EDF Group management report 2004

1. Economic environment

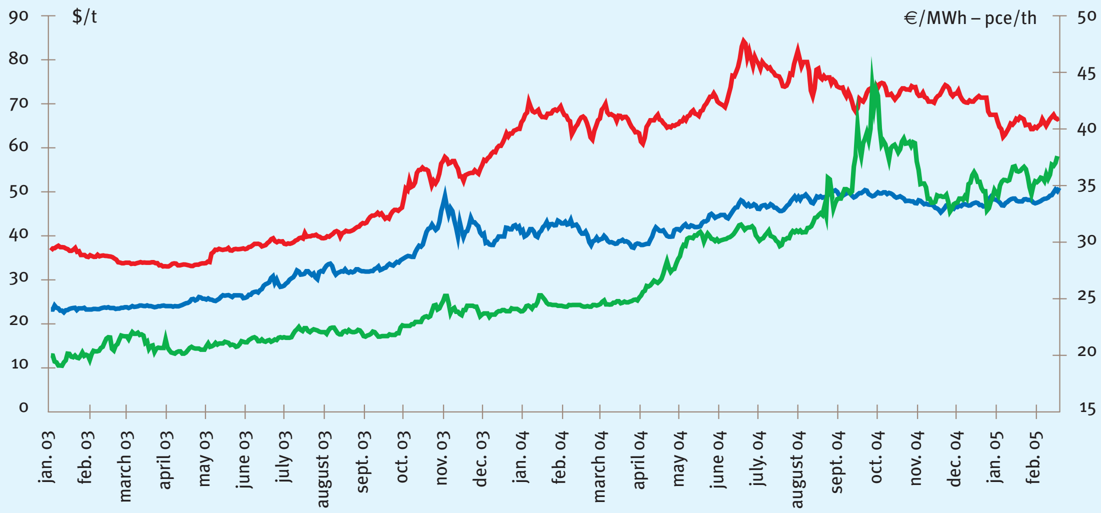
The progressive deregulation of Member States' national electricity markets begun by the EU directive of 19 December 1996 has already brought about significant changes. In anticipation of the new environment, which will eventually lead to a fully deregulated, integrated European market, the major European actors have reviewed their strategies and developed activities in related markets and businesses. EDF has been part of this trend in recent years, adapting its organisation and making new acquisitions as a foundation for its future growth in Europe. The Group has also turned its attention to enhancing its range of services.

The French electricity market was opened up to competitors in February 2003 for industrial sites using more than 7 GWh, and for all business customers since 1 July 2004. From a 37% deregulated market at 30 June 2004, "eligible" customers now account for 70% of the French market. Total deregulation for residential customers is planned for mid-2007.

2004 saw an increase in wholesale electricity prices across Continental Europe, as the rise in oil and gas prices affected fuel purchase costs. The upward trend in market prices was also influenced by anticipation of replacement expenses for German generating plants, and the cost of CO_2 emission quotas.

Coal (Northern Europe), gas (UK), and electricity prices (France)

(in millions of euros)



Coal: Argus-McCloskey©* Average index "CIF ARA TFS API 2" year ahead (Rotterdam) ($/t).
Electricity: Platts©** Average index baseload year ahead (France) (€/MWh).
Gas: Platts©** october annual (UK) (pce/th).
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2. Significant events of 2004

The EDF Group serves 42,1 million customers, with its generating plants supplying more than 20% of the requirements of the 15 pre-2004 EU countries. It occupies a key position in transmission and distribution networks.
The Group's objective, as reaffirmed at the end of 2004, is to build up a dynamic, profitable energy group with a solid base in France and Europe.
EDF's strategy is to achieve a well-balanced distribution of its activities between four areas:
– integrated generation and supply/sales services: the reorganisation of the British market provides the best example;
– regulated and deregulated activities with a balanced risk-return profile that is attractive to investors;
– gas and electricity services, with natural gas supply synergies making combined offers possible;
– equally balanced French and international activities, centred geographically in Europe.

2.1 France

The law of 9 August 2004 changed the status of EDF and required its transmission operation business, as currently carried out by the *Réseau de transport d'électricité* (RTE), to be transferred to a subsidiary. In preparation for the IPO announced by the government, this law abolishes the principle of specialisation restricting EDF in France to the electricity business, reforms the financing of the pension system and clarifies the boundaries between the transmission and distribution networks.
The total opening of the market for French business customers to competition was the other major event of the year. This brought about significant changes in organisation, particularly for the distribution activity: the split between the supply of electricity and the operation for the distribution network is designed to guarantee all actors equal access to the network, without losing the most important synergies gained through past joint operation. "French regulated" operations are therefore split into three Divisions: EDF Distribution Network, Island Power Systems and Local Development Market and EDF Gaz de France Distribution, the joint operator with Gaz de France.
On a commercial level, for a more flexible response in the face of competition, EDF launched two new brands: *EDF Pro®* and *EDF Entreprises®* for professional and business customers respectively.

Concerning production, an agreement running until 2007 was signed with AREVA for reprocessing of used nuclear fuel from EDF's power plants.
EDF considers continuation of the nuclear option as a strategic solution, providing an economically efficient way to meet future economic needs in the long term without contributing to the greenhouse effect.
The Group therefore decided in 2004 to launch an EPR[1] nuclear reactor project with a view to renewing existing generation plant.
Following negotiations with workforce representatives, five company-level agreements were signed, as well as one at Group level. The pension financing reform was finalised. EDF management has undertaken to recruit 3,500 new staff to its core activities between June 2004 and December 2005, in view of the large number of retirements expected in the next few years.
The "Altitude 7500" performance improvement plan launched in late 2004 is designed to improve competitivity and profitability by stabilising total French personnel expenses and general purchasing expenses in real terms, through synergies built on additional upstream/downstream optimisation and reducing working capital requirements. This will give the Group more room for financial manoeuvre (+€7.5 billion).

2.2 Other European countries

United Kingdom

EDF Energy, a wholly-owned EDF subsidiary and the leading distributor with 5 million customers, operates in a totally deregulated market.
In 2004, high rises in energy prices affected the company's purchases and sales.
Meanwhile, EDF Energy continued to successfully apply its rationalisation programme launched in 2003.

Germany

EnBW, Germany's third-largest electricity company with 5.4 million customers, achieved significant increases in profit, largely thanks to its "Topfit" productivity improvement programme. The social aspect of this programme was finalised in late January 2004.
As part of its strategy to refocus on core activities, EnBW sold off its interest in Hidrocantabrico and non-strategic investments during the year.

(1) European Pressurized Reactor.

Italy

Discussions with the main partners in Edison, Italy's number two electricity company, are continuing in 2005, as are the arbitration proceedings begun in the second half of 2004.

Other European countries

EDF's activities expanded in other European countries, mainly Austria, Slovakia and Switzerland. In Poland, market conditions were unfavourable for the subsidiary Rybnik, which nevertheless remained profitable. Results in Hungary were affected by renegotiations which resulted in lower prices.

2.3 South America and Asia

Brazil

Light, owned 94.8% by EDF, has an installed capacity of 850 MW. It successfully negotiated a 5% increase in sale prices in November 2004, but this is still not enough to offset the effect of inflation over recent months and achieve a long term return to a healthier financial position.

Light's generation capacity was increased when the independent Norte Fluminense generation plant started commercial operations at the end of the year.

Argentina

Edenor, owned 90% by EDF, is continuing price negotiations in an unstable regulatory and currency environment.

The freeze on current distribution rates introduced by the economic emergency law of January 2002 is still a critical factor in the current public service contract negotiations between public utilities and the Argentine government.

Mexico

2004 saw the start of operations at the Rio Bravo 3 power plant (495 MW).

Asia

In China, 16.9 TWh were generated, a sharp rise over 2003 thanks to the coming on line of the latest unit in Shandong and the satisfactory availability rates for the Laibin power plant.

The Phu My plant in Vietnam began trials. In Laos, preliminary work started on the Nam Theun hydropower project.

3. Business activity & financial results

EDF GROUP – KEY FIGURES

(in millions of euros)

	2004	2003 as published
Sales	**46,928**	44,919
EBITDA (Operating profit bef. depr. & provs.)	**12,127**	11,026
EBIT (Operating profit)	**5,648**	6,833
Net income	**1,341**	857
Net income before exceptional items	**2,473**	2,460
Operating cash flow	**8,987**	8,103
Free cash flow	**3,419**	2,075
Net indebtedness	**19,668**	24,009

The financial statements for 2004 are prepared in compliance with French accounting standards, with no significant change in accounting policy from 2003. In preparation for application of IFRS in 2005, both IFRS comparative and pro forma figures for 2004 are also presented for information.

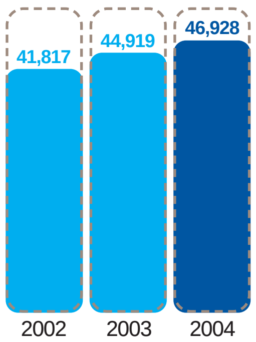
The Group's results for 2004 reflect its achievements both in terms of net income and reduction in debt.

Positive trends in all financial indicators in France and internationally, apart from in South America, confirm the value of the strategy to refocus on core businesses in Europe, continue sales drives on its various markets and rein in costs.

3.1 Group results

3.1.1 SALES ROSE BY 4.5%, TO €46.9 BILLION (AN INCREASE OF 6.5% EXCLUDING THE EFFECT OF EXCHANGE RATE FLUCTUATIONS AND CHANGES IN SCOPE OF CONSOLIDATION)

Sales (in millions of euros)



On a comparable basis [1], sales growth reached 3.7% in France, 8.3% in Germany, 14.9% in the UK and 9.4% for all other countries.
95% of sales and 90% of growth were recorded in Europe.

3.1.2 EBITDA [2] UP BY 10 [3], TO €12.1 BILLION OR 25.8% OF SALES

EBITDA

(in millions of euros)

	2004	2003
Sales	**46,928**	44,919
Purchases and other external expenses	**–23,476**	–22,554
Personnel expenses	**–9,596**	–9,509
Taxes other than income taxes	**–2,853**	–2,703
Other operating income and expenses	**1,124**	873
EBITDA	**12,127**	**11,026**

The Group's EBITDA is generated by three sources of comparable importance: regulated activities in France (39%), deregulated activities in France (28%) and activities outside France (33%), mainly in Europe.
The 10% growth in EBITDA is higher than the increase in sales due to more moderate rises in costs (+2.7%). Purchases and external services increased by 4.1% and personnel expenses by 0.9% [4].

Fuel consumption and energy purchases rose considerably (+6.8%) as a result of the increase in wholesale and raw materials prices, while other purchases and external services remained stable.
The rise in personnel expenses, which was restricted to 0.9%, mainly reflects pay increases in France.

3.1.3 EBIT [5] STANDS AT €5.6 BILLION OR 12% OF SALES

The decline in EBIT is due to the effect of changes in estimates applied in 2003, and impairment booked in 2003 and 2004.
Excluding the effect of exchange rate fluctuations, changes in scope of consolidation and exceptional charges, and despite the increase in provisions, particularly relating to South America, EBIT rose slightly (+1.8%) despite the impact of the protocol for dismantling facilities at the Marcoule site.

3.1.4 GROUP NET INCOME WAS €1.3 BILLION, UP 56%

The Group's net income before exceptional items was stable at almost €2.5 billion or 5.3% of sales. The €1.3 billion improvement in net financial income principally resulted from gains on disposals of marketable securities in France (the gain on sale of Total shares was €0.7 billion), smaller provisions on certain subsidiaries and lower interest expenses following the reduction in indebtedness. The foreign exchange result is less favourable than 2003, when gains were recorded on the Argentine peso in 2003 and the US dollar was adopted as the accounting currency to be used in Mexico.

NET INCOME & NET INCOME BEFORE EXCEPTIONAL ITEMS

(in millions of euros)

	2004	2003
Net income	**1,341**	857
Net income before exceptional items [6]	**2,473**	2,460

Expenses related to unwinding of long term provisions are stable, at approximately €1.5 billion.
The Group's net income before the impact of changes in accounting policy and exceptional items is stable at €2,473 million or 5.3% of sales, indicating consistent activity and performance levels by the Group in 2004.

(1) Excluding the effect of exchange rate fluctuations and changes in scope of consolidation. (2) Earnings before interest, tax, depreciation and amortisation.
(3) Excluding the effect of exchange rate fluctuations, changes in scope of consolidation and exceptional items, the Group's EBITDA is up by 11.2%.
(4) Excluding the effect of exchange rate fluctuations and changes in scope of consolidation, external purchases rose 7% and personnel expenses 2.3%.
(5) Earnings before interest and tax.
(6) Net income before exceptional items (impairment, restructuring, gains on sales, etc.) and the effect of accounting changes.

3.2 Contribution to net income by country and business

3.2.1 FRANCE

Sales and EBITDA rose, interest expenses were reduced, regulated[1] and deregulated[2] activities were evenly balanced.

Sales

• Sales and marketing

With French GDP growth higher than 2% and more favourable weather and calendar[3] conditions than in 2003, sales rose by 3.7%[4] in 2004.

The effect of the 3% electricity sale price rise in July 2003, which concerned 80% of volumes delivered to final customers, was offset by lower rates from 1 January 2004, designed to compensate for the €1.2/MWh increase in the CSPE[5] levy.

FRANCE - KEY FIGURES

(in millions of euros)

	2004	2003
Sales	**29,457**	28,397
EBITDA	**8,059**	7,767
EBIT	**4,054**	5,434
Net income*	**1,818**	**1,480**

* Including the gain on sale of Total shares and the Edison provision.

Market prices[6] rose 1.3 percentage points, accounting for approximately one-third of the rise in sales.

In terms of volume, growth reached 2.4 points, with a 0.5% increase in sales to final customers (+2 TWh) and a 23.6% (+8 TWh) rise in auction sales of virtual generation capacities. These resulted from commitments made to the European Commission for the development of the common electricity market, and represent the approximate equivalent of six nuclear units.

EDF's market share[7] in France in 2004 was 87.2%, 2.5 points lower than in 2003.

• Generation

Output of nuclear power, which represents 87.6% of all power generated by EDF, was increased by better use of available capacity. The availability coefficient was up slightly at 82.8%.

Net hydropower production was fairly similar to 2003, but still much lower (-15%) than in a normal year due to continuing drought conditions.

Gross volumes generated totalled 488 TWh (+0.7%). In the spring of 2004, a rise in demand due to unseasonably low temperatures while some non-nuclear power plants were temporarily out of operation led EDF to buy supplies on the energy markets to meet demand.

• Transmission

Sales by RTE, the French transmission system operator, were stable, amounting to ¤4.2 billion.

Overall, extractions follow the same trend as in recent years. The charges made for access to the transmission network remained stable over the same period.

• Distribution

As prices remained stable, the rise in sales (+1.8%) is due to the growth in volumes transiting through the network. Since 1 July 2004, calls for bids have been used to compensate for losses of power from the network. The distribution activity also bears the costs related to introducing the new organisation as described above.

EBITDA

EBITDA for France is €8 billion, up 3.7%. The EBITDA/sales ratio is stable at 27.4%.

The increase in sales, mainly due to rising volumes, was particularly beneficial for the regulated activities, while the higher wholesale prices were beneficial for the EBITDA of unregulated activities.

In 2004, operating expenses increased at the same pace as sales overall.

Better use of available generating capacity, particularly during the second half-year, made it possible to cover the rise in demand at competitive costs.

Purchases of energy and fuels were up 13% due to an increase in volumes purchased in spring at high costs to meet sales demands, and to a lesser extent to the rise in fuel prices.

Other purchases are practically stable (+0.2%). The 2% saving on routine purchases made up for the purchases of services in connection with the change in the company's status (IT system redesign, insurance, communication).

Despite a fall in the average number of employees, personnel expenses were up 3.7% because of salary increases and the rise in social security and pension expenses.

The French tax on nuclear facilities almost doubled, but this was offset by the elimination of the tax on hydroelectric power plants and an adjustment to the FSPPE[8] subsidy for 2002.

Thanks to the high level of EBITDA, EDF was largely self-financing, and was able to reduce its debt considerably in 2004.

(1) Transmission, distribution. (2) Sales, generation. (3) 2004 was a leap year, resulting in +1.2 TWh.
(4) +3.3% excluding the wholesale market and direct sales. (5) Contribution pour la compensation des charges de Services publics de l'Électricité.
(6) Affecting some eligible final customers, and sales of virtual generation capacity on the wholesale market.
(7) As measured by total electricity consumption in France. (8) Fonds du service public de la production d'électricité.

Net income

The positive non-recurring effects recorded in 2003 (€1.1 billion) on depreciation, amortisation and provisions (following accounting changes and the physical inventory), mean that the decline in EBIT (-17%) between 2003 and 2004 is not significant.
EBIT amounts to €4.1 billion, down by €0.2 billion from 2003 (excluding exceptional items) following the change in non-recurring provisions (principally the impact in 2004 of the one-time payment for rehabilitation of the Marcoule site).
But this was more than offset by the improvement in net financial income, which was €1.5 billion higher than in 2003 (exceptional items [1] amounting to €0.3 billion in 2004).
The net income for France, which includes the negative impact of the payment relating to Marcoule, amounts to €1.8 billion.

3.2.2 UNITED KINGDOM

EDF Energy confirms its performance.

UK – KEY FIGURES

(in millions of euros)

	2004	2003
Sales	**5,964**	5,222
EBITDA	**1,291**	1,127
EBIT	**918**	926
Net income	**306**	**296**

The growth in EDF Energy's sales (+14.2%[2]) was mainly caused by the rise in wholesale prices, related to higher energy costs and the increase in volumes, principally for large customers.
The performance improvement programmes, launched in 2003 to accompany the integration of operations following mergers, helped stabilise personnel expenses, enabling EBITDA to record 14.5%[3] growth, slightly more than sales.
EDF Energy also sold its investment in Paypoint, and deconsolidated Metronet [4] from 1 July 2004.
The Group's share of net income – €306 million – confirms the results achieved in 2003.

3.2.3 GERMANY

EnBW shows clear recovery, making a positive contribution.

GERMANY – KEY FIGURES

(in millions of euros)

	2004	2003
Sales	**4,627**	4,863
EBITDA	**919**	539
EBIT	**491**	–66
Net income	**43**	**–612**

EDF raised its investment in EnBW by 4.5% to 44.94% by acquiring treasury shares enabling the subsidiary to reinforce its equity. EnBW is therefore consolidated on a 48.4% basis (previously 45.8%) which takes into consideration the residual treasury shares.
The refocusing strategy continued in 2004 with the sale of HidroCantabrico in Spain, Europe's leading carpark operator, APCOA, and the minority interest in Verbund, the largest Austrian electricity generation company.
As far as the business itself is concerned, sale price rises were between 7% and 10% depending on the customer segment. Excluding the effect of changes in scope of consolidation and the trading activity, sales were up 8.3%.
EBITDA improved by €380 million, mostly as a result of business growth. More than a quarter of this increase (€102 million) was attributable to the "Topfit" productivity plan.
EDF's share in net income was substantially higher than in 2003[5].

(1) Impact of provisions booked in 2003 and 2004 on Italian operations, and the gain on sale of shares in Total in 2004.
(2) 14.9% excluding the effect of exchange rate fluctuations and changes in scope of consolidation.
(3) 15.9% excluding the effect of exchange rate fluctuations and changes in scope of consolidation. *(4) Following the review of the shareholder agreement.*
(5) 2003 was impacted by restructuring costs (EDF's share was €(591) million).

3.2.4 REST OF EUROPE

Edison

Edison, which is not consolidated by EDF, continued its recovery in 2004 and now has the resources necessary for its industrial development strategy.
Sales were up 3.2% (+10% for energy) to €6.5 billion, EBITDA rose by 14% to €1.3 billion and the net income before exceptional items and taxes increased from €128 million in 2003 to €364 million in 2004.
Net financial debt was reduced by 7%, from €4,143 million in 2003 to €3,852 million in 2004.
ISE was sold to Edison in December 2004.
In view of probable future changes in its investment in Edison's holding company, EDF recorded a provision of €395 million in connection with its commitments, in addition to the €900 million provision booked in 2003.

Fenice

Fenice's results are stable at €450 million, the increase in new contracts offsetting the lower volume of business with the Fiat Group. Profitability was improved by a productivity programme, and EBITDA rose 2 points to €135 million or 29.5% of sales. However, Fenice is still dependent on contract renewal in the medium term.

Dalkia

Dalkia International, Europe's largest energy services supplier to corporate customers and local authorities, recorded an 11.8% increase in sales and a 15.4% increase in EBITDA. The most significant expansion was in Italy and East European countries.

Renewable energies

2004 saw the signature of a turnkey contract by EDF Energies Nouvelles' subsidiary EnXco for the construction of facilities to supply 150 MW in Iowa (USA). It was also the first year of operations for the NSP 4 plant in Minnesota (USA), owned 51% by EnXCo, with total power output of 97.5 MW. EBITDA generated by the renewable energies activity also improved due to careful cost control.

Électricité de Strasbourg

Électricité de Strasbourg turned in a good performance in 2004. Its sales reached €474 million, benefiting from high customer loyalty and favourable weather conditions. EBITDA was up 6% to €90 million, and net income rose by 5% to €30.3 million or 6.4% of sales.

TIRU

Tiru improved its results by expanding its waste processing activity (the Grimsby plant in England and the Perpignan plant in France both started operations in 2004), and by optimising maintenance programmes for incineration plants in the Paris area.
Sales were 9% higher than in 2003 at €222 million, and net income reached €2.3 million, practically twice the 2003 level.

3.2.5 EDF TRADING

EDF Trading, the Group's trading company in Europe, once again recorded excellent results in 2004, particularly on gas trading and structured operations in electricity and gas.
EBITDA was up by 55% to €332 million, and net income by 41% to €202 million. The three main energy types (electricity, coal, gas) made comparable contributions to the margin, via structured contracts and trading margins on market products on the various European markets.
In highly volatile energy markets (such as the coal and gas market in the UK), EDF Trading confirmed its capacity to benefit from opportunities while keeping a tight rein over its exposure to market risks.

3.2.6 SOUTH AMERICA

The rise in volumes sold in Argentina and an expansion in sales by the Mexican power plants were the principal drivers of business growth in this zone.
However, sales and EBITDA were affected by restrictions imposed on sale price rises in Brazil and Argentina, and the foreign exchange impact[(1)].
Interest expenses remained significant, and largely contributed to the net losses recorded by South American entities.
Finally, write-downs of over €1 billion on assets meant South America was the Group's only loss-making geographical area in 2004.

Brazil

Sales by Light were up by 7.1% (excluding the effect of exchange rate fluctuations).
Price rises, albeit too low, authorised in November 2003 and 2004 by the Brazilian government partly offset the fall in sales volumes[(2)] and the increase in non-technical losses.
Excluding the effect of exchange rate fluctuations, EBITDA rose by 18.5%. Together with the real's strong performance against the US dollar, this contributed to a reduction in losses.
Even so, EDF recorded exceptional write-downs of €760 million on assets at the end of the year in view of Light's strained financial situation, especially following the low price rises. The Group's share of Light's net income is negative at €(681) million.

(1) The favourable impacts booked in Argentina and Mexico in 2003 did not continue in 2004.
(2) Demand for air conditioning was down due to particularly low temperatures.

Argentina
The economic upturn that started in 2003 continued into 2004. Rising demand for electricity in the zone covered by Edenor led to a 5% improvement in the company's EBITDA excluding the effect of exchange rate fluctuations.
Excluding the effect of exceptional items and exchange rate fluctuations, the Group's share of Edenor's net income is negative, mainly due to interest on the high level of indebtedness. Negotiations are currently under way with a banking syndicate to reschedule debts.
At 31 December 2004, to reflect the unstable regulatory context and the uncertainties concerning price negotiations, EDF booked impairment losses of €200 million against the value of Edenor, which recorded a net loss of €(235) million.

Mexico
Excluding the effect of exchange rate fluctuations, business in Mexico grew 45%, thanks to the sales revenues generated by the start-up of the Rio Bravo 3 [1] power plant in April 2004. EBITDA consequently rose sharply (excluding the effect of exchange rate fluctuations), and improved as a percentage of sales.
The losses recorded in 2004 mainly result from financial expenses on projects in development[2] and exceptional write-downs of €100 million on assets. A net loss of €(141) million was recorded.

3.2.7 ASIA

In China, the Group's share of net income increased due to higher production levels and the acquisition of Alstom's shares in the Laibin plant, despite the rising price of coal and the decline of the US dollar.
Asia made a net contribution of €35 million to the Group's net income.

4. Financing

Control of investments; fall in net indebtedness

4.1 Sustained level of net investments: €4.3 billion

4.1.1 NON-FINANCIAL INVESTMENTS

Net non-financial investments, other than those concerning independent electricity generation projects[3], remained stable at the sustained level of €4.3 billion.
This was particularly noticeable in France, where the group invested €2.8 billion, or 65% of EDF's total net non-financial investments, in generation, transmission and distribution of power.
In the UK, total investments stood at €846 million, equivalent to 2003.
In Germany, net investments by EnBW (€159 million) were down 22%, mainly due to disposals and downsizing plans decided in 2003 as part of the recovery plan.

4.1.2 NET FINANCIAL DIVESTMENT OF €400 MILLION

The Group undertook few financial investments in 2004 (€298 million less than in 2003). Most operations concerned recurring financial investments (dedicated assets).
Taking into account the gain on sale of Total shares, net divestment was €400 million.

4.2 Working capital, operating cash flow [4] and free cash flow [5] all rise

The Group's **working capital** decreased by €318 million or 17.4% despite the increase in sales, the first reflection of efforts made across the Group.
Operating cash flow was up 11% at €9 billion.
After net investments and the change in working capital, **free cash flow** stood at €3.4 billion, an increase of €1.3 billion. Without the impact of exceptional items, it would have reached €5 billion, €1.5 billion more than in 2003.

(1) Central Lomas del Real SA de CV. (2) Rio Bravo 3 and Rio Bravo 4 (due to come on line in the second quarter of 2005).
(3) Projects completed in 2003 (the Suez and Port Saïd plants in Egypt) or currently being finalised (Vietnam's Meco plant, Rio Bravo 3 and 4 in Mexico).
(4) EBITDA – financial expenses – taxes. (5) Operating cash flow – capital expenditure and change in working capital.

4.3 Further fall in debt[(1)] in 2004 (€4.3 billion or –18%): well-balanced debt structure (total: €19.7 million)

The net financial debt amounted to €19.7 million at 31 December 2004, down by 18.1% from 2003. This represents 1.6 times EBITDA and 42% of sales.

The €4.3 billion decrease following the €2.9 billion reduction of 2003 was made possible by the high EBITDA and tight control of operating investments. In the UK, net financial debt fell by €78 million between 2003 and 2004.

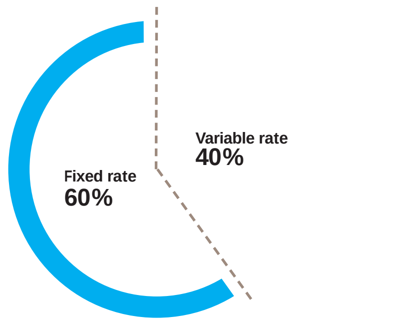
In Germany, higher net income, reinforced equity and various disposals enabled EnBW to reduce net indebtedness by almost half (€3.2 billion: Group's share - €1.4 billion).

The financial debt was well-balanced in structure, with good distribution between fixed/variable interest rates and maturities.

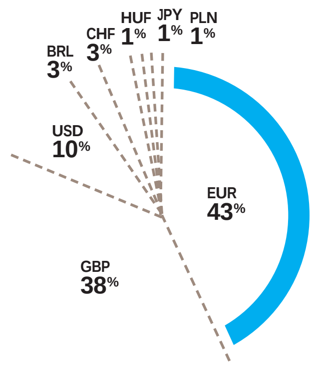
Maturities of gross debts at 31 December 2004, totalling €25.8 billion, are as follows:

– Over 5 years: €12.3 billion
– Between 1 and 5 years: €8.6 billion
– Within 1 year: €4.9 billion

Breakdown by type of interest rate

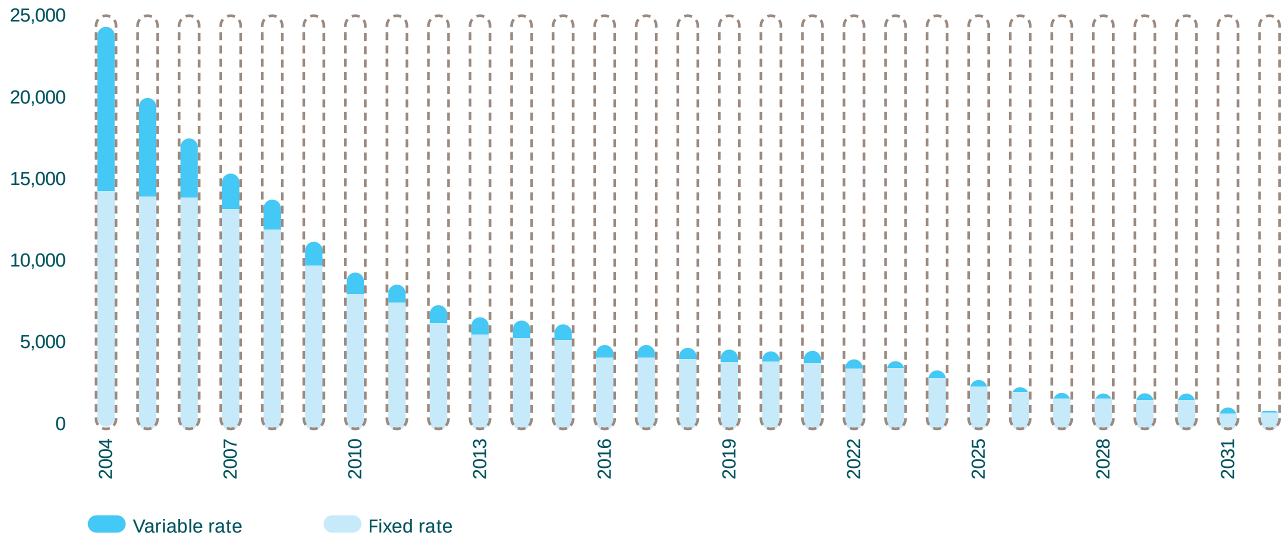


Breakdown by currency



Average coupon: 5,6%
Average maturity: 2nd half-year 2012

Maturity of financial debt (in millions of euros)



(1) Net financial debt..

Of total net financial debt after swaps, 43% was contracted in euros, 38% in pounds sterling, 10% in US dollars and 9% in other currencies; 60% bear interest at a fixed rate and 40% at a variable rate; the average coupon[1] is 5.6% (for an average term of six and a half years).
At 31 December 2004, short-term financial assets, cash and cash equivalents were as follows:

YEAR ENDED 31 DECEMBER

(in millions of euros)

	2004	2003
Marketable securities	**3,686**	3,173
Other short-term financial assets	**875**	401
Cash and cash equivalents	**1,404**	1,870
Financial current accounts	**153**	151
Total cash and cash equivalents	**6,118**	**5,595**

4.4 Financing policy

As well as covering day-to-day management activities, the Group's financing policy is designed to cover short and long term commitments : pensions, plant decommissioning, reprocessing of nuclear fuel, preparation for future industrial programmes, and commercial development.
To cover its requirements, the Group has strong cash flow and uses appropriate diversified sources of financing that fulfil regulatory obligations and respect the new agreements concerning pension financing, as reported in the financial statements section of the annual report.
EDF is also progressively building up a portfolio of dedicated assets to secure financial coverage of long term provisions for nuclear-related expenses (€2.4 billion).
The nuclear-related provisions in EDF France's balance sheet total €26.9 billion at 31 December 2004. They comprise provisions for end of nuclear cycle costs (waste reprocessing and storage) and provisions for plant decommissioning costs.
Various methods and studies are referred to in estimating the necessary provisions, and the estimates are confirmed by reference to international industry practices.
The figure of €26.9 billion represents the present value of future disbursements, to be made over very long periods (up to 70 years).
They amount to an average of between €300 million and €500 million annually, and should be considered in the light of the strong cash flows generated by EDF.

5. Balance sheet

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004 (FRENCH GAAP)

(in millions of euros)

	2004	2003
Goodwill and intangible assets	**6,205**	6,518
Property, plant & equip.	**97,407**	99,012
Investments including cos in companies accounted by equity method	**9,781**	9,461
Inventories and WIP	**6,660**	6,924
Deferred tax assets	**200**	216
Trade and other receivables	**22,004**	19,174
Short-term financial assets and cash	**6,118**	5,595
Total assets	**148,375**	**146,900**

	2004	2003
Equity	**17,567**	18,924
Minority interests	**893**	915
Special concession accounts	**20,146**	19,743
Provisions for risks and expenses	**48,359**	46,395
Deferred tax liabilities	**5,624**	5,853
Financial liabilities	**25,786**	29,604
Trade payables and other liabilities	**30,000**	25,466
Total equity and liabilities	**148,375**	**146,900**

(1) Interest rate weighted for debt outstanding at 31 December 2004.

The main reason for the change in equity is the impact of one-time payments made in connection with the agreements between the French Electricity and Gas sector (IEG) and the pension bodies CNAV, AGIRC and ARRCO. EDF's share amounts to €2.4 billion after tax, corresponding to the portion attributable to the deregulated activities.
Equity thus amounted to €17.6 billion at 31 December 2004, but would have been more than €20 billion without the impact of these payments.
Solvency ratios have improved. In particular, the debt/equity ratio fell from 55% at 31 December 2003 to 52% at 31 December 2004.

SOLVENCY RATIOS AT 31 DECEMBER 2004

	2004
FFO/debt (1)	**46 %**
FFO interest coverage (2)	**7.8**
Debt/equity (3)	**52 %**

6. Risk management

Since 2003, EDF has extended and reinforced its risk management and control process, moving closer to the most recent corporate governance standards. The Operational Divisions are in charge of managing their own risks, and the Group Risk Management Division oversees the control process for all the Group's risks.
The Group Risk Management Division is involved in:
– mapping the Group's risks and updating them twice-yearly, in order to ensure that the risks identified for each entity are complete, coherent and prioritised;
– developing and implementing action plans designed to reduce or control these risks, and raising management awareness at operational level of responsibilities;
– briefing the Group's Executive Management on the overall risks and how they are developing;
– consolidating and updating the Group's risk management policy, mainly by verifying that all sector-specific risk management policies, including those concerning financial market risks and energy market risks as described below, are comprehensive and coherent.

6.1 Financial risks

The Group's international development led to the creation of a dedicated structure in 2001 for control of financial risks. Regular internal audits are carried out to ensure that the policy defined is applied.
The main events of 2004 were the reinforcement of the monitoring procedures for the Group's liquidity risks, and adoption by the Board of Directors of a counterparty risk management policy.

6.2 Liquidity risks

Liquidity risks are monitored in order to ensure that EDF has sufficient financial resources at all times to finance its day-to-day business activities and deal with any exceptional event.
Liquidity management is handled through actively managing EDF's contracts entered into individually on the markets, smoothing debt repayments over the entire duration, keeping a portfolio of liquid securities and calling on banking resources and syndicated loans.
During 2004, the entities monitored and liquidity analyses performed have been extended to cover the whole Group, with a consolidated overview of Group liquidity in addition to entity-specific overviews.
At 31 December 2004, in view of the cash, cash equivalents and marketable securities amounting to €6.1 billion, and unused credit line facilities of €8.3 billion, EDF's liquidity position is approximately €14.4 billion, with €4.8 billion of debts maturing in 2005.

(1) FFO (funds from operations) is recurring cash flow from operations.
(2) FFO + net financial expenses/net financial expenses.
(3) Net financial debt/net financial debt + equity + minority interests.

6.3 Counterparty risk

Based on identification of significant counterparty risks at the parent company and controlled subsidiaries, a Group counterparty risk management policy has been developed, and was validated by the Board of Directors in July 2004. This policy defines the organisation of counterparty risk management and monitoring, the associated reporting procedures and channels, and a limit to the commitment with respect to each counterparty. The major counterparties were identified and the Group is introducing procedures to keep active watch over and manage exposure, with constant updating of the consolidated exposure to counterparty risk. The Audit Committee receives regular reports on this issue.

6.4 Energy market risk management

As the energy markets (electricity, gas, coal and oil) develop, energy companies' risk management practices are coming under increasing scrutiny by management and supervisory bodies, ratings agencies, creditors, regulators and lawmakers.
Controlling the impact of energy market risks is thus central to development of the Group's activities (generation, sales and marketing, trading) and is a permanent concern for Group management.
In 2001, EDF set up a Group Energy Market Risk Management function, which:
draws up the Group's energy market risk management policy,
• permanently monitors the exposure and limits of entities operating on the energy market,
• consolidates the Group's exposure to energy market risks,
• analyses market risks associated with investment, divestment and development projects, and long term contracts.
In March 2004, it was decided to make this function part of the Group's Risk Management Division for more rigourous risk management.

7. Events subsequent to the year-end

The most significant event since 31 December 2004 has been the progress made in negotiations on the shareholding structure of Edison, which are expected to be concluded by the end of March.

8. Outlook

The results for 2005 are expected to reflect further progress along the financial path followed by the Group, which aims to match the performances of the leading European electricity companies by 2007.

In France, deregulation of the market as of 1 July 2004, the forecast developments in sale prices, and the upward trends in wholesale power prices in a market that is gaining both depth and liquidity, are all

external operating factors that will influence business over 2005.
Internationally, EDF Energy and EnBW seem set to confirm the positive trends of 2004. Forecasts regarding Edison will depend on the current negotiations concerning the structure of EDF's investment in the company.
Investments are expected to rise in France in 2005, and will be devoted to reinforcement of generating facilities (EPR, fossil-fired power plants, renewable energies, etc.), energising commercial activities (gas and services), underpinning the durability of the public service mission and long term respect of its obligations (both nuclear-related and towards employees).
In Europe, consolidation of strategic assets will be a priority, particularly in Germany and the UK.

9. 2004 financial information under IFRS

In application of European regulation 1606/2002 of 19 July 2002 relative to international accounting standards, the EDF Group's consolidated financial statements for the year ended 31 December 2005 will be prepared in compliance with the international accounting standards approved by the European Union for application at that date (IFRS - International Financial Reporting Standards and IAS - International Accounting Standards).
The first financial statements to be published under IAS/IFRS will be those for 2005. They will include comparative figures for 2004 prepared on the same basis, except for IAS 32/IAS 39 and IFRS 4, which will be only applied from 1 January 2005.
Pro forma information for 2004 has also been prepared for comparability with 2005, including at 1 January 2004 the impact of the law of 9 August 2004 on the financing of electricity and gas sector pensions.
With a view to publication of the comparative financial statements for 2005, the EDF Group, in compliance with the French stock market regulator AMF's recommendation on financial communications during the transition period, has prepared financial information for 2004 on the transition to IAS/IFRS standards, presenting preliminary information on the expected impact of the transition to IFRS on:
• the balance sheet at the transition date, i.e. 1 January 2004, the date at which the final impacts of the transition will be recognised in equity for publication of the consolidated financial statements for 2005 (the impact of application of IAS 32 and IAS 39 and IFRS 4 will be recognised in equity at 1 January 2005);
• the financial position at 31 December 2004 and the income statement for 2004.
This 2004 financial information has been prepared in accordance with IFRS 1 (first-time application of IFRS), on the basis of the IFRS standards and interpretation published and applicable at 31 December 2004.
The basis for preparation of the 2004 financial information detailed in notes below consequently results from:
• IFRS standards and interpretations whose application is mandatory at 31 December 2005 in their current release: accounting standards in force at the date of publication of these restated accounts are those approved by European Commission regulations 2086/2004, 2036/2004, 2037/2004 and 2238/2004;
• the options chosen and exemptions applied by the Group to prepare the first 2005 IFRS consolidated accounts, as disclosed in note 9.1.1, subject to any revisions in the standards.
It is thus possible that the opening balance sheet presented below may not be the opening balance sheet actually used for the final 2005 consolidated financial statements.

Concerning concessions, the IFRIC (International Financial Reporting Interpretations Committee) is preparing an interpretation, which is unlikely to be finalised until the second half of 2005, and will only become applicable from 2006. While awaiting publication of this interpretation, EDF has made no substantial change to the accounting treatment of concessions as defined under French GAAP, which allow recognition in the balance sheet of the external interest in concessionary plant assets at the end of the concession.

This information has been reviewed by the Board of Directors and audited by the Statutory Auditors.

Reconciliation of balance sheet at 1 January 2004

(in millions of euros)

ASSETS	NOTES	French GAAP 01/01/2004	Restatements to IFRS	Comparative under IFRS 01/01/2004	Impact of Pension Reform	Pro forma under IFRS 01/01/2004
Goodwill		5,659	40	5,699		5,699
Intangible assets (other than goodwill)		859	92	951		951
Property, plant and equipment	*9.2.1*	99,012	128	99,140		99,140
Investments in companies accounted for under the equity method		2,146	–27	2,119		2,119
Non-current financial assets		6,991		6,991		6,991
Deferred tax assets	*9.2.3*	216	–58	158	1,677	1,835
Total non-current assets		**114,883**	**175**	**115,058**	**1,677**	**116,735**
Inventories		6,924	31	6,955		6,955
Trade receivables		14,394	–22	14,372		14,372
Current financial assets and other receivables		5,104	–214	4,890		4,890
Cash and cash equivalents		5,595	–26	5,569		5,569
Total current assets		32,017	–231	31,786	–	31,786
TOTAL ASSETS		**146,900**	**–56**	**146,844**	**1,677**	**148,521**
EQUITY AND LIABILITIES	NOTES	French GAAP 01/01/2004	Restatements to IFRS	Comparative under IFRS 01/01/2004	Impact of pension reform	Pro-forma under IFRS 01/01/2004
Capital		8,129		8,129		8,129
Consolidated reserves and income		10,796	–58,055	–47,259	46,263	–996
Equity (Group share)		**18,925**	**–58,055**	**–39,130**	**46,263**	**7,133**
Minority interests		915	–2	913		913
Total equity		**19,840**	**–58,057**	**–38,217**	**46,263**	**8,046**
Provisions for end of nuclear fuel cycle, decommissioning and last core		25,993		25,993		25,993
Provisions for employee benefits	*9.2.2*	2,072	57,949	60,021	–48,093	11,928
Other provisions for risks		2,305		2,305	327	2,632
Special concession liability	*9.2.5*	33,682	–1,146	32,536		32,536
Non-current financial liabilities		19,714		19,714		19,714
Other liabilities	*9.2.6*	5,109	1,606	6,715		6,715
Deferred tax liabilities	*9.2.3*	5,853	–2,984	2,869	–176	2,693
Total non-current liabilities		**94,728**	**55,425**	**150,153**	**–47,942**	**102,211**
Provisions for risks and expenses (current portion)	9.2.2 & 9.2.7	2,087	2,493	4,580		4,580
Trade and other payables		7,720		7,720		7,720
Current financial liabilities	*9.2.7*	9,890	1	9,891		9,891
Current taxes payable		1,042		1,042		1,042
Other liabilities		11,593	82	11,675	3,356	15,031
Total courant liabilities		32,332	2,576	34,908	3,356	38,264
TOTAL EQUITY AND LIABILITIES		**146,900**	**–56**	**146,844**	**1,677**	**148,521**

RECONCILIATION OF BALANCE SHEET AND EQUITY AT 31 DECEMBER 2004

(en millions d'euros)

ASSETS	NOTES	French GAAP 31/12/2004	Restatements to IFRS	IFRS 31/12/2004
Goodwill	*9.2.4*	5,024	347	5,371
Intangible assets (other than goodwill)		1,181	107	1,288
Property, plant and equipment	*9.2.1*	97,407	238	97,645
Investments accounted for under the equity method		2,187	11	2,198
Non-current financial assets		7,434		7,434
Deferred tax assets		200	744	944
Total non-current assets		113,433	1,447	114,880
Inventories		6,660	18	6,678
Trade receivables		15,869	–87	15,782
Current financial assets and other receivables		6,295	–214	6,081
Cash and cash equivalents		6,118	–8	6,110
Total current assets		34,942	–291	34,651
TOTAL ASSETS		**148,375**	**1,156**	**149,531**

EQUITY AND LIABILITIES	NOTES	French GAAP 31/12/2004	Restatements to IFRS	IFRS 31/12/2004
Capital		8,129		8,129
Consolidated reserves and income		9,438	–9,131	307
Equity (Group share)		**17,567**	**–9,131**	**8,436**
Minority interests		893	6	899
Total equity		**18,460**	**–9,125**	**9,335**
Provisions for end of nuclear fuel cycle, decommissioning and last core		25,861		25,861
Provisions for employee liabilities	*9.2.2*	2,049	11,571	13,620
Other provisions for risks		1,999		1,999
Special concession liability	*9.2.5*	34,786	–1,092	33,694
Non-current financial liabilities		20,888		20,888
Other liabilities	*9.2.6*	4,844	1,635	6,479
Deferred tax liabilities	*9.2.3*	5,624	–2,695	2,929
Total non-current liabilities		**96,051**	**9,419**	**105,470**
Current liabilities				
Provisions for risks and expenses (current portion)	*9.2.2 & 9.2.7*	3,810	715	4,525
Trade and other payables		9,017		9,017
Current financial liabilities	*9.2.7*	4,898	1	4,899
Current taxes payable		404	–9	395
Other liabilities		15,735	155	15,890
Total current liabilities		**33,864**	**862**	**34,726**
TOTAL EQUITY AND LIABILITIES		**148,375**	**1,156**	**149,531**

Changes in equity

(in millions of euros)

	Notes	1 January 2004	Net income	Pension Reform	Other	31 Decembre 2004	Minority interests	Consolidated total
	EQUITY (GROUP SHARE)							
Equity under French GAAP		**18,924**	**1,341**	**–2,456**	**–242**	**17,567**	**893**	**18,460**
RESTATEMENTS TO IFRS								
Pensions and benefits for IEG personnel	*9.2.2*	–59,775	–1,437	49,559		–11,653		–11,653
Connection fees	*9.2.6*	–1,968	–130			–2,098		–2,098
Hydropower concessions	*9.2.5*	696	1			697		697
Safety expenses	*9.2.1*	1,133	124			1,257		1,257
Actuarial variances deemed to be zero	*9.2.2.2*	–711	35			–676		–676
Cancellation of goodwill amortisation for 2004	*9.2.4*	–	348			348		348
Other restatements		–355	–79		81	–353	6	–347
Total adjustments to IAS/IFRS before taxes		**–60,980**	**–1,138**	**49,559**	**81**	**–12,478**	**6**	**–12,472**
Tax effect on restatements		**2,926**	**421**			**3,347**		**3,347**
Equity under IFRS		**–39,130**	**624**	**47,103**	**–161**	**8,436**	**899**	**9,335**

Reconciliation of income statement for 2004

(in millions of euros)

	NOTES	2004 net income under French GAAP	Adjustments to IFRS	2004 net income under IFRS	Impact of Pension Reform	Pro forma 2004 net income
Sales		46,928	–140	46,788	–638	46,150
Purchases and external services	*9.2.7*	–23,070	836	–22,234	–	–22,234
Personnel expenses	*9.2.2 & 9.2.7*	–9,756	1,185	–8,571	–302	–8,873
Taxes other than income taxes		–2,827	–	–2,827	–	–2,827
Other operating income and expenses		254	7	261	–	261
EBITDA		**11,529**	**1,888**	**13,417**	**–940**	**12,477**
Net depreciation charge		–4,716	–126	–4,842	–	–4,842
Impairment loss	*9.2.4*	–1,685	312	–1,373	–	–1,373
Other income and expenses		–190	–	–190	–	–190
Operating profit/EBIT		**4,938**	**2,074**	**7,012**	**–940**	**6,072**
Financial income and expenses		–2,185	–3,247	–5,432	2,375	–3,057
Income before taxes–Consolidated cos.		**2,753**	**–1,173**	**1,580**	**1,435**	**3,015**
Income taxes		–1,494	422	–1,072	–551	–1,623
Share in net income of companies accounted for under the equity method		68	35	103	–	103
Minority interests		14	–1	13	–	13
NET INCOME		**1,341**	**–717**	**624**	**884**	**1,508**

9.1 Main accounting policies used to prepare the financial statements under IFRS

The paragraphs below describe the first application by EDF of all IAS/IFRS for 2004, detailing the assumptions made concerning the standards, interpretations, and accounting policies applicable for preparation of the first consolidated financial statements under the international standards in 2005.
As this report does not contain comparative figures or the full notes required by IFRS, this information does not constitute a set of full financial statements as defined by current regulations.

9.1.1 EARLY APPLICATIONS AND EXEMPTIONS

IFRS 1 allows certain exemptions to the general principle of retrospective application of international standards, and the EDF Group has chosen the following options:
• business combinations prior to 1 January 2004 are not restated in the opening balance sheet;
• cumulative translation differences resulting from the translation of a net investment in a foreign entity are deemed to be zero and transferred to equity;
• actuarial gains and losses on employee benefits previously unrecognised under the “corridor” approach have been recognised in the balance sheet at 1 January 2004 in the provision for post-employment benefits, and the corresponding adjustment has been taken to equity.
• property, plant and equipment and intangible assets are carried in the balance sheet at amortised cost, as the Group has not opted for fair value measurement.

These options apply to Group entities that did not previously publish financial statements under IFRS. They have not been applied for EnBW, which publish IFRS financial statements since 2003.

Financial instruments are recorded under French GAAP, as application of IAS 32 and IAS 39 only become compulsory from 1 January 2005.

The interpretation on the accounting treatment of changes in existing decommissioning, restoration and similar liabilities (IFRIC 1) was applied early to assets and liabilities carried in the balance sheet at 1 January 2004.

9.1.2 PRESENTATION FORMAT

In accordance with IAS 1, the balance sheet separates current and non-current assets and liabilities, based on a 12-month criterion. The “French GAAP” column includes these reclassifications.
In the income statement, the presentation format used below is a simplified format showing aggregates for net financial income and other operating income and expenses. The first financial statements under IFRS, to be published at 30 June 2005, will include a detailed-format income statement, in compliance with IAS 1.

9.2 Main restatements and their impact on equity at 1 January 2004 and 31 December 2004 and on net income for 2004

9.2.1 PROPERTY, PLANT AND EQUIPMENT

Safety and environmental expenses

In accordance with IAS 16 (revised December 2003), certain safety and environmental expenses are capitalised. This applies to expenses incurred as a result of legal and regulatory obligations, where government authorisation to operate is conditional on compliance. Under French GAAP, until CRC (regulation 2004-06 on the definition, recognition and measurement of assets becomes applicable (which is the case for accounts opened on or after 1 January 2005), these costs are recognised as an expense incurred.
The restatement relates to EDF’s nuclear power generating plants. It amounts to €1,133 million on opening equity and has a positive impact of €124 million on the 2004 net income, before deferred taxes. The impacts net of deferred taxes are €743 million and €81 million respectively.

Hydropower

The revaluation reserves booked in 1959 and 1976 in respect of hydropower assets under concession have been eliminated, resulting in a €780 million decrease in the net value of fixed assets at 1 January 2004 (see the corresponding adjustment to equity in §9.2.5).

9.2.2 EMPLOYEE BENEFITS

Recognition of employee benefits.
In compliance with IAS 19 (Employee benefits), EDF provisions are recorded to cover the cost of all post-employment benefits that qualify as defined benefits, and all other long term benefits (detailed description in note 28 to the consolidated financial statements). These provisions are estimated by the projected unit credit method as required by IAS 19.

Impact of the financing reform for the special electricity and gas sector (IEG) pension system.
Following the pension financing reform for the special IEG system (detailed in note 2.3 to the consolidated financial statements) and its significant impact on the Group's residual obligations and pension expenses, EDF has used the principles detailed below to prepare the comparative financial statements under IFRS for 2004 and pro forma financial statements, as if the financing reform had taken effect since 1 January 2004.
The pension financing reform is reflected as follows in the comparative financial information for 2004 under IFRS:
• a provision of €57,452 million is recognised, covering obligations at 1 January 2004, net of external fund assets and before the effect of the financing reform resulting from the law of 9 August 2004, with a corresponding adjustment to consolidated reserves;
• the obligations at 31 December 2004 reflect the effects of the reform as follows:
– contributions paid by EDF into the specific electricity and gas industry pension system in application of financial agreements signed with the CNAV (standard pension organism) and additional pension bodies are treated as payments to a defined-contribution plan, as they place the Group in the same situation as companies affiliated to the general system; as a result, no provision is recognised for the corresponding obligations, as IAS 19 stipulates;
– specific past benefits for employees in the regulated activities (transmission and distribution) at 31 December 2004 (€16.3 billion), and related exceptional contributions paid to the basic and additional pension systems (€3.3 billion and €0.4 billion respectively) are financed by the CTA *(Contribution tarifaire d'acheminement)* levy on electricity transmission and distribution services, and no longer by EDF; consequently, the Group no longer records a provision for these obligations;
– the Group remains liable for specific past benefits for employees in the deregulated activities (generation and supply) as measured at 31 December 2004, which are fully covered by a provision in the financial statements in accordance with international standards in force at 31 December 2004 (€9,007 million, net of external fund assets).
• consequently, the special IEG pension system financing reform has led to a reversal of €49,755 million from opening provisions. The corresponding adjustment is taken to equity at 31 December 2004, as the French state is EDF SA's sole shareholder and a key player in the reform. The pre-reform pension expense is recorded in the income statement.

For the pro forma 2004 financial information under IFRS (prepared to provide comparative information for the 2005 financial statements), the balance sheet at 1 January shows the impact on equity of application of IAS 19 as if the reform was in force at that date. The pro forma income statement for 2004 includes personnel expenses for pensions, net of the effect of the reform. At 31 December 2004, the provision is identical to that in the comparative financial information restated under IFRS.

Concerning the reform of the healthcare benefits regime described in the notes to the consolidated financial statements at 31 December 2004, **the pre-existing commitment could not be estimated** because the accounts for the respective sections concerning current and retired employees had not been separated, and no sufficiently detailed and reliable historical statistical data were available.

Consequently, this commitment is not recognised in the IFRS financial information presented from the transition date to the effective date of regulations adopted in February 2005, which introduced a defined contribution plan for active employees and no longer requires EDF to contribute to the financing for retired employees, thus releasing the company from all such commitments.

Actuarial gains and losses deemed to be zero. Foreign entities that already recognise their pension commitments have applied the "corridor approach" allowed by IAS 19.
Unamortised actuarial variances were deemed to be zero in the opening balance sheet, resulting in a negative impact on equity of €705 million before deferred taxes, and €512 million net of deferred taxes. This adjustment mainly concerns EDF Energy and Light.

9.2.3 DEFERRED TAXES

The restatements for compliance with IFRS generate potential deferred tax assets due to temporary differences totalling €4,779 million at 31 December 2004 for EDF SA. In view of future reversals of deferred tax liabilities and the forecast taxable income for the period 2005-2010, EDF SA estimates the recoverable amount of deferred tax assets to be €3,795 million. A deferred tax asset of that amount is therefore recognised in the balance sheet at 31 December 2004.

9.2.4 CANCELLATION OF GOODWILL AMORTISATION

In application of IFRS 3, Business Combinations, goodwill is no longer amortised as of 1 January 2004. This generates a positive impact of €348 million on 2004 net income.

9.2.5 SPECIAL CONCESSION LIABILITY

The revaluations of 1959 and 1976 on hydraulic power plants operated under concession gave rise to recognition of the external interest in concessionary plant facilities in accordance with French GAAP. As this does not represent an actual liability in respect of the licensor, this account is eliminated under IFRS. This decreases the "Special Concession Liability" by €1,476 million, resulting in an adjustment of €696 million to equity and €780 million to asset revaluation at 1 January 2004.

9.2.6 STANDARD CONNECTION FEE

When a customer is connected to the network (mainly at the "blue" tariff), a standard connection fee is charged. In application of IAS 18, this fee is deferred and taken to income over an average 20–year period. This adjustment has a negative impact of €1,968 million before taxes on equity at 1 January 2004, and decreases the published 2004 sales figure by €130 million.

9.2.7 RECLASSIFICATION

The main reclassifications result from application of the current/non-current distinction for assets and liabilities. The following rules were used:
– concerning assets, all deferred taxes are classified as non-current, while all trade and other receivables are classified as current;
– concerning liabilities, all deferred taxes are classified as non-current, while the special concession accounts and provision for renewal of assets are grouped together under the heading "Special concession liability". Within current liabilities, "Current tax liabilities" are reported separately from "Other liabilities".
In the income statement, increases to provisions for risks and expenses have been reclassified as part of the relevant expenses.

9.3 Main restatements affecting the cash flow statement

Capitalisation of safety and environmental expenses has led to reclassification of outflows previously included in cash flows from operating activities (pre-tax income of consolidated companies) as cash flows from investing activities (acquisition of property, plant and equipment and intangible assets). The amount concerned is €230 million.

10. Research and development

EDF's R&D Division plays an active role in improving plant availability, resolution of operating problems and responses to health and safety and environmental requirements.
The R&D workforce (engineers, technicians and other employees) totals 2,275, including 1,657 EDF R&D managers and researchers working in scientific and technical laboratories, some with trial and analysis equipment. They also use the skills of external specialists, under the terms of cooperation agreements with major French and other engineering schools and universities.
EDF has 374 patented inventions, protected by over 1,100 patents in France and other countries. Most of these concern distribution and nuclear networks and plants.
EDF's R&D expenses amounted to €425 million. A quarter of this total is devoted to environmental enhancement projects.

11. Additional information

11.1 Share capital

Following the change in EDF's corporate form as decided by decree 2004-1224 of 17 November 2004 containing the articles of association of Électricité de France SA (limited liability company), in accordance with article L233-13 of the French Commercial Code, the company's share capital, owned entirely by the French State at 31 December 2004, is fixed at eight billion, one hundred and twenty-nine million euros consisting of one billion six hundred and twenty-five million eight hundred thousand fully paid-up shares of par value of €5 each.
At 31 December 2004, the French State held 100% of the share capital in compliance with the law, which requires it to hold at least 70% of the capital of EDF at all times.

11.2 Allocation of net income

The Board of Directors decided on 11 March 2004 to allocate the 2003 net income (€469,335,934.03) to retained earnings. Reserves totalled €3,626,200,481.46 after this allocation. In accordance with the terms of the Group Contract signed on 14 March 2001, the State received a dividend of €321,311,000, deducted from reserves which totalled €3,304,889,481.46 after the distribution.
Dividends paid amounted to €315 million in 2002 and €208 million in 2003.

11.3 Scope of consolidation: name of companies controlled, new investments and changes in consolidation methods

The full list of consolidated companies is attached to the consolidated financial statements.
No significant new investment or change in consolidation method took place in 2004.

11.4 Corporate governance and organisation

The introduction of the new law on the public gas and electricity services marks a turning point for EDF. From being a state-owned utility (EPIC) it has become a limited liability company (SA) with the associated organisation methods, obligations and rights.
With its new Management and Board of Directors, the company has also acquired greater freedom of enterprise.

11.4.1 BOARD OF DIRECTORS

The Board of Directors guides and oversees the EDF Group's action and results. It has a say in all the strategic orientations concerning the Group, and all subjects expressly referred to the Board by law. There are eighteen members, twelve of whom are appointed by decree. The State representatives and the independent members of the Board of Directors of EDF SA were appointed by a decree published in the Journal Officiel of 21 November 2004. In accordance with article L225-102-1 of the French Commercial Code, details of each Manager's and Director's role and the functions occupied in companies during 2004 are given below:

Chairman of the Board of Directors

• Pierre Gadonneix
Chairman of EDF's Board of Directors since September 2004
Chairman and CEO of EDF SA from November 2004
Head of Regulated Operations in France – Transmission and Distribution – International Operations
Legal representative of EDF, Chairman of C3 (SAS) since November 2004
• François Roussely
Chairman of EDF's Board of Directors until September 2004
Member of Lagardère's Supervisory Board since March 2004; Chairman of the Board of Directors of EDF International until March 2004; legal representative of EDF, Chairman of C3 (SAS) until September 2004; member of the Dalkia Holding's Supervisory Board until October 2004

Representatives of the French Government

• André Aurengo
• Bruno Bézard
Director of France Télévisions and AREVA
• Pierre-Mathieu Duhamel
Director of Air France and France Télécom
• Yannick d'Escatha
(Director of EDF since November 2004)
Permanent representative of the French Space Agency (CNES) at Arianespace (SA) and Arianespace Participation (SA)
• Jean-Pierre Lafon
(Director of EDF since November 2004)
Since August 2004: Member of AREVA's Supervisory Board
• Michèle Rousseau
(Director of EDF since November 2004)
• Alain Bugat
(Director of EDF until November 2004)
Vice-Chairman of AREVA's Supervisory Board, Director of COGEMA
• Jean-Michel Charpin
(Director of EDF until November 2004)
• Jean-François Stoll
(Director of EDF until November 2004)

Independent Directors

• Frank E. Dangeard
(Director of EDF since November 2004)
Chairman and CEO of Thomson; Director of Equant Orange since January 2004
• Daniel Foundoulis
Member of the Conseil National de Consommateurs (CNC)
• Claude Moreau
(Director of EDF since November 2004)
Manager of La Maison de l'Industrie (SCI)
• Henri Proglio
(Director of EDF since September 2004)
In France: Chairman and CEO of Véolia Environnement; Chairman of the Board of Directors of Véolia Water, ONYX, CONNEX; Manager of Compagnie Générale des Eaux; Chairman of Dalkia France's Supervisory Board; Vice-Chairman of SARP's Supervisory Board; Member of Dalkia (SAS)'s A and B Supervisory Boards; Member of Lagardère and Elior (SCA)'s Supervisory Boards; Director of Thales (SA), Casino Guichard-Perrachon (SA), SARP Industries, Dalkia International, Eaux de Marseille; permanent representative of ONYX on the Board of Directors of CSP; Chairman of Campus Véolia Environnement (SAS); observer on the Supervisory Board of the Centre National des Caisses d'Épargne (SA).
Internationally: Director of ONYX Asia Holdings, ONYX North America Corp, ONYX Environmental Group Plc, CONNEX Transport AB and COLLEX Pty.
• Louis Schweitzer
In France: Chairman and CEO of Renault (SA); Director of BNP-Paribas, Renault Crédit International Banque and Véolia Environnement
Internationally: President of the Alliance Board of Renault-Nissan BV; Director of AB Volvo; Member of Allianz's consultative committee; member of Philips Supervisory Board
• Jean Gaubert
(Director of EDF until November 2004)
• Yvon Montané
(Director of EDF until November 2004)

Employee representatives

• Jacky Chorin
(Director of EDF since September 2004)
Legal specialist
• Laurence Drouhin-Hoeffling
Writer for competition monitoring and economic observatory

- Alexandre Grillat
(Director of EDF since September 2004)
Engineer
- Catherine Nedelec
Engineer
- Philippe Pesteil
(Director of EDF since September 2004)
Engineer
- Marie-Catherine Polo
Customer advisor
- Alain Martin
(Director of EDF until September 2004)
Engineer
- Jean-Marc Mauchauffée
(Director of EDF until September 2004)
Senior staff member
- Robert Pantaloni
(Director of EDF until September 2004)
Senior staff member

Chief Officers (in addition to the CEO)

- Daniel Camus
Chief Financial Officer since November 2004
Member of the Supervisory Boards of EnBW, Dalkia Holding and Morphosis A.G. Chairman of the Board of Directors of EDF International
- Yann Laroche
Chief Human Resources and Communications Officer since November 2004
Director of EDF Energy
- Jean-Louis Mathias
Chief Operating Officer, Integration and Deregulated Operations in France since November 2004

The Board met eleven times in 2004 to carry out its mission. It has various subcommittees:
Audit Committee
Strategy Committee
Ethics Committee
Remuneration Committee, set up in December 2004.

11.4.2 EXECUTIVE MANAGEMENT

Upon the proposal of the Board of Directors, Pierre Gadonneix was appointed Chairman of the Board of Directors of EDF SA by the decree of 24 November 2004, published in the Journal Officiel (Official Gazette) of 26 November 2004.
The Chairman of the Board is responsible for the management of the company, and his title is Chairman and Chief Executive Officer.
The Group's Executive Management, consisting of an Executive Committee (Comex) and support functions, defines and oversees the Group strategy (with major orientations submitted for approval to the Board of Directors), supervises risk management, monitors performance and activity and cost synergies.
The Comex has three Chief Officers (in addition to the CEO):
– Daniel Camus, Chief Financial Officer
– Yann Laroche, Chief HR and Communications Officer
– Jean-Louis Mathias, Chief Operating Officer, Integration and Deregulated Operations, in France
There are also four Senior Executive Vice Presidents and the CEO of EDF Energy.

11.5 Contractual agreements with certain related parties and ordinary agreements

These agreements are covered by article L225-38 and 39 of the French Commercial Code.
Until 19 November 2004, EDF was a state-owned utility and as such not governed by the laws on contractual agreements with certain related parties.
With its new limited liability company status, EDF now has to comply with the above regulation in accordance with articles 225-38 and following of the Commercial Code.

11.5.1 CONTRACTUAL AGREEMENTS WITH CERTAIN RELATED PARTIES

No agreement concerned by article L225-38 of the French Commercial Code was entered into during the year.

11.5.2 ORDINARY AGREEMENTS

As required by article L225-39 of the French Commercial Code, a list of agreements concerning normal operations entered into on normal terms and conditions was provided within the legal deadline and submitted to the Statutory Auditors.

11.6 EDF SA

A five-year summary of EDF SA's results is shown in the appendix.

Appendix – Five-year summary of EDF SA's results

	2000	2001	2002	2003	2004
Capital at year-end (M€)					
Capital	395	395	395	395	8,129
Capital contributions	7,734	7,734	7,734	7,734	0
Number of ordinary shares in existence	–	–	–	–	1,625,800,000
Number of priority dividend shares (with no voting rights) in existence	–	–	–	–	–
Maximum number of future shares to be created	–	–	–	–	–
by conversion of bonds	–	–	–	–	–
by exercise of subscription rights	–	–	–	–	–
Operations and results of the year (M€)					
Sales, excluding taxes	28,278	28,732	28,895	29,034	30,210
Earnings before taxes, employee profit sharing, depreciation and provisions	5,424	6,951	12,738	7,086	7,397
Income taxes	207	748	1,027	1,394	706
Employee profit share for the year	–	–	–	–	–
Earnings after taxes, employee profit sharing, depreciation and provisions	327	881	(1,075)	469	902
Earnings distributed	–	–	–	–	–
Earnings per share (€/a)					
Earnings after taxes and employee profit sharing but before depreciation and provisions	–	–	–	–	4.12
Earnings after taxes, employee profit sharing, depreciation and provisions	–	–	–	–	0.55
Dividend per share	–	–	–	–	–
Personnel					
Average number of employees over the year	114,144	113,827	110,806	107,761	106,718
Total payroll expense for the year (M€)	3,980	4,118	4,094	4,135	4,291
Amounts paid for employee benefits and similar (social security, company benefit schemes, etc.) (M€)	2,805	3,044	3,128	3,224	3,342