007** | **5 8** | **24.9** | **13.0** | **43.7** |
| At 31 December 2006 | 12 8 | 28 1 | 4 1 | 45 0 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 20. Non-current assets held for sale

Non-current assets held for sale related to properties and their associated fittings which were planned to be sold and were being actively marketed These properties were considered surplus to requirements and were sold within the year

| **GROUP** | Land and Buildings £m | Equipment and fittings £m | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2006 | 17 4 | 0 9 | **18.3** |
| Transfers from property, plant and equipment | 2 6 | - | **2.6** |
| Transfers to property, plant and equipment | (4 1) | - | **(4.1)** |
| Disposals | (13 3) | (0 9) | **(14 2)** |
| **At 1 January 2007** | **2 6** | - | **2.6** |
| Disposals | (2 6) | - | **(2.6)** |
| **At 31 December 2007** | - | - | - |

| | Land and Buildings £m | Equipment and fittings £m | **Total £m** |
|---|---|---|---|
| **Accumulated depreciation** | | | |
| At 1 January 2006 | (4 0) | (0 7) | **(4.7)** |
| Transfers from property, plant and equipment | (0 5) | - | **(0.5)** |
| Transfers to property, plant and equipment | 0 8 | - | **0.8** |
| Disposals | 3 2 | 0 7 | **3.9** |
| **At 1 January 2007** | (0 5) | - | **(0 5)** |
| Disposals | 0 5 | - | **0.5** |
| **At 31 December 2007** | - | - | - |
| **Carrying amount** | | | |
| **At 31 December 2007** | - | - | - |
| At 31 December 2006 | 2 1 | - | 2 1 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 21. Investments in subsidiary undertakings

| COMPANY | Shares £m | Loans £m | **Total £m** |
|---|---|---|---|
| At 1 January 2007 | 570 3 | 1,845 8 | **2,416.1** |
| Repayments of loans | - | (183 9) | **(183.9)** |
| **At 31 December 2007** | **570.3** | **1,661.9** | **2,232.2** |

Details on movements in loans are as follows

| | **Balance at 1 January 2007 £m** | **Decrease in loans £m** | **Balance at 31 December 2007 £m** |
|---|---|---|---|
| Loans to EDF Energy Networks (SPN) plc | 99 8 | (99 6) | **0 2** |
| Loans to EDF Energy (Services) Limited | 22 1 | (9 9) | **12 2** |
| Loans to EDF Energy Transport (Services) Limited | 1 2 | (0 6) | **0.6** |
| Loans to EDF Energy 1 Limited | 41 0 | - | **41 0** |
| Loans to EDF Energy (Energy Branch) plc | 171 0 | - | **171 0** |
| Loans to West Burton Property Limited | 383 8 | - | **383 8** |
| Loans to EDF Energy Customers plc | 105 7 | - | **105 7** |
| Loans to EDF Energy Customer Field Services (Metering) Limited | 0 3 | (0 3) | - |
| Loans to CSW Investments | 439 0 | - | **439.0** |
| Loans to Deltabrand Limited | 499 9 | - | **499.9** |
| Loans to The Barkantine Heat & Power Company Limited | | | |
| Loans to Kirkheaton Wind Limited | 4 2 | - | **4 2** |
| Loans to High Hedley Limited | 0 8 | - | **0 8** |
| Loans to EDF Energy Development plc | 1 0 | - | **1 0** |
| Loans to EDF Energy Networks (LPN) plc | 2 5 | - | **2 5** |
| | 73 5 | (73 5) | - |
| | **1,845.8** | **(183 9)** | **1,661 9** |

Accounts of all subsidiary companies are consolidated The principal undertakings at 31 December 2007, which are incorporated in Great Britain and are registered and operate in England and Wales (unless otherwise stated), are as follows

| Name of subsidiary | Proportion of ownership interest % | Proportion of voting power held % | Principal activity |
|---|---|---|---|
| 51° Limited* | 100% | 100% | Telecommunication networks |
| CSW Investments* | 100% | 100% | Holding company |
| Ealing Lighting (Finance) Limited* | 100% | 100% | Street lighting contractor |
| Ealing Lighting Limited | 100% | 100% | Electrical contracting |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 21. Investments in subsidiary undertakings continued

| Name of subsidiary | Proportion of ownership interest % | Proportion of voting power held % | Principal activity |
|---|---|---|---|
| EDF Energy Customer Field Services (Data) Limited * | 100% | 100% | Meter reading and related services |
| EDF Energy Customer Field Services (Metering) Limited | 100% | 100% | Meter operations and related services |
| EDF Energy (Asset Management) Limited * | 100% | 100% | Investment company |
| EDF Energy (Contract Services) Limited * | 100% | 100% | Maintenance of distribution networks |
| EDF Energy (Cottam Power) Limited * | 100% | 100% | Provision and supply of electricity generation |
| EDF Energy (Energy Branch) plc | 100% | 100% | Investment in electricity generation |
| EDF Energy (Enterprises) Limited | 100% | 100% | Investments in commercial projects |
| EDF Energy (London Heat & Power) Limited * | 100% | 100% | Generation and supply of electricity and heat |
| EDF Energy (Metro Holdings) Limited * | 100% | 100% | Investment company |
| EDF Energy (Northern Offshore Wind) Limited * | 100% | 100% | Development of generation and supply |
| EDF Energy (Powerlink Holdings) Limited * | 100% | 100% | Investment company |
| EDF Energy (Projects) Limited * | 100% | 100% | Investment company |
| EDF Energy (Services) Limited | 100% | 100% | Electricity distribution project |
| EDF Energy (South East Generation) Limited * | 100% | 100% | Holding company |
| EDF Energy (South East) plc * | 100% | 100% | Holding company |
| EDF Energy (South Eastern Services) Limited * | 100% | 100% | Property management |
| EDF Energy (Sutton Bridge Holdings) Limited * | 100% | 100% | Investment in power generation company |
| EDF Energy (Sutton Bridge Power ) * | 100% | 100% | Provision and supply of electricity generation |
| EDF Energy (Transport Services) Limited | 100% | 100% | Provision and supply of transport services |
| EDF Energy (West Burton Power) Limited* | 100% | 100% | Power generation |
| EDF Energy Networks (EPN) plc | 100% | 100% | Management of distribution network |
| EDF Energy Networks (LPN) plc | 100% | 100% | Management of distribution network |
| EDF Energy Networks (SPN) plc * | 100% | 100% | Management of distribution network |
| EDF Energy Networks Limited | 100% | 100% | Maintenance of distribution networks |
| Green Electron Limited | 100% | 100% | Investment company |
| High Hedley Hope Wind Limited* | 100% | 100% | Renewable power generation |
| Islington Lighting Limited* | 100% | 100% | Electrical contracting |
| Islington Lighting (Finance) Limited* | 100% | 100% | Investment company |
| Kirkheaton Wind Limited* | 75% | 75% | Renewable power generation |
| Knight Debt Recovery Services Limited | 100% | 100% | Debt collection and tracing |
| EDF Energy Group ESPS Trustees Limited | 100% | 100% | Trustees of employee benefits |
| London Electricity Share Scheme Trustees Limited | 100% | 100% | Trustees of employee share and benefits funds |
| EDF Energy Customers plc * | 100% | 100% | Electricity retailing |
| EDF Insurance Limited (Guernsey) | 100% | 100% | Insurance |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 21. Investments in subsidiary undertakings continued

| Name of subsidiary | Proportion of ownership interest % | Proportion of voting power held % | Principal activity |
|---|---|---|---|
| London Power SB Limited* | 100% | 100% | Investment in power generation company |
| Longfield Insurance Company Limited* (Isle of Man) | 100% | 100% | Insurance |
| Norfolk Offshore Wind Limited * | 100% | 100% | Development of generation and supply |
| Seeb Limited* | 100% | 100% | Investment company |
| EDF Energy Contracting Limited * | 100% | 100% | Electrical contracting |
| SEEBOARD Employment Services Limited* | 100% | 100% | Management company |
| SEEBOARD Energy Gas Limited* | 100% | 100% | Gas supply |
| SEEBOARD Energy Limited* | 100% | 100% | Energy supply |
| EDF Energy (Development) plc * | 100% | 100% | Holding company |
| SEEBOARD Highway Lighting No 2 Limited* | 100% | 100% | Holding company |
| SEEBOARD Highway Lighting No 3 Limited* | 100% | 100% | Holding company |
| SEEBOARD Highway Lighting No 4 Limited* | 100% | 100% | Holding company |
| SEEBOARD Highway Services Limited* | 100% | 100% | Holding company |
| | 100% | 100% | |
| SEEBOARD International Limited* | | | Investment company |
| SEEBOARD Metering Limited* | 100% | 100% | Investment company |
| SEEBOARD Natural Gas* | 100% | 100% | Investment company |
| EDF Energy Powerlink Limited* | 80% | 80% | Asset management |
| SEEBOARD Trading Limited * | 100% | 100% | Investment company |
| Southern Gas Limited* | 100% | 100% | Investment company |
| Sutton Bridge Financing Limited* (Cayman Islands) | 100% | 100% | Financial activities |
| Sutton Bridge Investors * | 100% | 100% | Investment in power generation company |
| The Barkantine Heat & Power Company Limited* | 100% | 100% | Generation and supply of electricity and heat |
| EDF Energy 1 Limited | 100% | 100% | Marketing and supply of electricity and gas |
| EDF Energy Homephone Limited | 100% | 100% | Telecoms retailing |
| West Burton Property Limited* | 100% | 100% | Power generation |
| Deletepicnic Limited | 100% | 100% | Holding company |
| Dorset Lighting (Finance) Limited* | 100% | 100% | Street lighting contractor |
| Dorset Lighting Limited* | 100% | 100% | Electrical contracting |

* Held indirectly

## NOTES TO THE FINANCIAL STATEMENTS continued

### 22. Interests in associates

| | 2007 £m | 2006 £m |
|---|---|---|
| Cost of investment in associates | **81.1** | 41 1 |
| Share of post-acquisition gains net of dividend | **64 7** | 61 8 |
| Total investment | **145 8** | 102 9 |
| Provision for impairment | **(88.2)** | (50 0) |
| Carrying value of associates | **57.6** | 52 9 |

| Aggregated amounts relating to associates | 2007 £m | 2006 £m |
|---|---|---|
| Total assets | **618.9** | 528 9 |
| Total liabilities | **(561.3)** | (476 0) |
| Revenues | **137.8** | 793 4 |
| Loss | **(31.4)** | (20 6) |

Details of the Group's associates at 31 December 2007 are as follows

| Name of associate | Place of incorporation and operation | Proportion of ownership interest % | Proportion of voting power held % | Method used to account for investment |
|---|---|---|---|---|
| Metronet SSL Limited | Great Britain | 20 0% | 20 0% | Equity |
| Metronet BCV Limited | Great Britain | 20 0% | 20 0% | Equity |
| Barking Power Limited | Great Britain | 18 6% | 25% | Equity |
| Thames Valley Power Limited | Great Britain | 50 0% | 50 0% | Equity |

All associates are held indirectly

On 18 July 2007, Metronet Rail BCV Limited and Metronet Rail SSL Limited entered PPP administration In 2007, EDF Energy increased its provision from £50 0m to £115 0m relating to the Metronet contracts which covers the equity and debt investments, as well as trading balances £88 2m of this provision has been included against the value of associates The loss for the year includes £38 2m relating to the impairment provision arising when Metronet entered administration The remaining amount of the provision has been included against specific balances, including provisions, where appropriate Further details relating to Metronet entering administration are contained within the Directors' Report

### 23. Interests in joint ventures

The Group has the following significant interests in joint ventures

| Name of joint venture | Place of incorporation and operation | Proportion of ownership interest % | Proportion of voting power held % |
|---|---|---|---|
| Power Asset Development Company Limited | Great Britain | 50 0% | 50 0% |
| Trans4m Limited | Great Britain | 25 0% | 25 0% |
| SABCO | Unincorporated | 50 0% | 50 0% |
| SOLVe | Unincorporated | 50 0% | 50 0% |
| MUJV Limited | Great Britain | 49 9% | 49 9% |
| EDF Energy Renewables Limited | Great Britain | 50 0% | 50 0% |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 23 Interests in joint ventures continued

The share of the assets, liabilities, revenue and expenses of the joint ventures which are included in the consolidated financial statements, via proportionate consolidation, are as follows

| | 2007 £m | 2006 £m |
|---|---|---|
| Current assets | **21.3** | 52 9 |
| Non-current assets | **70.1** | 81 0 |
| | **91.4** | 133 9 |
| Current liabilities | **(23.6)** | (141 3) |
| Non-current liabilities | **(59 5)** | - |
| | **8 3** | (7 4) |
| Revenue | **111 6** | 104 7 |
| Cost of sales | **(96 8)** | (104 7) |
| Administrative expenses | **(4 7)** | (1 5) |
| Finance (costs)/income | **(4.5)** | 0 2 |
| Gain/(loss) before income tax | **5.6** | (1 3) |
| Income tax credit | **1.0** | 0 6 |
| Net profit/(loss) | **6.6** | (0 7) |

The Group's share in Trans4m Limited (trading as "Metronet Alliance") has been accounted for as a joint venture because there is joint control, evidenced by the requirement for unanimous consent of all four venturers for the strategic and operating decisions of the company

### 24 Investments

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2007 £m | 2006 £m | 2007 £m | 2006 £m |
| **Loans receivable carried at amortised cost** | | | | |
| Amounts receivable from joint ventures | **0 6** | 2 0 | - | - |
| Amounts receivable under PFI contracts | - | 12 6 | - | - |
| Amounts receivable from associates | - | 8 0 | - | - |
| Other receivables | **0 1** | 1 0 | - | - |
| **Investment carried at cost** | | | | |
| Investment in London & Continental Railways | - | 2 5 | - | 2 5 |
| **Total non current investments** | **0.7** | 26 1 | - | 2 5 |
| **Investment carried at cost** | | | | |
| Investment in London & Continental Railways | **0.5** | - | **0 5** | - |
| **Total current investments** | **0.5** | - | **0.5** | - |
| | **1.2** | 26 1 | **0.5** | 2 5 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 24 Investments continued

Investments include equity investments and loans in other companies where the Group does not exercise significant influence or control The amounts receivable from joint ventures is carried net of a £5 0m provision for impairment (2006 £nil)

The investment in London & Continental Railways is carried at cost because there is no active market and its fair value cannot be reliably measured These shares will be redeemed in 2008 and hence the investment has been re-classified as a current investment in 2007 The decrease in value during the year arose due to the redemption of some preference shares in 2007

### 25. Finance lease receivables

The Group is involved with several long-term contracts for the construction of assets which will be transeferred on completion to third parties These contracts have been accounted for as finance lease contracts in accordance with IFRIC 4 Future minimum lease receipts under finance leases together with the present value of the net minimum lease payments are as follows

| | **Minimum lease payments** | | **Net investment in finance leases** | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| Amounts receivable under finance leases | | | | |
| Within one year | **57 5** | 99 2 | **40.7** | 47 3 |
| After one year but not more than five years | **276.2** | 473 9 | **185.4** | 167 8 |
| More than five years | **2,845.8** | 5,946 4 | **182.8** | 164 2 |
| | **3,179.5** | 6,519 5 | **408.9** | 379 3 |
| Less Unearned future finance income on finance leases | **(2,770.6)** | (6,140 2) | **n/a** | n/a |
| Present value of minimum lease payments receivable | **408.9** | 379 3 | **408.9** | 379 3 |
| Analysed as | | | | |
| Non-current finance lease receivables (recoverable after more than 12 months) | | | **40.7** | 47 3 |
| Current finance lease receivables (recoverable after more than 12 months) | | | **368 2** | 332 0 |
| | | | **408 9** | 379 3 |

An average effective rate of return of 8 8% (2006 12 0%) is generated by the finance lease debtors

### 26 Inventories

| | **GROUP** | | **COMPANY** | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| Raw materials and consumables | **168.7** | 233 8 | **135 5** | 209 3 |
| Work in progress | **34.6** | 41 9 | **-** | - |
| | **203 3** | 275 7 | **135 5** | 209 3 |

None of the inventories has any exposure to changes in interest rate in the current or the preceding year

## NOTES TO THE FINANCIAL STATEMENTS continued

### 27 Trade and other receivables

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Trade receivables (i) | **801.7** | 733 1 | **116.5** | 23 4 |
| Allowance for doubtful debts (ii) | **(166.6)** | (74 2) | **-** | (0 1) |
| Amounts due under long-term contracts (note 28) | **16.7** | 11 6 | **-** | - |
| Unbilled revenue | **650 8** | 703 8 | **-** | - |
| Amounts owed by other group companies | **233.0** | 251 4 | **674.2** | 1,770 8 |
| Corporation tax (Group payments) | **-** | - | **339.1** | 179 8 |
| Other debtors | **78.5** | 56 9 | **12.3** | 20 4 |
| Pension reimbursement rights asset (note 43) | **5 7** | 12 4 | **-** | - |
| | **1,619 8** | 1,695 0 | **1,142.1** | 1,994 3 |

(i) The majority of trade receivables are non-interest bearing and are generally on 14-day terms for residential customers Interest is applied to major accounts when the accounts become overdue For further information relating to related party receivables, refer to note 45 Included in the value of other debtors for the Group, is £4 1m relating to value added taxation ("VAT") (2006 £13 7m liability included within trade and other payables) The VAT receivable and payable is remitted to the appropriate tax body on a quarterly basis The Directors consider that the carrying amount of trade and other receivables approximates their fair value

Included within the Group's trade receivables balance are debtors with a carrying value of £405 7m (2006 £372 6m) which are overdue at the reporting date The average age of these debts is 106 days (2006 99 days) The Company has £2 7m of overdue balances (2006 £1 3m) with an average age of 1,027 days (2006 300 days) Provisions have been established against these balances to the extent that they are not considered recoverable, and in accordance with the Group's policy on bad debt provisioning See note 44 for further details on bad debt provisions and credit risks

(ii) Movement in the allowance for doubtful debts

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Opening balance | **74 2** | 67 3 | **0.1** | - |
| Amounts recovered during the year | **(4 3)** | (2 4) | **-** | - |
| Increase/ (decrease) in allowance recognised in profit or loss | **96.7** | 9 3 | **(0.1)** | 0 1 |
| Balance at end of year | **166 6** | 74 2 | **-** | 0 1 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 28 Long-term contracts

| | GROUP | |
|---|---|---|
| | **2007** | 2006 |
| | **£m** | £m |
| Contracts in progress at balance sheet date | | |
| Amounts due from contract customers included in trade and other receivables (note 27) | **16.7** | 11 6 |
| Amounts due to contract customers included in other liabilities (note 30) | **(61.3)** | (51 8) |
| | **(44.6)** | (40 2) |
| Contract costs incurred plus recognised profits less recognised losses to date | **499.7** | 391 9 |
| Less progress billings | **(544.3)** | (432 1) |
| | **(44.6)** | (40 2) |

There are a number of long-term private finance initiative ("PFI") and public private partnership ("PPP") contracts within the Group The Powerlink contract which ends in 2028 is part of a PFI consortium which includes the refurbishment of the legacy infrastructure assets for London Underground The Allenby contract is a PFI electrical infrastructure contract with the Ministry of Defence, ending in 2041 The Metronet Alliance contract formed part of the overall Metronet PPP contract with London Underground (see note 22) Inflation rate risk arises from these long-term contracts because revenue streams are generally based on the retail price index and index of average earnings, but costs generally rise based on the construction price index

Revenue under long-term contracts amounted to £109 5m in 2007, and £160 1m in 2006

There are no such long-term contracts within the Company

### 29 Cash and cash equivalents

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Cash at bank and in hand | **118.1** | 100 9 | **667 5** | - |
| Short-term deposits | **75.7** | 65 4 | **1.9** | - |
| | **193.8** | 166 3 | **669 4** | - |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates The fair value of cash and cash equivalents is £193 8m (2006 £166 3m)

At 31 December 2007, the Group had available £687 2m (2006 £460 0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met

## NOTES TO THE FINANCIAL STATEMENTS continued

### 29. Cash and cash equivalents continued

For the purpose of the cash flow statement the cash and cash equivalents are

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| Cash at bank and in hand | **118.1** | 100 9 | **667 5** | - |
| Bank overdrafts | - | - | - | (514 4) |
| Short-term deposits | **75.7** | 65 4 | **1.9** | - |
| Cash and equivalents | **193 8** | 166 3 | **669 4** | (514 4) |

The Group cash balance includes £48 3m (2006 £50 8m) of cash which must be maintained as a minimum cash balance in some entities, in accordance with contractual obligations with financial institutions There were no restrictions in place over the Company's cash balances in 2007 or 2006, and amounts owed, shown above, are repayable on demand

### 30 Other liabilities

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| Trade creditors | **961 4** | 846 6 | **645 7** | 574 5 |
| Amounts due under long-term contracts (note 28) | **61.3** | 51 8 | - | - |
| Other payables | **632.6** | 632 2 | **27 6** | 36 2 |
| Deferred income due within one year | **53.9** | 44 5 | - | - |
| Interest payable | **78.1** | 76 6 | **4 8** | 3 5 |
| Amount owed to intermediate parent companies | **62.8** | - | **62.8** | - |
| Amounts owed to other Group companies | - | - | **268.2** | 713 0 |
| Total other liabilities recoverable within 1 year | **1,850.1** | 1,651 7 | **1,009.1** | 1,327 2 |
| Deferred income – non current | **1,377.2** | 1,251 4 | - | - |
| Total other liabilities | **3,227.3** | 2,903 1 | **1,009 1** | 1,327 2 |

For further information regarding related party payables refer note 45

Trade payables are non-interest bearing and are normally settled on 60-day terms, with the exception of energy purchases which are usually settled on market terms within 14 days Other payables are non-interest bearing Deferred income includes the consumer contributions of £1,366 6m (2006 £1,244 3m) towards distribution network assets which are credited to the income statement over the lives of the distribution network assets to which they relate

## NOTES TO THE FINANCIAL STATEMENTS continued

### 31 Borrowings

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| **Current** | | | | |
| Short-term borrowing (iv) | **1,768 1** | 1,281 6 | **1,610.0** | 1,195 3 |
| Bank overdraft | **-** | - | **-** | 514 4 |
| PADCO loan (ii) | **2 7** | 58 1 | **-** | - |
| Sutton Bridge bonds due June 2022 (i) | **17.2** | 26 8 | **-** | - |
| Securitisation (iii) | **50.0** | 340 0 | **-** | - |
| | **1,838 0** | 1,706 5 | **1,610.0** | 1,709 7 |
| **Non-current** | | | | |
| €500m 4 375% Eurobond due December 2010 (v) | **367.1** | 336 9 | **367.1** | 336 9 |
| £200m 8 75% Eurobond due March 2012 | **216.9** | 221 0 | **-** | - |
| Sutton Bridge bonds due June 2022 (i) | **188.1** | 195 9 | **-** | - |
| £50m Index Linked Bond due June 2023 (v) | **57 5** | 55 0 | **-** | - |
| £300m 5 75% Bonds due 2024 (v) | **348.9** | 348 8 | **-** | - |
| £200m 8 5% Eurobond due March 2025 | **252.8** | 255 9 | **-** | - |
| £300m 5 5% Eurobond due June 2026 (v) | **297.0** | 296 9 | **-** | - |
| £300m 6 125% Bonds due June 2027 (v) | **305.3** | 305 6 | **-** | - |
| £150m 3 125% Index Linked Bonds due June 2032 (v) | **175 0** | 167 2 | **-** | - |
| PADCO loan (ii) | **51 6** | - | **-** | |
| Other | **-** | 15 9 | **-** | - |
| | **2,260.2** | 2,199 1 | **367.1** | 336 9 |
| Total borrowings | **4,098.2** | 3,905 6 | **1,977.1** | 2,046 6 |

All borrowings are denominated in sterling and valued at amortised cost unless otherwise stated With the exception of the PADCO loan, the Sutton Bridge bonds and the Securitisation, the borrowings are unsecured

## NOTES TO THE FINANCIAL STATEMENTS continued

### 31. Borrowings continued

(i) The secured bonds which are guaranteed by Sutton Bridge Power Limited comprise two tranches of 25-year amortising bonds issued by Sutton Bridge Financing Limited The first tranche comprises a remaining principal of £128 2m (2006 £139 3m) at a fixed interest rate of 8 625 % The second tranche comprises a remaining principal amount of US$98 6m (2006 $107 2m) at a fixed interest rate of 7 97% The Group has entered into currency swap arrangements in order to convert the principal and interest payment on the bonds into sterling for periods up to maturity, see note 44 The bonds are secured by means of fixed and floating charges over substantially all 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 are made semi-annually in arrears on the bonds on 30 June and 31 December

(ii) The PADCO loan of £54 3m (2006 £58 1m) relates to EDF Energy plc's share of PADCO's drawn down loan facilities relating to PADCO construction contracts Loan facilities of £105m and £18m were entered into on 13 August 1998, secured by fixed and floating charges over PADCO's assets PADCO has commenced repayment by quarterly instalments Interest charged on the loans has been fixed to maturity under swap transaction arrangements at an interest rate of 6 0% per annum for the £105m facility and at an average of 5 4% for the £18m facility This was classified as short term in 2006, because PADCO had received two formal warnings from London Underground which gave the banks the right to call for instant repayment of the bonds Contracts have been re-negotiated and this is no longer the case

(iii) The Group has entered into a commercial paper securitisation programme involving the sale of unbilled and billed trade debtors to a trust Interest is charged on trade debtors securitised at a margin above LIBOR The total facility available is £350m, and amounts are repayable within 12 months of the securitisation of the associated debtor balance

(iv) The short-term borrowing includes £1,610 0m which relates to money borrowed under a facility extended to EDF Energy plc by EDF S A, the ultimate parent company This amount is a rolling facility, which is renewed on a monthly basis

(v) These bonds were all issued under the Group's medium-term notes programme In 2004, the Group consolidated two Medium-term notes programmes into a €4bn medium term note programme This programme is renewed on an annual basis Currently the Group has uncommitted lines available under this facility in the region of £1,600 0m

## NOTES TO THE FINANCIAL STATEMENTS continued

### 32 Derivative financial instruments

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| **Current** | | | | |
| **Derivatives that are designated as hedging instruments carried at fair value.** | | | | |
| Foreign currency forward contracts | **(3 2)** | (0 2) | **(3 2)** | - |
| **Derivatives that are designated as hedging instruments in a cash flow hedge·** | | | | |
| Commodity purchase contracts | **53.4** | (557 1) | **53.4** | (557 1) |
| Interest rate swap contracts | - | (0 3) | - | - |
| Foreign currency swap contracts | - | (1 4) | - | - |
| **Derivatives at fair value through income statement** | | | | |
| Commodity purchase contracts | **225.9** | (26 2) | **225.9** | (26 2) |
| **Total current derivative financial instruments** | **276.1** | (585 2) | **276 1** | (583 3) |
| **Split by:** | | | | |
| **Current assets** | **434.4** | 254 7 | **434.4** | 254 7 |
| **Current liabilities** | **(158.3)** | (839 9) | **(158 3)** | (838 0) |
| **Non-current** | | | | |
| **Derivatives that are designated as hedging instruments carried at fair value.** | | | | |
| Foreign currency forward contracts | **7.9** | (0 2) | **7 9** | - |
| **Derivatives that are designated as hedging instruments in a cash flow hedge:** | | | | |
| Commodity purchase contracts | **95.2** | (211 9) | **95.2** | (211 9) |
| Interest rate swap contracts | **(2.1)** | (5 3) | - | - |
| Foreign currency swap contracts | **(4.7)** | (30 0) | **19.2** | (4 0) |
| **Derivatives at fair value through income statement:** | | | | |
| Commodity purchase contracts | **(8.0)** | 6 8 | **(8 0)** | 6 8 |
| **Total non-current derivative financial instruments** | **88.3** | (240 6) | **114.3** | (209 1) |
| **Split by·** | | | | |
| **Non-current assets** | **211.0** | 87 4 | **209.9** | 86 5 |
| **Non-current liabilities** | **(122.7)** | (328 0) | **(95.6)** | (295 6) |
| **Total derivative financial instruments** | **364.4** | (825 8) | **390.4** | (792 4) |

Further details of derivative financial instruments are provided in note 44 The change in fair value of derivatives classified at fair value through income statement is separately disclosed on the face of the income statement

## NOTES TO THE FINANCIAL STATEMENTS continued

### 33. Provisions for liabilities

The movements in provisions during the current year are as follows

| GROUP | At 1 January 2007 £m | Utilised in the year £m | Released in the year £m | Arising during the year £m | Unwinding of discount £m | **At 31 December 2007 £m** |
|---|---|---|---|---|---|---|
| Medway power contract | 67 0 | (33 2) | - | - | 11 2 | **45 0** |
| Obligations under EU emissions | 158 2 | (158 2) | - | 145 5 | - | **145 5** |
| Teesside power contract | 17 6 | (18 3) | - | - | 4 2 | **3.5** |
| Insurance | 28 0 | (3 1) | - | 3 2 | - | **28.1** |
| Decommissioning | 24 4 | - | - | - | 2 6 | **27.0** |
| Legal disputes | 7 5 | (0 6) | - | 1 2 | - | **8.1** |
| Onerous lease contracts | 4 4 | (0 5) | - | - | - | **3.9** |
| Restructuring costs | 1 0 | (0 8) | - | - | - | **0.2** |
| Rectification costs | 3 7 | - | - | 4 7 | - | **8.4** |
| Other costs | 1 4 | (0 3) | - | - | - | **1.1** |
| Dilapidations | - | - | - | 0 3 | - | **0.3** |
| Metronet | - | - | - | 16 3 | - | **16.3** |
| | 313 2 | (215 0) | - | 171 2 | 18 0 | **287 4** |

The provisions have been split as follows

| GROUP | **At 31 December 2007** | | | At 31 December 2006 | | |
|---|---|---|---|---|---|---|
| | **Current £m** | **Non-current £m** | **Total £m** | Current £m | Non-Current £m | Total £m |
| Medway power contract | **19.2** | **25.8** | **45 0** | 22 0 | 45 0 | 67 0 |
| Obligations under EU emissions | **145.5** | - | **145 5** | 158 2 | - | 158 2 |
| Teesside power contract | **3.5** | - | **3.5** | 14 2 | 3 4 | 17 6 |
| Insurance | **28.1** | - | **28.1** | 28 0 | - | 28 0 |
| Decommissioning | - | **27.0** | **27.0** | - | 24 4 | 24 4 |
| Legal disputes | **8 1** | - | **8.1** | 7 5 | - | 7 5 |
| Onerous lease contracts | **0 5** | **3.4** | **3.9** | 1 8 | 2 6 | 4 4 |
| Restructuring costs | **0 2** | - | **0.2** | 1 0 | - | 1 0 |
| Rectification costs | **2 7** | **5.7** | **8.4** | 3 7 | - | 3 7 |
| Other costs | **1 1** | - | **1.1** | 1 4 | - | 1 4 |
| Dilapidations | **0 3** | - | **0 3** | - | - | - |
| Metronet | **16.3** | - | **16.3** | - | - | - |
| | **225.5** | **61 9** | **287 4** | 237 8 | 75 4 | 313 2 |

**NOTES TO THE FINANCIAL STATEMENTS continued**

**33. Provisions for liabilities continued**

| COMPANY | At 1 January 2007 £m | Utilised in the year £m | Released in the year £m | Arising during the year £m | **At 31 December 2007 £m** |
|---|---|---|---|---|---|
| Onerous lease contracts | 4 4 | (0 5) | - | - | **3.9** |
| Obligations under EU emissions | 8 1 | (8 1) | - | 8 1 | **8.1** |
| Restructuring costs | 1 0 | (0 8) | - | - | **0.2** |
| Insurance | 0 3 | - | - | - | **0.3** |
| Other costs | 1 3 | - | - | - | **1.3** |
| Dilapidations | - | - | - | 0 3 | **0 3** |
| | 15 1 | (9 4) | - | 8 4 | **14.1** |

The provisions have been split as follows

| | **At 31 December 2007** | | | At 31 December 2006 | | |
|---|---|---|---|---|---|---|
| **COMPANY** | **Current £m** | **Non-Current £m** | **Total £m** | Current £m | Non-Current £m | Total £m |
| Onerous lease contracts | **0 5** | **3.4** | **3.9** | 1 8 | 2 6 | 4 4 |
| Obligations under EU emissions | **8.1** | **-** | **8.1** | 8 1 | - | 8 1 |
| Restructuring costs | **0.2** | - | **0.2** | 1 0 | - | 1 0 |
| Insurance | **0.3** | - | **0.3** | 0 3 | - | 0 3 |
| Other costs | **1.3** | **-** | **1.3** | 1 3 | - | 1 3 |
| Dilapidations | **0.3** | **-** | **0.3** | - | - | - |
| | **10.7** | **3 4** | **14.1** | 12 5 | 2 6 | 15 1 |

The Teesside power provision arose on the acquisition of the supply business of South Western Electricity The Medway power contract provisions resulted from the acquisition of SEEBOARD These provisions represent the difference between the contract price and the estimated market price of energy at the date of acquisition The discount rate used in arriving at the provisions was a risk adjusted rate The Teesside provision will unwind by end of 2008, and the Medway provision will unwind by the end of 2010

The provisions for obligations under EU emissions represents the additional certificates required to cover the Group's carbon emissions in excess of the free allocation of certificates It is expected that this provision will be utilised in 2008 because the Group is required to provide carbon certificates on an annual basis

The insurance provision is based on an assessment of the Group's known liabilities as at 31 December 2007 The provision is calculated by the Group's captive insurers, using various assumptions and is to cover the Group's estimated exposure on various motor, personal or claims against the networks business The provision is expected to be utilised within one year based on claim history

The decommissioning provision is to provide for the future costs of decommissioning Cottam, West Burton and Sutton Bridge power stations This provision has been calculated on a discounted basis with the discount unwound over the remaining period to decommissioning, between 2020 and 2030

The legal disputes provision relates to costs expected to be paid out under a number of ongoing legal cases Any uncertainties within the cases have been considered in the calculation of the provision These cases are all expected to be mainly settled during 2008

**NOTES TO THE FINANCIAL STATEMENTS continued**

**33 Provisions for liabilities continued**

The provision for onerous lease contracts represents the difference between the projected rental income from various properties and the amounts payable by the Group for those properties under currently existing contracts These are expected to be utilised between 2008 and 2014

The restructuring provision covers the costs of severance related to restructuring announced before 31 December 2007 The provision is expected to be utilised in 2008 Where individual redundancy packages have not yet been agreed, a provision has been created based on the range offered

The rectification provision covers the additional cost of work to be carried out in order to fulfil contractual obligations for contracts which have been completed This provision will be released between 2008 and 2012

The Metronet provision covers the additional costs likely to be incurred as a result of Metronet entering administration In total a £115 0m provision has been made relating to the activities of Metronet, this has been booked directly against associates, trade receivables, work in progress and associated tax balances, with the balance disclosed in provisions Any final adjustment is expected to be made in 2008

**34. Deferred tax**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period

| **GROUP** | Accelerated tax depreciation £m | Retirement benefit obligations £m | Fair value of derivative instruments £m | Other £m | **Total £m** |
|---|---|---|---|---|---|
| At 1 January 2006 | 934 5 | (94 5) | 115 1 | (8 2) | **946.9** |
| Charge to income | 45 8 | 22 6 | (19 0) | 0 7 | **50 1** |
| Credit to equity | - | - | (348 7) | - | **(348.7)** |
| Arising on acquisition | - | (1 5) | - | - | **(1.5)** |
| Reclassification | - | - | 10 7 | (10 7) | - |
| **At 1 January 2007** | **980 3** | **(73.4)** | **(241 9)** | **(18.2)** | **646.8** |
| Charge to income | (59 2) | 18 2 | 29 9 | 35 3 | **24 2** |
| Credit to equity | - | - | 312 3 | - | **312.3** |
| **At 31 December 2007** | **921 1** | **(55.2)** | **100 3** | **17.1** | **983.3** |

| **COMPANY** | Accelerated tax depreciation £m | Retirement benefit obligations £m | Fair value of derivative instruments £m | Other £m | **Total £m** |
|---|---|---|---|---|---|
| At 1 January 2006 | 6 5 | (4 6) | 125 2 | 5 9 | **133.0** |
| Charge to income | (2 8) | (0 5) | (19 0) | (4 9) | **(27.2)** |
| Charge to equity | - | - | (350 6) | - | **(350 6)** |
| **At 1 January 2007** | **3.7** | **(5.1)** | **(244 4)** | **1 0** | **(244 8)** |
| Credit to income | (3 2) | 13 6 | 44 8 | 4 4 | **59 6** |
| Credit to equity | - | - | 293 6 | - | **293.6** |
| Reclassification | - | - | 9 6 | (9 6) | - |
| **At 31 December 2007** | **0.5** | **8.5** | **103.6** | **(4.2)** | **108.4** |

See note 13 for an analysis of the charge in the year and prior year

## NOTES TO THE FINANCIAL STATEMENTS continued

### 34. Deferred tax continued

Certain deferred tax assets and liabilities have been offset The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes,

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2006** | 2006 |
| | **£m** | £m | **£m** | £m |
| Deferred tax assets | **(101 9)** | (333 5) | **(6 3)** | (250 6) |
| Deferred tax liabilities | **1,085.2** | 980 3 | **114 7** | 5 8 |
| **At 31 December** | **983.3** | 646 8 | **108 4** | (244 8) |

### 35. Minority interest

| | GROUP |
|---|---|
| | **£m** |
| At 1 January 2007 | **2 5** |
| Profit on ordinary activities after taxation | **0 2** |
| Additions | **0.7** |
| **At 31 December 2007** | **3.4** |

The minority interest arises from the Group's holdings in EDF Energy Powerlink Limited and London ESCO Limited The Group holds 80% of the shares in EDF Energy Powerlink Limited, with the other remaining 20% being held by Balfour Beatty plc and ABB Investments Limited The Group invested an 81% stake in London ESCO Limited during the year with the remaining stake being held by the London Development Agency The increase in minority interest during the year was due to EDF Energy Services Limited injecting additional capital into London ESCO Limited

### 36 Commitments

#### Capital and other commitments

At 31 December 2007, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £247 8m (2006 £191 0m) The Company had not entered into any contractual commitments for the purchase of property, plant and equipment (2006 £nil )

At 31 December 2007, the Group and the Company had contracted to purchase power, gas and other fuel to the value of £1,158 0m (2006 £ 1,335 2m)

## NOTES TO THE FINANCIAL STATEMENTS continued

### 36. Commitments continued

#### Operating lease commitments given

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows

| GROUP | **2007 £m** | 2006 £m |
|---|---|---|
| Within one year | **24.5** | 24 0 |
| After one year but not more than five years | **91.4** | 87 0 |
| More than five years | **206.0** | 194 1 |
| Future lease charges | **321.9** | 305 1 |

| COMPANY | **2007 £m** | 2006 £m |
|---|---|---|
| Within one year | **13 7** | 11 9 |
| After one year but not more than five years | **46.9** | 40 6 |
| More than five years | **76 9** | 68 1 |
| Future lease charges | **137.5** | 120 6 |

#### Operating lease commitments received

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows

| GROUP and COMPANY | **2007 £m** | 2006 £m |
|---|---|---|
| Within one year | **4.4** | 4 3 |
| After one year but not more than five years | **12.6** | 11 8 |
| More than five years | **10.3** | 10 5 |
| Future lease charges | **27.3** | 26 6 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 36. Commitments continued

#### Finance lease commitments

The Group has finance leases for various items of property, plant and machinery Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£m** | £m | **£m** | £m |
| Within one year | **34.2** | 33 9 | **13 2** | 12 5 |
| After one year but not more than five years | **146 4** | 143 7 | **73 3** | 67 8 |
| More than five years | **303 1** | 340 0 | **232 9** | 255 9 |
| | **483 7** | 517 6 | **319 4** | 336 2 |
| Less Future finance charges | **(164 3)** | (181 4) | **N/A** | N/A |
| Minimum lease payments | **319 4** | 336 2 | | |

The Group's finance lease commitments relate to the Cottam power station under a finance lease with another company within the EDF SA group The term of the lease is 13 years and has an effective interest rate of 6 7% (2006 6 4%) based on LIBOR rates Repayments under the lease are re-calculated quarterly and no arrangements have been entered into for contingent rental payments The lease is denominated in sterling

#### Financing commitments

The Group has committed to provide its share of further equity funding and subordinated debt to joint ventures and associates in respect of public finance initiative ("PFI") projects These commitments totalled £34 9m at 31 December 2007 (2006 £156 9m)

### 37 Contingent liabilities

The Company and certain subsidiary companies have given guarantees in respect of bonds relating to the Group's own contracts, and have given guarantees in respect of the Group's share of contractual obligations of associates and joint ventures

The Group has given a joint and several guarantee of Metronet Alliance's obligations under its contracts with Metronet BCV and SSL Under the terms of the contract, EDF Energy's maximum share of Metronet Alliance's obligations would be £117 2m A similar guarantee has been given relating to EDF Energy Contracting Limited's obligations under contract to Metronet BCV and SSL which has also been limited to a maximum of £44m The likelihood of transferring benefit under the terms of these guarantees is considered remote Therefore the overall provision against Metronet of £115 0m is considered the maximum exposure

The Group has given letters of credit to various associates and joint ventures The letter of credit granted to Metronet BCV and SSL was £29 0m (2006 £37 4m) These have been included within the Metronet provision

The Group has given guarantees in respect of the construction of certain National Grid assets relating to the Group's future construction of power plants A potential liability of £22 3m (2006 £7 7m) could arise as a result of these guarantees

## NOTES TO THE FINANCIAL STATEMENTS continued

### 38 Share capital

| GROUP and COMPANY | 2007 Number | 2006 Number | 2007 £m | 2006 £m |
|---|---|---|---|---|
| **Authorised** | | | | |
| Ordinary shares of £0 5833 each | **2,228,713,439** | 2,228,713,439 | **1,300.0** | 1,300 0 |
| Ordinary shares of £0 50 each | **300,000,002** | 300,000,002 | **150.0** | 150 0 |

| | 2007 Number | 2006 Number | 2007 £m | 2006 £m |
|---|---|---|---|---|
| **Allotted, called up and fully paid** | | | | |
| Ordinary shares of £0 5833 each | **2,222,739,164** | 2,222,739,164 | **1,296 6** | 1,296 6 |

The Company has one class of ordinary share in issue which carries no right to fixed income

### 39 Capital reserves

| GROUP | Share premium £m | Capital contribution £m | Redemption reserve £m | Total £m |
|---|---|---|---|---|
| At 1 January 2006 | 13 9 | 10 6 | 11 0 | **35 5** |
| At 31 December 2006 | 13 9 | 10 6 | 11 0 | **35.5** |
| Contribution arising on ACT2007 | - | (0 5) | - | **(0.5)** |
| **At 31 December 2007** | **13 9** | **10.1** | **11.0** | **35.0** |

| COMPANY | Share premium £m | Capital contribution £m | Redemption reserve £m | Total £m |
|---|---|---|---|---|
| At 1 January 2006 | 13 9 | 2 1 | 11 0 | **27.0** |
| At 31 December 2006 | 13 9 | 2 1 | 11 0 | **27.0** |
| Contribution arising on ACT2007 | - | (0 1) | - | **(0.1)** |
| **At 31 December 2007** | **13 9** | **2 0** | **11 0** | **26.9** |

The capital contribution represented the costs incurred in providing the favourable terms to employees in respect of shares in EDF as part of the initial public offering in 2005, see note 10 The change in the capital contribution during the year relates to the ACT2007 share scheme

## NOTES TO THE FINANCIAL STATEMENTS continued

### 40 Retained earnings

| | GROUP £m | COMPANY £m |
|---|---|---|
| At 1 January 2006 | **630.8** | **94.6** |
| Net profit for the year | 341 9 | 105 7 |
| Equity dividends paid (note 15) | (105 0) | (105 0) |
| **At 1 January 2007** | **867 7** | **95 3** |
| Profit for the year | 239 4 | 122 1 |
| Equity dividends paid (note 15) | (110 0) | (110 0) |
| **At 31 December 2007** | **997.1** | **107 4** |

### 41. Hedging reserve

| | GROUP £m | COMPANY £m |
|---|---|---|
| **At 1 January 2006** | 259 6 | 289 8 |
| Net losses on items in cash flow hedge | (1,153 4) | (1,168 8) |
| Deferred taxation on net losses in cash flow hedge | 348 7 | 350 6 |
| **At 1 January 2007** | **(545.1)** | **(528.4)** |
| Net gains on items in cash flow hedge | 1,057 9 | 1,046 0 |
| Deferred taxation on net gains in cash flow hedge | (312 3) | (293 6) |
| **At 31 December 2007** | **200.5** | **224 0** |

The hedging reserve represents the commodity price and foreign exchange movements on hedged contracts that are classified as cash flow hedges

The maturity analysis of the amounts included within the hedging reserve is as follows

| GROUP | 31 December 2007 £m | 31 December 2006 £m |
|---|---|---|
| Less than one year | **194.8** | (540 1) |
| Between one to five years | **90 0** | (223 6) |
| More than five years | **(4.7)** | (15 0) |
| Total gains/(losses) on hedged derivatives | **280 1** | (778 7) |
| Deferred taxation | **(79.6)** | 233 6 |
| Total | **200 5** | (545 1) |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 41. Hedging reserve continued

| COMPANY | 31 December 2007 £m | 31 December 2006 £m |
|---|---|---|
| Less than one year | **193.8** | (540 2) |
| Between one to five years | **97.3** | (214 7) |
| Total gains/(losses) on hedged derivatives | **291.1** | (754 9) |
| Deferred taxation | **(67.1)** | 226 5 |
| Total | **224.0** | (528 4) |

### 42. Notes to the cash-flow statement

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| Profit before taxation | **336 9** | 420 8 | **51 2** | 54 7 |
| Adjustments for | | | | |
| (Gain)/Loss on derivatives | **(103.9)** | 62 9 | **(103.9)** | 62 9 |
| Depreciation | **296.2** | 276 8 | **9.5** | 9 8 |
| Other losses | **(2.3)** | (3 4) | **(0.7)** | (0 6) |
| Amortisation of intangible assets | **23.9** | 21 4 | **6.2** | 4 7 |
| Finance cost | **232.3** | 199 9 | **(28.3)** | 6 2 |
| Gain on disposal of property, plant and equipment | **(8.9)** | (22 7) | **(8.2)** | (20 1) |
| (Decrease) in provisions | **(43.7)** | (48 2) | **(1 0)** | (5 4) |
| (Decrease)/increase in post-employment benefits | **(0.2)** | (18 2) | **2.3** | 0 3 |
| Impairment of goodwill | **0.8** | - | - | - |
| IFRS 2 share costs | **2 6** | - | **0.3** | - |
| Amortisation of customer contributions | **(41.3)** | (37 4) | - | - |
| Losses on Metronet | **25.5** | - | - | - |
| Operating cash flows before movements in working capital | **717 9** | 851 9 | **(72.6)** | 112 5 |
| Decrease/(increase) in inventories | **47 3** | (127 4) | **73.8** | (104 8) |
| (Increase)/decrease in receivables | **(7 4)** | (324 2) | **1,011.9** | (1,206 6) |
| Increase/(decrease) in payables | **269 7** | 282 9 | **(306.9)** | 284 3 |
| Cash generated by/(used in) operations | **1,027.5** | 683 2 | **706 2** | (914 6) |
| Pension deficit payment | **(47.9)** | (48 6) | **(3 0)** | (2 6) |
| Income taxes (paid)/received | **(112.3)** | 6 6 | **(29.1)** | 8 7 |
| Net cash from/(used in) operating activities | **867.3** | 641 2 | **674 1** | (908 5) |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 43 Retirement benefit schemes

The principal pension schemes of EDF Energy plc are the EDF Energy Pension Scheme (EEPS) and the EDF Energy Group of the Electricity Supply Pension Scheme (ESPS) Both of these schemes are defined benefit schemes On 1 September 2007 the EDF Energy Group of the ESPS was created by the merger of the Company's two ESPS Groups, the London Electricity Group of the ESPS and the SEEBOARD Group of the ESPS

The London Electricity group and SEEBOARD group of the ESPS closed to new employees in April 1994 and July 1995 respectively New employees were offered membership of the following schemes the SEEBOARD final Salary Pension Plan, the London Electricity 1994 Retirement Plan (LERP), the 24seven Group Personal Pension Plan (24seven GPP), and the SEEBOARD Pension Investment Plan The first of these schemes was a defined benefit scheme whilst all the others are defined contribution schemes The Group closed its non-ESPS pension arrangements with effect from 29 February 2004 A new scheme, the EDF Energy Pension Scheme, a final salary arrangement, replaced these for future service from 1 March 2004 A special contribution of £2 0m was made to the EDF Energy Pension Scheme at inception, and the regular ongoing employer's contribution has been assessed as 10% of pensionable pay This contribution rate will be reviewed as a result of future actuarial valuations

The majority of employees of EDF Energy Powerlink Limited are members of the LRT Pension Fund which is a defined benefit scheme and is operated by Transport for London ("TfL") The TFL pension scheme is a final salary scheme for eligible employees of Transport for London and its operating businesses which include London Underground EDF Energy Powerlink Limited contributes to the TfL scheme for those employees who were transferred to EDF Energy Powerlink Limited under the Transfer of Undertakings (Protection of Employment) Regulations, ("TUPE") The TfL pension scheme is a multi-employer scheme in which the assets and liabilities relative to each participating employer are separately identifiable Accordingly, the following disclosures relate only to the section of the scheme attributable to EDF Energy Powerlink Limited

Included in the Group's trade receivables is an amount which represents the reimbursement of the TfL pension liability This arises through the contractual obligation that London Underground Limited has with EDF Energy Powerlink Limited to reimburse any payments that are required of Powerlink to the scheme to fund a scheme deficit that exceed a set annual contribution of 16 2% of the gross annual salaries of the EDF Energy Powerlink employees who are members of the scheme

The latest full actuarial valuations of the EDF Energy Group of the ESPS and EEPS were carried out by Hewitt Bacon & Woodrow, consulting actuaries, as at 31 March 2007 The valuation was agreed on 25 January 2008 The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method The results of the latest full actuarial valuation as at 31 March 2006 of the TfL pension scheme, being carried out by Watson Wyatt, were used to determine the liability at 31 December 2007 and 2006

The principal financial assumptions used to calculate ESPS and EEPS liabilities under IAS 19 were

| | **31 December 2007 % p.a** | 31 December 2006 % p a |
|---|---|---|
| Discount rate | **6.0** | 5 2 |
| Inflation assumption | **3.3** | 3 1 |
| Rate of increase in salaries | | |
| - ESPS | **5.3** | 4 1 |
| - EEPS | **4.8** | 4 1 |
| Rate of increase of pensions increases | | |
| - full retail price indexation ("RPI") | **3.3** | 3 1 |
| - RPI up to 5% (EEPS – service to 31 March 2006) | **3.3** | 3 1 |
| - RPI up to 2 5% (EEPS – service from 31 March 2006) | **2.3** | 2 3 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 43. Retirement benefit schemes continued

The table below shows details of assumptions around mortality rates used to calculate the IAS19 ESPS liabilities

| | **31 December 2007 years** | 31 December 2006 years |
|---|---|---|
| Life expectancy for current future male pensioner aged 60 | **26.9** | 25 3 |
| Life expectancy for current future female pensioner aged 60 | **30.3** | 26 9 |
| Life expectancy for current future male pensioner aged 40 | **29.8** | 26 1 |
| Life expectancy for current future female pensioner aged 40 | **31.6** | 27 6 |

These assumptions are governed by IAS 19 and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2007, which determined the Group's contribution rate for future years

The expected return on assets are set based on advice given by the Group's actuaries and reflect the market expectations of the long-term rate of return of assets at the balance sheet date with gilts used as a benchmark

The principal financial assumptions used to calculate the TfL liability under IAS 19 were as follows,

| | **31 December 2007 % p.a.** | 31 December 2006 % p a |
|---|---|---|
| Discount rate | **5.9** | 5 1 |
| Inflation assumption | **3.1** | 3 1 |
| Rate of increase in salaries | **4.6** | 4 6 |
| Rate of increase of pensions increases RPI | **3.1** | 3 1 |

These assumptions are governed by IAS 19, and do not reflect the assumptions used by the independent actuary in the triennial valuation as at 31 March 2006, which determined the Powerlink contribution rate for future years

When an individual ceases to be an active member of the EDF section of the TfL pension scheme, the obligation to provide the pension benefits is transferred from the EDF section of the scheme, to a public sector section of the scheme At the same time, there is an associated transfer of assets from the EDF section to the public sector section The defined benefit obligations of the EDF section of the TfL pension scheme have been measured under IAS 19 using the assumptions in the above table for the period prior to the transfer of obligations, and the actual assumptions used to determine the assets transferred at the point of the transfer of obligations

## NOTES TO THE FINANCIAL STATEMENTS continued

### 43. Retirement benefit schemes continued

The amount recognised in the balance sheet in respect of the Group's defined benefit retirement benefit plan is as follows

| GROUP | ESPS 2007 | EEPS 2007 | TfL 2007 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Present value of defined benefit obligations | (2,705 9) | (143 1) | (34 3) | **(2,883.3)** | (2,765 4) |
| Fair value of scheme assets | 2,460 4 | 132 0 | 34 9 | **2,627.3** | 2,437 8 |
| (Deficit) / surplus in scheme | (245 5) | (11 1) | 0 6 | **(256 0)** | (327 6) |
| Unrecognised actuarial losses / (gains) | 68 9 | (9 0) | (6 3) | **53.6** | 70 4 |
| **Liability recognised in the balance sheet** | (176 6) | (20 1) | (5 7) | **(202.4)** | (257 2) |

This amount is presented in pension liabilities The TfL amount is recoverable from LUL and is shown in note 27

The Group has an employee benefits reimbursement right asset connected to the TfL pension scheme This arises through the contractual obligation that London Underground Limited has with the EDF Energy Powerlink Limited to reimburse any payments that are required of Powerlink by the scheme that exceed a set annual contribution of 16 2% of the gross annual salaries of the EDF Energy Powerlink employees who are members of the scheme

Amounts recognised in expenses in respect of these defined benefit schemes are as follows

| GROUP | ESPS 2007 | EEPS 2007 | TfL 2007 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Current service cost | 33 1 | 23 1 | 1 8 | 58 0 | 59 0 |
| Interest cost | 135 0 | 5 0 | 2 2 | 142 2 | 122 4 |
| Expected return on scheme assets | (149 0) | (5 0) | (2 0) | (156 0) | (149 0) |
| Actuarial losses | - | - | - | - | 1 0 |
| Commutation credit arising on change in pension scheme rules | - | - | - | - | (9 0) |
| Changes arising on curtailments/settlements | 1 0 | - | - | 1 0 | 2 5 |
| Pension levy | - | - | - | - | (0 2) |
| **Total operating cost** | 20 1 | 23 1 | 2 0 | 45 2 | 26 7 |

Of the charge for the year £59 0m (2006 - £53 3m) has been included in personnel costs and an income of £13 8m (2006 - £26 6m) has been included in interest The movement in the pension deficit during the year was less than the 10% corridor and has not been recognised in the income statement The amount of the unrecognised loss in 2007 was £53 6 (2006 £70 4m)

The costs of the TfL pension have all been recharged to London Underground Limited through the pension reimbursement rights asset (see note 27) and hence have no net impact on the income statement

**NOTES TO THE FINANCIAL STATEMENTS continued**

**43. Retirement benefit schemes continued**

Movements in the present value of defined obligations in the current period were as follows

| | ESPS 2007 £m | EEPS 2007 £m | TfL 2007 £m | Total 2007 £m | Total 2006 £m |
|---|---|---|---|---|---|
| At 1 January | 2,639 8 | 82 0 | 43 6 | **2,765.4** | 2,672 7 |
| Service cost | 33 1 | 23 1 | 1 8 | **58.0** | 59 0 |
| Changes arising on curtailments/settlements | 1 0 | - | - | **1 0** | 2 5 |
| Interest cost | 135 0 | 5 0 | 2 2 | **142.2** | 122 4 |
| Actuarial loss / (gain) | 7 0 | (8 0) | (10 3) | **(11.3)** | (6 0) |
| Obligation on transfers in | - | - | - | **-** | (3 0) |
| Commutation credit arising on change in pension scheme rules | - | - | - | **-** | (9 0) |
| Bulk transfers in | - | 33 0 | - | **33 0** | 18 0 |
| Pension Levy | - | - | - | **-** | (0 2) |
| Benefits paid | (110 0) | 8 0 | (3 0) | **(105.0)** | (91 0) |
| At 31 December | 2,705 9 | 143 1 | 34 3 | **2,883 3** | 2,765 4 |

Movements in the present value of fair value of scheme assets in the current period were as follows

| | ESPS 2007 £m | EEPS 2007 £m | TfL 2007 £m | Total 2007 £m | Total 2006 £m |
|---|---|---|---|---|---|
| At 1 January | 2,342 0 | 69 0 | 26 8 | **2,437.8** | 2,242 8 |
| Expected return on scheme assets | 149 0 | 5 0 | 2 0 | **156.0** | 149 0 |
| Actuarial gains | 4 0 | 1 0 | 0 5 | **5 5** | 25 2 |
| Contributions by employer | 75 4 | 16 0 | 8 6 | **100.0** | 93 8 |
| Bulk transfers in | - | 33 0 | - | **33.0** | 18 0 |
| Benefits paid | (110 0) | 8 0 | (3 0) | **(105.0)** | (91 0) |
| At 31 December | 2,460 4 | 132 0 | 34 9 | **2,627.3** | 2,437 8 |

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

| | **Expected return** | | | | **Fair value of assets** | | | |
|---|---|---|---|---|---|---|---|---|
| | **ESPS EEPS 2007 %** | **TfL 2007 %** | ESPS EEPS 2006 % | TFL 2006 % | **ESPS 2007 £m** | **EEPS 2007 £m** | **TfL 2007 £m** | Total 2006 £m |
| Gilts - fixed | **4.6** | - | 4 5 | - | **602.0** | **-** | **-** | 643 0 |
| - index linked | **4 5** | - | 4 5 | - | **321 0** | **-** | **-** | 292 0 |
| Equities | **8.2** | **8.3** | 8 2 | 8 2 | **1,114 4** | **74 0** | **19 8** | 1,186 5 |
| Property | **7 2** | - | 7 2 | - | **57.0** | **-** | **-** | 64 0 |
| Corporate bonds | **5 4** | **5.0** | 5 0 | 4 7 | **234.0** | **41.0** | **12.5** | 203 9 |
| Cash | **5.4** | - | 5 2 | - | **132.0** | **17 0** | **-** | 46 0 |
| Other | - | **4.4** | - | 4 6 | **-** | **-** | **2.6** | 2 4 |
| | | | | | **2,460 4** | **132.0** | **34.9** | 2,437 8 |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 43. Retirement benefit schemes continued

The history of experience adjustments is as follows

| | ESPS 2007 £m | EEPS 2007 £m | TfL 2007 £m | Total 2007 £m | Total 2006 £m | Total 2005 £m | Total 2004 £m |
|---|---|---|---|---|---|---|---|
| Present value of defined benefit obligations | (2,705 9) | (143 1) | (34 3) | **(2,883.3)** | (2,765 4) | (2,631 5) | (2,303 0) |
| Fair value of scheme assets | 2,460 4 | 132 0 | 34 9 | **2,627.3** | 2,437 8 | 2,220 0 | 1,875 0 |
| Deficit in the scheme | (245 5) | (11 1) | 0 6 | **(256 0)** | (327 6) | (411 5) | (428 0) |
| Experience adjustments on scheme liabilities | (121 0) | - | (0 9) | **(121 9)** | (6 0) | (238 0) | (125 0) |
| Percentage of scheme liabilities (%) | 4 5% | - | 2 6% | **4.2%** | (0 2%) | 9 0% | 5 4% |
| Experience adjustments on scheme assets | 4 0 | 1 0 | 0 5 | **5.5** | 25 2 | 222 0 | 42 0 |
| Percentage of scheme assets (%) | 0 2% | 0 8% | 1 4% | **0.2%** | 1 0% | 10 0% | 2 2% |

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £84 0m

In addition to the pension provision recognised, there is an additional amount of £5 2m (2006 £5 4m) included within other liabilities (note 30) which relates to the unfunded pension scheme amounts

Pension disclosures relating to the Company are as follows

| | ESPS 2007 £m | EEPS 2007 £m | Total 2007 £m | Total 2006 £m |
|---|---|---|---|---|
| Present value of defined benefit obligations | (141 2) | (45 9) | **(187 1)** | (164 2) |
| Fair value of scheme assets | 128 0 | 44 8 | **172.8** | 145 2 |
| Deficit in scheme | (13 2) | (1 1) | **(14 3)** | (19 0) |
| Unrecognised actuarial losses/(gains) | 1 0 | (2 5) | **(1.5)** | 1 9 |
| **Liability recognised in the balance sheet** | (12 2) | (3 6) | **(15 7)** | (17 1) |

This amount is presented in non-current liabilities

## NOTES TO THE FINANCIAL STATEMENTS continued

### 43. Retirement benefit schemes continued

Amounts recognised in expenses in respect of these defined benefit schemes are as follows

| | **ESPS 2007 £m** | **EEPS 2007 £m** | **Total 2007 £m** | Total 2006 £m |
|---|---|---|---|---|
| Current service cost | 5 7 | 5 1 | **10 8** | 9 1 |
| Interest cost | 6 9 | 1 9 | **8 8** | 7 0 |
| Expected return on scheme assets | (7 5) | (2 0) | **(9.5)** | (8 2) |
| Actuarial losses | - | - | - | 1 0 |
| Shortfall in respect of transfers in | - | - | - | (1 5) |
| Changes arising on curtailments/settlements | - | - | - | 2 4 |
| Commutation credit arising on change in pension scheme rules | - | - | - | (1 0) |
| **Total operating cost** | 5 1 | 5 0 | **10 1** | 8 8 |

Of the charge for the year £10 8m (2006 £7 6m) has been included in personnel costs and an income of £0 7m (2006 £1 2m) has been included in interest

Movements in the present value of defined obligations in the current period were as follows

| | **ESPS 2007 £m** | **EEPS 2007 £m** | **Total 2007 £m** | Total 2006 £m |
|---|---|---|---|---|
| At 1 January | 133 8 | 30 4 | **164.2** | 151 3 |
| Service cost | 5 7 | 5 1 | **10.8** | 9 1 |
| Interest cost | 6 9 | 1 9 | **8.8** | 7 0 |
| Actuarial gains and losses | 0 4 | (3 0) | **(2.6)** | (4 2) |
| Obligation on transfers in | - | - | - | (0 5) |
| Bulk transfers in | - | 8 5 | **8.5** | 2 1 |
| Benefits (received)/paid | (5 6) | 3 0 | **(2.6)** | (2 0) |
| Changes arising on curtailments/settlements | - | - | - | 2 4 |
| Commutation credit arising on change in pension scheme rules | - | - | - | (1 0) |
| At 31 December | 141 2 | 45 9 | **187 1** | 164 2 |

Movements in the present value of fair value of scheme assets in the current period were as follows

| | **ESPS 2007 £m** | **EEPS 2007 £m** | **Total 2007 £m** | Total 2006 £m |
|---|---|---|---|---|
| At 1 January | 118 2 | 27 0 | **145 2** | 123 4 |
| Expected return on scheme assets | 7 5 | 2 0 | **9 5** | 8 2 |
| Actuarial gains | 0 2 | 0 4 | **0 6** | 1 5 |
| Bulk transfers in | - | 8 5 | **8 5** | 2 1 |
| Contributions by employer | 4 6 | 3 9 | **8.5** | 9 4 |
| Benefits (received)/paid | (5 6) | 3 0 | **(2.6)** | (2 0) |
| Deficit payments | 3 1 | - | **3.1** | 2 6 |
| At 31 December | 128 0 | 44 8 | **172 8** | 145 2 |

**NOTES TO THE FINANCIAL STATEMENTS continued**

**43 Retirement benefit schemes continued**

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

| | Expected return | | Fair value of assets | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | **ESPS** | **EEPS** | |
| | **%** | % | **2007** | **2007** | 2006 |
| | | | **£m** | **£m** | £m |
| Gilts - fixed | **4.6** | 4 5 | **31.3** | - | 32 5 |
| - index linked | **4.5** | 4 5 | **16.7** | - | 14 7 |
| Equities | **8.2** | 8 2 | **58.0** | **23.6** | 71 0 |
| Property | **7.2** | 7 2 | **3 0** | - | 3 3 |
| Corporate bonds | **5.4** | 5 0 | **12 2** | **15.0** | 21 4 |
| Cash | **5.4** | 5 2 | **6 8** | **6.2** | 2 3 |
| | | | **128.0** | **44.8** | 145 2 |

The history of experience adjustments is as follows

| | **ESPS 2007 £m** | **EEPS 2007 £m** | **Total 2007 £m** | Total 2006 £m |
|---|---|---|---|---|
| Present value of defined benefit obligations | (141 2) | (45 9) | **(187.1)** | (164 2) |
| Fair value of scheme assets | 128 0 | 44 8 | **172.8** | 145 2 |
| Deficit in the scheme | (13 2) | (1 1) | **(14.3)** | (19 0) |
| Experience adjustments on scheme liabilities | (6 9) | - | **(2 6)** | (4 2) |
| Percentage of scheme liabilities (%) | 4 9% | - | **1.4%** | 2 6% |
| Experience adjustments on scheme assets | 0 2 | 0 4 | **0.6** | 1 5 |
| Percentage of scheme assets (%) | 0 2% | 0 9% | **0.3%** | 1 0% |

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £13 0m

In addition to the pension provision recognised, there is an additional amount of £5 2m (2006 £5 4m) included within other liabilities (note 30) which relates to the unfunded pension scheme amounts

## NOTES TO THE FINANCIAL STATEMENTS continued

### 44. Financial instruments

The Group has entered into a variety of financial instruments to mitigate its exposure to commodity price, interest rate, foreign currency and credit rate risk Financial instruments are disclosed gross as derivative and other financial instruments, obligations under finance leases and interest-bearing liabilities on the Group balance sheet Commodity derivative contracts include contracts related to the purchase of power, coal, gas, gas oil, fuel oil and EU carbon emissions certificates

A financial instrument is defined in IAS 32 as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

The Group's risk management objectives and policies are detailed below They can be split into two main areas, competitive risk and the risks arising as a result of the Group's use of financial instruments A discussion of the risks together with a summary of the Group's approach to managing those risks is as follows The accounting basis for dealing with these risks is discussed in the accounting policy section below The accounting treatment for financial instruments entered into as a result of these policies is detailed in note 2

The table below shows the carrying value of Group and Company financial instruments by category

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| **Financial assets** | | | | |
| Cash and cash equivalents | **193 8** | 166 3 | **669 4** | - |
| Derivative instruments | **645.4** | 342 1 | **644.3** | 342 1 |
| Held to maturity investments | **1.2** | 26 1 | **0.5** | 2 5 |
| Loans and receivables | **1,741.4** | 1,712 3 | **1,129.8** | 1,974 0 |
| **Financial liabilities** | | | | |
| Derivative instruments | **(281 0)** | (1,167 9) | **(253.9)** | (1,133 6) |
| Borrowings at amortised cost | **(5,894 4)** | (5,549 9) | **(2,986.2)** | (3,373 8) |

Loans and receivables include trade and other receivables and current tax receivables, less any provision for impairment less other debtors

#### *a) Capital risk management*

The Group manages its capital through focusing on its net debt which comprises borrowings including finance lease obligations and accrued interest, cash and cash equivalents (note 29) and derivative liabilities Given that the Group is a 100%-owned subsidiary, any changes in capital structure are generally achieved via additional borrowings from its ultimate parent company

The Group is not subject to any externally imposed capital requirements

There have been no changes in the capital structure strategy since 2006

## NOTES TO THE FINANCIAL STATEMENTS continued

### 44 Fınancial ınstruments contınued

#### *b) Margın rısk management*

Margın prıce rısk arıses from the necessıty to effectıvely forecast customer demand for gas, coal and electrıcıty, and to adequately procure the varıous commodıtıes at a prıce competıtıve enough to allow a favourable tarıff proposıtıon for our customers Due to the vertıcally-ıntegrated nature of the Group the electrıcıty procured from the generatıon busıness provıdes a natural hedge for the electrıcıty demand from the retaıl busıness Any resıdual exposure to movements ın the prıce of electrıcıty, gas or coal ıs mıtıgated by enterıng ınto contracts and hedgıng optıons on the forward markets Rısk management ıs monıtored through sensıtıvıty analysıs and value at rısk lımıts per commodıty and across commodıty for the whole of EDF Energy consıstently wıth ıts Group rısks mandate

At a Group and a Company level, margın rısk exposure ıs measured lookıng at sensıtıvıty analysıs Under IAS 39, at the reportıng date, ıf the purchase prıce of commodıtıes had been 10% hıgher (10% beıng management's estımate of a reasonable, possıble change), and all other varıables remaıned constant, then the Group's profit for the year would have been £43 8m hıgher (2006 £25 3m) and hedgıng reserves would have been £270 6m hıgher (2006 £232 9m), as a result of the changes ın trade valuatıon There have been no changes ın the method of preparıng the sensıtıvıty analysıs sınce 2006

#### *c) Interest rate rısk management*

The Group's exposure to ınterest rate fluctuatıons on ıts borrowıngs and deposıts ıs managed prıncıpally through the use of fixed rate debt ınstruments and swap agreements The Group's polıcy ıs to use derıvatıves to reduce exposure to short-term ınterest rates and not for speculatıve purposes

**Interest rate sensıtıvıty**

The sensıtıvıty analyses below have been determıned based on the exposure to ınterest rates at the reportıng date, assumıng that the rate change took effect at the start of the reportıng perıod and remaıned ın place for the full perıod, and assumıng the closıng borrowıng posıtıon was ın place throughout the year There have been no changes ın the method of preparıng the sensıtıvıty analysıs sınce 2006

If the ınterest rate had been 25 basıs poınts hıgher at the reportıng date, and on the basıs of the assumptıons outlıned above, then the Group's profit for the year would have been £6 0m lower (2006 £5 3m)

If the ınterest rate had been 25 basıs poınts hıgher at the reportıng date, and on the basıs of the assumptıons outlıned above, then the Company's profit for the year would have been £4 2m lower (2006 £3 0m lower)

**Interest rate profile**

The ınterest rate profile of ınterest-bearıng loans and borrowıngs, subsequent to the effect of ınterest rate swaps, was as follows

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Floatıng rate borrowıngs | **1,876 6** | 1,843 8 | **1,610.0** | 1,709 7 |
| Fıxed rate borrowıngs | **2,221 6** | 2,061 8 | **367 1** | 336 9 |
| Total borrowıngs | **4,098.2** | 3,905 6 | **1,977.1** | 2,046 6 |
| Floatıng rate finance lease oblıgatıons | **319.5** | 336 1 | - | - |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 44. Financial instruments continued

The weighted average interest rates for all borrowings and finance lease obligations was as follows

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Weighted average fixed interest rate % | **6.5%** | 6 3% | **5.2%** | 5 2% |
| Weighted average floating interest rate % | **6 3%** | 5 5% | **6.2%** | 5 5% |

At 31 December 2007, the Group had four interest rate swaps (2006 four) The fair value of the interest rate swaps outstanding at 31 December 2007 was a liability of £2 0m (2006 a liability of £5 5m) The Company had no interest rate swaps in 2007 (2006 none)

#### *d) Foreign currency risk management*

The Group's present exposure to foreign currency risk is limited to the currency exposure on the service of interest and capital on US dollar and Euro-denominated debt, and the purchase of energy and EU emissions certificates The Group policy is to hedge/fix known currency exposures as they arise The US Dollar and Euro currency swap agreements fix the Sterling equivalent that will be required to service the interest and capital repayments of foreign currency debt instruments These are accounted for as cash flow hedges The Group enters into forward currency purchase contracts to fix the Sterling price for future foreign currency denominated transactions These are accounted for as fair value hedges There was a net gain on foreign currency hedging instruments of £4 7m (2006 loss of £37 3m), offsetting a net loss on the hedged risk of £4 7m (2006 gain of £37 3m)

At the balance sheet date, the following foreign currency contracts were outstanding

| **GROUP and COMPANY** | | Average exchange rate | | Fair value | |
|---|---|---|---|---|---|
| | | **2007 rate** | 2006 rate | **2007 £m** | 2006 £m |
| **Fair value hedge** | | | | | |
| Buy US Dollars | < 1year | **1 938** | 1 875 | **(20 8)** | 10 7 |
| | 2-5 years | **1 943** | 1 862 | **(3.5)** | 10 0 |
| Sell US Dollars | < 1year | **1.961** | 1 852 | **8 6** | (25 7) |
| | 2-5 years | **1.950** | 1 870 | **1.1** | (21 7) |
| Buy Euros | < 1year | **1.424** | 1 431 | **15 5** | (8 1) |
| | 2-5 years | **1.408** | 1 418 | **41 1** | (11 4) |
| Sell Euros | < 1year | **1.434** | 1 459 | **(6.4)** | 2 3 |
| | 2-5 years | **1.420** | 1 431 | **(30.8)** | 6 2 |
| **Cash flow hedge** | | | | | |
| Buy US Dollars | < 1year | **1 502** | 1 496 | **(3.5)** | (3 7) |
| | 2-5 years | **1 506** | 1 506 | **(20.4)** | (23 7) |
| Buy Euros | < 1year | **1 213** | 1 203 | **0.7** | (0 1) |
| | 2-5 years | **1.419** | 1 410 | **18.5** | (3 9) |

## NOTES TO THE FINANCIAL STATEMENTS continued

### 44. Financial instruments continued

If the exchange rate had been 5% lower at the reporting date, there would have been no impact on the Group or Company profit for the year because every foreign currency denominated purchase is offset by a forward foreign exchange contract which locks in the price There have been no changes in the method of preparing the sensitivity analysis since 2006

***e) Credit risk management***

The Group's credit risk is primarily attributable to its trade receivables and amounts recoverable under long term contracts The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies For commercial customers with poor credit ratings, the Group on occasion will receive security deposits which can be used, in the event of default by the customer The Group holds a series of medium term, in the money, coal supply contracts with UK Coal Mining Ltd (UK Coal) UK Coal is the largest indigenous coal producer mining the last few remaining deep shaft mines Given the cyclical and capital intensive nature of their business, coal mining companies are rarely viewed as good credit risks and they very rarely provide any form of credit support to their off-takers However, although UK Coal's coal production is diminishing, it has benefited from the surge in underlying coal prices and the company's valuation has increased given the significant revaluation of UK Coal's land and property assets EDF Energy's credit risk is also further mitigated by the presence of a Material Adverse Change clause in its contract which provides for credit support should UK Coal's net asset position fall to a below a specified trigger level

The Group has no significant concentration of credit risk, with exposure spread over a large number of external counterparties and customers

Due to the nature of the Group's trading with other EDF Group companies in Europe, there are large trading balances with other Group companies, however these are not considered to be a risk because of parent company financial support

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible amounts Provision is made when there is objective evidence that the group may not be able to collect the trade receivable Depending on the nature of the receivable, the risk associated with doubtful receivables is assessed individually or by experience-based statistical methods This provision increases as trade receivable balances age and is calculated based on the analysis of past collections Balances are written off when recoverability is assessed as being remote The assessment considers the age of debt balances and takes account of the credit-worthiness of some customers and considers whether they remain ongoing customers Money recovered relating to balances previously written off are credited to the income statement on receipt

The maximum credit risk exposure is derived from the carrying value of financial assets in the financial statements, with the exception of credit risk arising from the provision of support and guarantees as detailed in the table below

| **GROUP** | **Maximum credit risk** | |
|---|---|---|
| | **2007** | 2006 |
| | **£m** | £m |
| Guarantee provided by subsidiary relating to performance of contractual obligations | **5 1** | 0 8 |
| Guarantee provided by joint venture relating to tax obligations | **0.5** | 0 5 |
| Guarantee relating to tax obligations | **3.9** | 3 9 |

| **COMPANY** | **Maximum credit risk** | |
|---|---|---|
| | **2007** | 2006 |
| | **£m** | £m |
| Guarantee relating to tax obligations | **3.9** | 3 9 |

## NOTES TO THE FINANCIAL STATEMENTS continued

*f) Liquidity risk management*

Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due because it has inadequate funding of is unable to liquidate its assets The Group manages liquidity risk by preparing cash flow forecasts and by ensuring it has sufficient funding to meet its forecast cash demands

The tables below detail the contracted maturity for all non-derivative financial liabilities, based on undiscounted contractual maturities

**GROUP**

**At 31 December 2007**

| | 0-30 days | 30-90 days | 3-6 months | 6-12 months | 1-2 yrs | 2-5yrs | >5yrs | Total |
|---|---|---|---|---|---|---|---|---|
| Obligations under finance lease | - | (8 5) | (8 5) | (17 1) | (36 3) | (110 1) | (303 1) | **(483 6)** |
| Borrowings | (1,884 0) | (61 1) | (65 0) | (89 8) | (166 8) | (575 8) | (3,551 8) | **(6,394 3)** |
| Other liabilities | (1,267 7) | (337 8) | (116 6) | (119 8) | (45 3) | (126 5) | (1,213 6) | **(3,227 3)** |
| Derivative and other financial instruments | (801 7) | (716 1) | (680 1) | (1,227 3) | (1,966 7) | (861 3) | - | **(6,253.2)** |

**GROUP**

**At 31 December 2006**

| | 0-30 days | 30-90 days | 3-6 months | 6-12 months | 1-2 yrs | 2-5yrs | >5yrs | Total |
|---|---|---|---|---|---|---|---|---|
| Obligations under finance lease | - | (9 2) | (9 5) | (19 7) | (34 2) | (109 5) | (340 0) | **(522.1)** |
| Borrowings | (1,375 0) | (60 9) | (64 9) | (434 5) | (162 7) | (945 0) | (3,274 3) | **(6,317.3)** |
| Other liabilities | (1,150 6) | (270 3) | (90 7) | (140 5) | (45 2) | (122 2) | (1,083 6) | **(2,903.1)** |
| Derivative and other financial instruments | (612 5) | (699 1) | (579 5) | (1,187 3) | (1,776 9) | (1,046 6) | - | **(5,901.9)** |

**COMPANY**

**At 31 December 2007**

| | 0-30 days | 30-90 days | 3-6 months | 6-12 months | 1-2 yrs | 2-5yrs | >5yrs | Total |
|---|---|---|---|---|---|---|---|---|
| Borrowings | (1,722 7) | - | (9 0) | (9 0) | (18 0) | (385 1) | - | **(2,143.8)** |
| Other liabilities | (987 1) | (2 5) | (4 7) | (2 2) | - | - | - | **(996.5)** |
| Derivative and other financial instruments | (801 7) | (716 1) | (680 1) | (1,227 3) | (1,966 7) | (861 3) | - | **(6,253.2)** |

**COMPANY**

**At 31 December 2006**

| | 0-30 days | 30-90 days | 3-6 months | 6-12 months | 1-2 yrs | 2-5yrs | >5yrs | Total |
|---|---|---|---|---|---|---|---|---|
| Borrowings | (1,715 3) | - | (9 0) | (9 0) | (18 0) | (354 9) | - | **(2,106.2)** |
| Other liabilities | (1,305 3) | (15 4) | (4 3) | (2 2) | - | - | - | **(1,327 2)** |
| Derivative and other financial instruments | (612 5) | (699 1) | (579 5) | (1,187 3) | (1,776 9) | (1,046 6) | - | **(5,901.9)** |

## NOTES TO THE FINANCIAL STATEMENTS continued

### g) Fair values of assets and liabilities

Except as detailed in the table below, the Directors consider that the carrying amount of the financial assets and financial liabilities approximates fair value

| GROUP | Carrying Amount | | Fair value | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| **Financial liabilities** | | | | |
| Borrowings at amortised cost | **(5,894.4)** | (5,549 9) | **(6,169.6)** | (5,708 5) |

| COMPANY | Carrying Amount | | Fair value | |
|---|---|---|---|---|
| | **2007 £m** | 2006 £m | **2007 £m** | 2006 £m |
| **Financial liabilities** | | | | |
| Borrowings at amortised cost | **(2,986.2)** | (3,373 8) | **(2,964 4)** | (3,385 6) |

### 45 Related parties

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year

| GROUP | | Sales to related parties £m | Purchases from related parties £m | Interest paid to related parties £m | Interest received from related parties £m | Amounts owed by related parties £m | Amounts owed to related parties £m |
|---|---|---|---|---|---|---|---|
| Associates | **2007** | **-** | **(60 6)** | **-** | **-** | **2 1** | **-** |
| | 2006 | 97 1 | (85 5) | - | - | 24 0 | (30 8) |
| Joint ventures | **2007** | **28 5** | **-** | **-** | **1.7** | **11 6** | **-** |
| | 2006 | - | - | - | - | 2 0 | - |
| Transactions with other EDF SA group companies | **2007** | **15 1** | **(1,098.6)** | **(79.7)** | **1.7** | **216 8** | **(2,078.6)** |
| | 2006 | - | (814 9) | (2 6) | - | 102 4 | (1,429 0) |
| Finance lease commitments with other EDF SA group companies | **2007** | **-** | **-** | **(21.7)** | **-** | **-** | **(319.4)** |
| | 2006 | - | - | (22 0) | - | - | (336 1) |

Details of transactions with the pension scheme are disclosed in note 43

## NOTES TO THE FINANCIAL STATEMENTS continued

### 45 Related parties continued

EDF Energy plc trades with other group companies which are part of the Electricité de France SA group

**COMPANY**

| | | Sales to related parties £m | Purchases from related parties £m | Interest paid to related parties £m | Interest owed by related parties £m | Amounts owed by related parties £m | Amounts owed to related parties £m |
|---|---|---|---|---|---|---|---|
| Transactions with other EDF SA group companies | | | | | | | |
| | **2007** | **15.1** | **(1,098 6)** | **(79.7)** | **1 7** | **216.8** | **(2,078.6)** |
| | 2006 | - | (793 5) | (2 6) | - | 102 3 | (1,414 0) |
| Other EDF Energy plc group companies | | | | | | | |
| | **2007** | **3,762 8** | **(452 8)** | **(72.0)** | **25 5** | **674.2** | **(268 2)** |
| | 2006 | 3,991 8 | (573 0) | (69 7) | 25 1 | 1,770 8 | (713 0) |

Sales and purchases from related parties are made at normal market prices Outstanding balances at year end are unsecured and settlement occurs in cash There have been no guarantees provided or received for any related party receivables For the year end the company has not raised any provision for doubtful debts relating to amounts owed by related parties (2006 - £nil) This assessment is undertaken each financial year through examining the financial position of the related party and the market value in which the related party operates

**Loans from related parties**

| | 2007 £m | 2006 £m |
|---|---|---|
| Loans from EDF International | **1,610.0** | 1,190 0 |

Amounts repayable to EDF International carry interest of 6 158% (2006 5 25%) per annum charged on the outstanding loan balances and are repayable within one month (see note 44)

The Group and Company enter into derivative contracts at normal market prices with another EDF SA group company The total value of outstanding contracts reflected at fair value in the Group' and Company balance sheet was £1,487m (2006 £453 7m)

**NOTES TO THE FINANCIAL STATEMENTS continued**

**45. Related parties continued**

Transactions with key management personnel

| GROUP and COMPANY | 2007 £m | 2006 £m |
|---|---|---|
| Short-term benefits | 3.2 | 3 0 |
| Compensation for loss of office | - | 0 2 |
| Post-employment benefits | 0.2 | 0 8 |
| | 3.4 | 4 0 |

Key management personnel comprise members of the Board and the Executive Committee, a total of seven individuals at 31 December 2007 (2006 eight) The Executive Committee is a cross-branch committee of senior staff who take part in the decision-making for the Group

**46. Parent undertaking and controlling party**

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

At 31 December 2007, Electricité de France SA a company incorporated in France, is the Company's ultimate parent company and controlling party This is the largest and smallest group for which consolidated accounts are prepared Copies of that company's consolidated accounts may be obtained from Electricité de France, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France