

EDF Group
Annual Report
2004

When your world lights up

EDF
Electricité
de France

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by Pierre Gadonneix

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Group values

respect for the individual
respect for the environment
performance
solidarity
integrity



GROUP PROFILE

The EDF Group is a leading player in the European electric power industry. Doing business in increasingly competitive markets, the Group aims to satisfy its current customers and attract new ones by offering competitive solutions, combining where appropriate electricity, gas and related services. The goal is to consolidate its position as a top-ranked energy group, firmly anchored in Europe and increasingly active in developing markets like Asia, achieving profitable growth in all its businesses. It is moving towards this objective with a number of competitive advantages in its favour: 42.1 million customers, a powerful and diversified industrial base, a solid position in network management, and integrated expertise at all levels of the value chain.

The EDF Group

Revenues of
€ 46.9 billion

Installed
capacity of
125,447
MWe

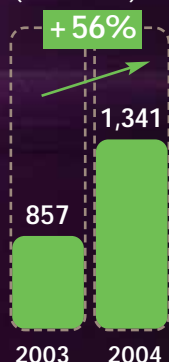
42.1 million
customers
in the world

161,310
employees

Hydro turbine of Francis design,
Bort-les-Orgues, France

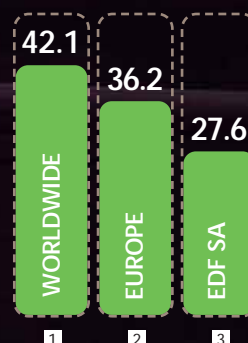
Net income up by over 50%

(in € millions)



EDF Group* customers

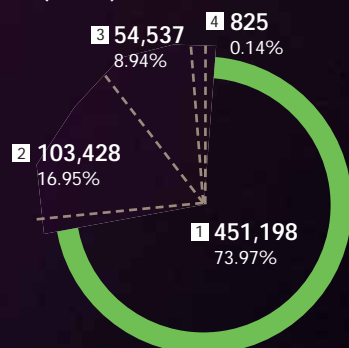
(in millions of customers)



- 1 Customers worldwide
- 2 Customers in Europe, EDF Group's core market
- 3 Customers in France for EDF SA

EDF* generation worldwide

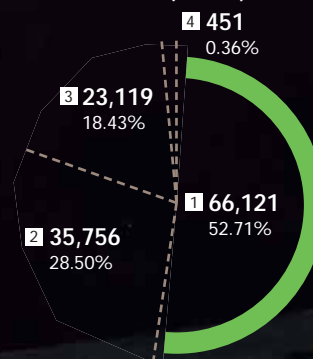
(in GWh)



- 1 Nuclear
- 2 Fossil-fired
- 3 Hydro
- 4 Renewables excluding hydro

EDF* installed capacity worldwide

(in MWe)



- 1 Nuclear
- 2 Fossil-fired
- 3 Hydro
- 4 Renewables excluding hydro

* Consolidated figures at 31/12/2004.

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Chairman's statement by Pierre Gadonneix

> Chairman and Chief Executive Officer



— The EDF Group is in good working order. Its balance sheet is healthier, and the turnaround is underway. The company is now in a strong position to embark upon a new industrial plan focused on Europe, and to begin investing again, notably in France.

Consolidated revenues increased by 4.5% to €46.9 billion in 2004. EBITDA rose by 10%, boosted in part by significant productivity gains, reaching €12.1 billion. Net profit rose to more than €1.3 billion, in spite of significant write-downs, notably on our Latin American operations.

Progress was made in all of our activities in Europe, our strategic base accounting for 95% of Group revenues. The French business was a main driver of this growth, despite an increase in competition: revenues advanced by 3.7% in France, and EBITDA remained at a high level in spite of a number of negative factors, including the drought that hampered hydro generation, a rise in fuel prices and increases in public service charges and personnel expenses. France contributed two-thirds of total Group EBITDA, evenly split between competitive businesses and regulated network management activity.

EDF Energy, our affiliate in the UK, once again turned in good performances, with organic revenue growth reaching 15%, EBITDA growth 16% and net profit growth 8%. These results are a tribute to the soundness of the company's business model and the quality of its relations with the regulator. The turnaround at Germany's EnBW accelerated, with organic revenue growth reaching 8.7% and EBITDA rising by 70%. This enabled the company to return to profit and halve its debt load.

This profitable growth was made possible first and foremost by our staff, who rose to the challenge and mobilised to implement the performance programmes and adapt to change. They made it possible for us to speed up efforts to reduce debt, which fell from €24 billion at the end of 2003 to €19.7 billion at the end of 2004.

The EDF Group nonetheless continues to be penalised by the fact that equity remains low, and this justifies the planning of a public offering in 2005. This is a promising prospect judging by the sharp improvement in our profit and loss account, favourable trends in our business markets, and the Group's bright outlook.

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— EDF staff has made the new business context a positive one for the Group by preparing and adapting themselves. Four developments were particularly noteworthy in 2004.

The first was the opening of 70% of the French electricity market to competition, knowing that EDF generates two-thirds of its revenues in France. By 2007, the entire market will be deregulated, the liberalisation process having taken more than ten years. Our teams were ready for the change: the corresponding brands, commercial offerings and customer service units were in place, management of the electricity distribution business had been reorganised, and information systems had been adapted. A very large majority of eligible customers have opted to stay with EDF.

The second was the change in EDF's status to that of a limited company, in accordance with the law of 9 August 2004. This was a decisive event in the Group's history. Our status as a public enterprise, a factor of success during the first 50 years, had become a hindrance in the new market environment. There was nothing exceptional about this change: all other electricity companies have undergone the same transformation. The move gives EDF more latitude to design broader offerings including gas and services in addition to electricity. Here again, EDF was fully prepared for this change, including the social aspects.

The third was the reform of the financing of the special pension scheme for EDF employees. The regime itself was maintained, and the status of employees remains unchanged. The financing of the pension scheme is guaranteed by a national fund, rather than by the company itself, which is in keeping with new accounting rules and will improve the Group's financial situation longer term, even if it requires equity capital in the short term.

The fourth development was a global phenomenon: at current growth rates, electricity consumption will double over 30 years. Citizens and governments alike, notably in Europe, have recognised the need to add new electricity generation capacity. Higher prices are a sign that the spread between supply and demand is narrowing. In sum, electricity will be a very buoyant market going forward.

— These developments make our strong points even more attractive.

Our generation assets are powerful and highly competitive. The generation base is by far the largest within the European Union, as is our 42-million strong customer base. Outside France, EDF is positioned in the large markets in Europe—the UK, Germany and Italy—which are our main export customers. Our staff is widely recognised for its dedication and professionalism, and our engineering and R&D teams are globally renowned.

I would add that the EDF Group has a deeply ingrained culture of public service and the public interest, an advantage considering that generating and marketing energy, a vital commodity, is a long-term business. The global corporate social responsibility agreement, prepared in 2004 and signed in January 2005, is proof that our teams share the same vision and values.

Improved operating results, a new business environment... the Group's strong points allow us to adopt an ambitious industrial plan aiming to make EDF one of the most notable and dynamic players in the European energy sector.

This is the driving force behind our selective growth strategy. The industrial plan I submitted was approved by the EDF Board of Directors. I have also presented it to Group executives, who are in the process of sharing the content with their teams. Its goal is to ensure significant revenue growth, in order to maintain our position as the leading European energy group, and to improve profitability enabling us to match the performances of the benchmark players.

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" We have a diverse customer base and a multinational staff. The more we leverage this wealth of diversity, the greater a driving force it becomes. "

— The plan focuses first and foremost on strengthening our positions in France.

Growing demand makes our industrial and technical advantages all the more valuable. We plan to invest more resources in our generation facilities, which have sufficed to cover more than 20% of the needs of the former 15-member European Union. Our aim is to strengthen and lengthen the life of these assets, to help Europe become energy independent and meet its commitment to fight the greenhouse effect. It is in this spirit that we are building a pilot EPR at our Flamanville site. To preserve our hydro generation capacity, we are working to renew concessions on favourable terms, and have decided to build a new, more powerful hydro plant at Gavet, in the Alps. We will also be bolstering peak capacity by reactivating fuel-fired plants. Lastly, we will be diversifying our generation base by developing, as needed, combined-cycle gas turbines, as well as profitable renewable energy sources.

At the same time, we will be focusing on adding to our commercial offerings in the run-up to the full opening of the French market in 2007. This involves adapting our information systems and marketing channels. The plan is to further develop our energy services and roll out combined gas and electricity offers, without ever losing sight of our public service missions.

The first mission is and remains to offer the best service at the most competitive cost. This has been the fundamental key to EDF's success. As it stands, a clear distinction must be drawn between public service and actions undertaken on competitive markets. Our public service missions will be covered entirely, in an amount to be determined by the Energy Regulation Commission (CRE), by public prices and the CSPE fund (Contribution to public service energy paid by all consumers in France, regardless of whether they are customers of EDF or not). This was the primary motivation behind the negotiations undertaken with the government to set out a clear contract, as provided for by the law of 9 August 2004.

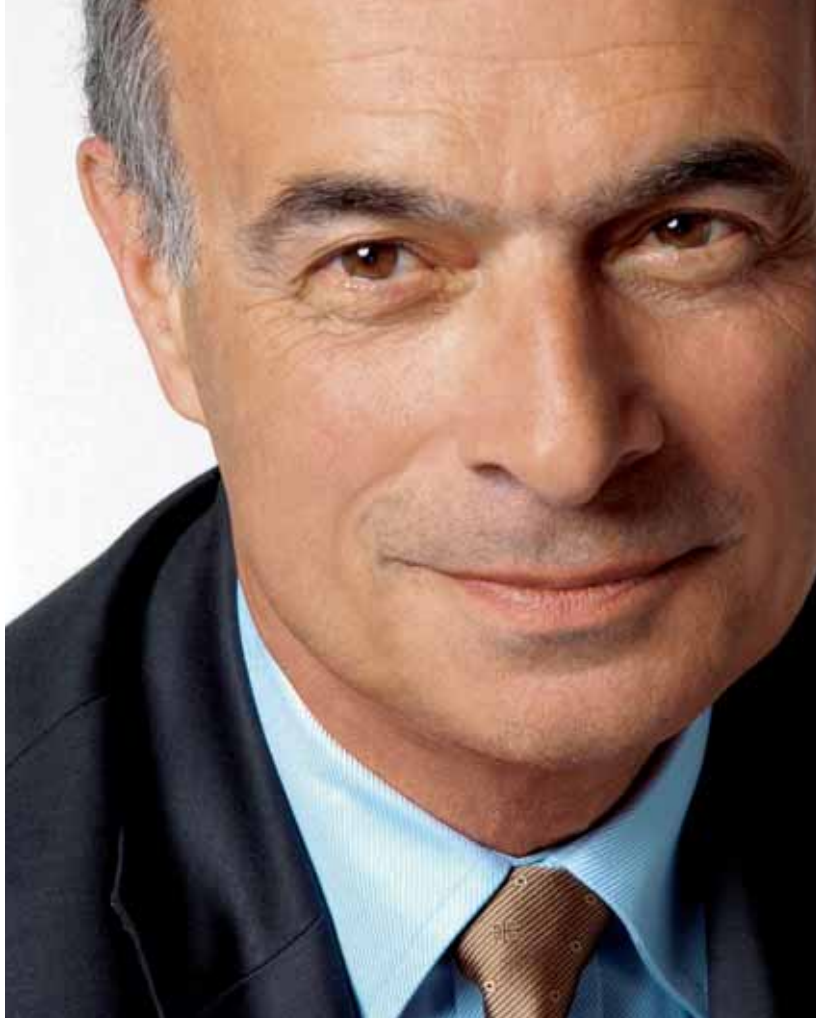
EDF is notably contributing its expertise in the management of networks, knowing that these are natural monopolies requiring a very high level of technical expertise. This is a regulated business placed under the control of the CRE, whose management units, RTE for electricity transmission (to be made a subsidiary in 2005) and EDF Distribution Network for distribution, guarantee that the networks are run independently and that all users-EDF, its competitors and their respective customers-receive equal treatment. Through these two entities, EDF manages 100,000 km of high and very - high voltage networks and 1.2 million km of distribution network. Supply continuity is among the best in Europe and constantly improving. This activity is part of our core electricity business, a cornerstone of our past and future. As a regulated monopoly, it also generates recurring cash flow, and thus contributes to our financial solidity.

— The second objective is to bolster EDF's European dimension.

Our large European affiliates must be allowed to become key players in the Group's strategy. Inasmuch as our businesses are locally rooted, we strive to team up with national partners and work alongside them to become benchmarks in the industrial sector. We have forged such balanced relationships with EnBW in Germany, and hope to achieve the same result in Italy.

We also intend to leverage our partnerships in Europe to position ourselves on the gas market in such a way as to solidify our offerings and secure supply.

Energy needs are growing in the Central European countries that recently joined the European Union. We will be there to respond to these needs provided that we can reorganise and rationalise our operations there.



We will also be developing our energy efficiency services in Europe, in keeping with the application of the European directive on CO₂ emissions trading, notably with the help of Dalkia.

Our main focus outside Europe will be on using our expertise and experience in the fields of engineering and integration to promote energy development in countries like China, with which EDF has been working for many years.

— This development plan will be backed by resources derived from our own businesses, asset restructuring and outside investment.

The first funding source we can count on is our cash flow, which increased from €8.1 billion in 2003 to €9 billion in 2004. Cash flow is a main driver for the Group. We plan to increase our cash flow generation further, mainly via steady improvement in financial performances. The Altitude 7500 programme, combining the Performance programme in France, Topfit in Germany, Integration in the UK and the actions undertaken by other Group entities, is notably expected to generate savings totalling €7.5 billion between 2005 and 2007. The remaining funds should derive from a structural increase in sales prices in Europe, and a moderate rise in rates in France.

The restructuring of our asset portfolio will be a second source of funding.

The third source will be a capital increase, which the government expects to raise between €9 billion and €11 billion. The plan is to sell no more than 30% of our capital to investors, including our employees.

EDF is an incomparable industrial group, with robust technical expertise, outstanding R&D, and unmatched generation resources. It is also a group of men and women who are dynamic, deeply attached to

the company, and driven by a formidable spirit of dedication. We will be working to promote even greater team spirit. Along these lines, I work directly with a team in which all of the Group's main functions and business lines, and the largest geographic business areas, are represented. This combination of technical and human skill is a remarkable source of dynamism, as we build our future and foster a true entrepreneurial spirit throughout the Group.

EDF at a glance^(*)

— The EDF Group consists of 75 affiliates and investments⁽¹⁾ in addition to the parent company. EDF has investments in 22 countries and offers services and consulting in 35 countries.



Europe

FRANCE

EDF SA

- Sales: €29,457 million
- 27.6 million customers
- Electricity sales: 522.8 TWh
- Electricity generation, including overseas departments 101,126 MWe installed capacity; 487.4 TWh generated
- Transmission: RTE (regulated activity) 99,458 km high and very high voltage lines
- Distribution: EDF Network Distribution & EDF Gaz de France Distribution (regulated activity) 1,240,000 km of medium and low voltage lines 32.5 million sites connected

Dalkia – EDF 34%, Veolia Environnement 66%

- Energy-related services

UK

EDF Energy (1999)⁽²⁾ – EDF 100%

- Sales: €5,964 million

- Electricity sales: 51,544 GWh. Gas sales: 21,791 GWh
- Electricity generation: 4,942 MWe installed capacity; 25,219 GWh generated
- Electricity distribution to 3.8 million customers and gas to 1.01 million customers
- Electricity networks: 164,840 km (low, medium and high voltage lines)

EDF Trading (1999) – EDF 100%

- Sales: €408 million
- Electricity trading (745 TWh), gas (134 Gm³), coal (237 Mt), oil (141 Mb).

GERMANY

EnBW (2001) – EDF 48.43% (EDF share);

- Sales: €4.627 million
- Electricity sales: 99,700 GWh. Gas sales: 83,000 GWh
- Electricity generation: 14,366 MWe installed capacity; 73,115 GWh generated
- Electricity distribution to 4.6 million customers and gas to 385,000 customers

- Electricity networks: 147,236 km (low, medium and high voltage lines)

ITALY

Edison (2001) – Company not included within EDF Group consolidation scope

- Sales: €6,491 million
- Electricity sales: 51,500 GWh. Gas sales: 12,900 Mmc⁽³⁾ Gas/Fuel
- Electricity generation: 10,045 MWe⁽⁴⁾ installed capacity; 47,753 GWh generation.
- Electricity networks: 2,900 km (low, medium and high voltage lines)

EDF Energia Italia – EDF 100%

- Electricity sales to eligible customers. Energy-related and environmental services to industry with **Fenice**, to the services sector and local authorities with **Siram**.

HUNGARY

Bert – EDF 95.57%

- Generation: 417 MWe and 1,600 MWth installed capacity

Demasz – EDF 60.91%

- Distribution to 751,000 customers

POLAND

ECK Cracovie, ECW, Kogeneracja, Rybnik, Zielona Gora

- Electricity generation: 4,647 MWe and 4,757 MWth (Rybnik only) installed capacity

SLOVAKIA

SSE – EDF 49%

- Electricity sales and distribution to 691,000 customers.

SPAIN

Hispaelec Energia – EDF 100%

- Electricity sales to major customers: 780 GWh

(1) See note 37 "Consolidation scope", pages 70-73, of the "Financial Statements". (2) The dates in brackets indicate when the affiliate joined the EDF Group. (3) Mmc: millions of m³. (4) Raw data taking into account Edison share of Edipower generation.



Asia

CHINA

Figlec – EDF 100%

- Electricity generation: 720 MWe installed capacity

Shandong Zonghua Power Company – EDF 19,6%

- Electricity generation: 3,000 MWe installed capacity

VIETNAM

Meco – EDF 56.25%

- Generation: 715 MWe installed capacity

LAOS

Nam Theun Power Company – EDF 35%

- Hydro generation (1,080 MW) under construction

Americas

UNITED STATES

EnXco – EDF 50%

- Wind power generation : 137 MWe installed capacity

ARGENTINA

Edenor (1992) – EDF 90%

- Electricity sales and distribution: 14,752 GWh to 2.25 million customers.
- Electricity network: 37,730 km.

BRAZIL

Light (1996) – EDF 94.79%

- Electricity sales and distribution: 18,148 GWh to 3.35 million customers
- Generation (hydro): 850 MWe installed capacity, 4,155 GWh generation
- Electricity network: 42,663 km
- **Norte-Fluminense** – EDF 90%
- On stream end 2004.
- Electricity generation: 820 MWe installed capacity

MEXICO

Anahuac, Saltillo, Altamira

- Independent generation: 2,332.5 MWe installed capacity

Gasoducto del Rio

- Gas transport: 410,000 GBTU/day

Africa

SOUTH AFRICA

PNES – EDF 50%

- Electricity distribution: 350,000 people

MOROCCO

CED

- Wind power generation (50 MWe) and photovoltaics

EGYPT

Port-Suez, Port-Said

- Independent generation: 1,360 MWe installed capacity

IVORY COAST

Azito

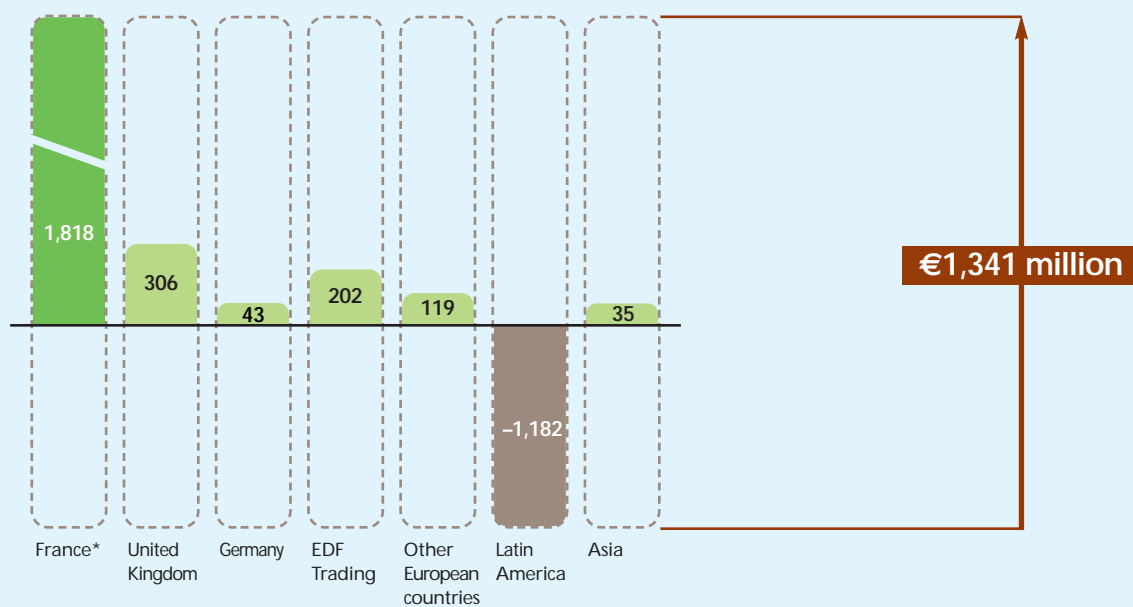
- Electricity generation: 300 MWe installed capacity

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Key figures

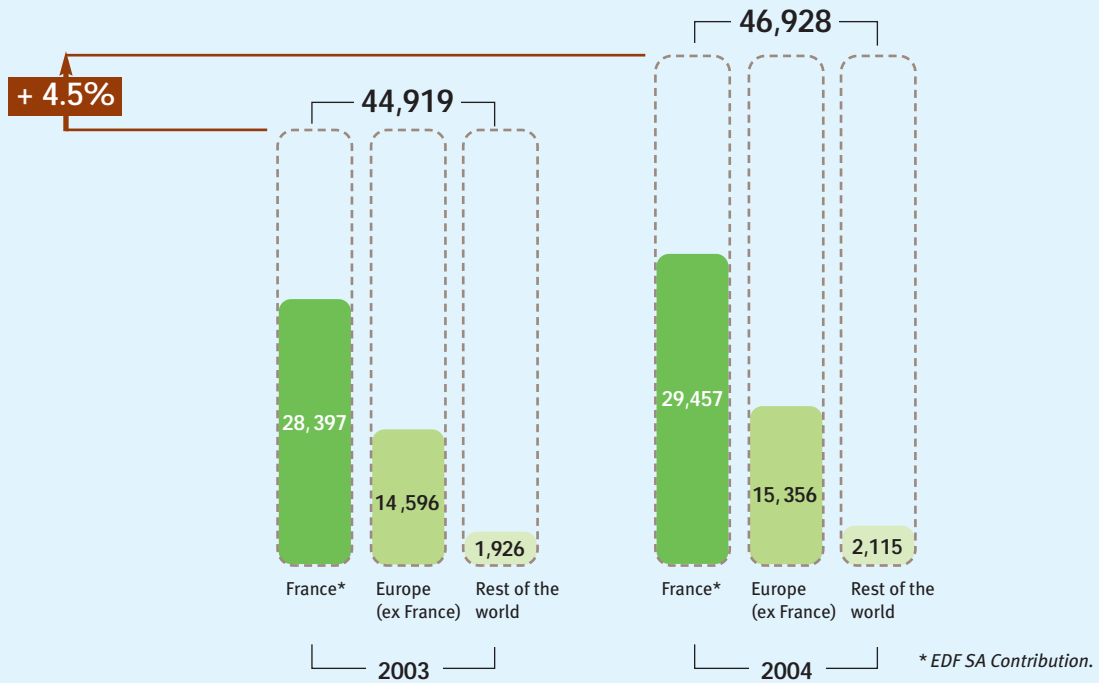
— EDF Group results were up in 2004 owing to growth in sales and improved performance. Within a context of wider market opening, the company strengthened its balance sheet and confirmed its position in Europe.

Net income up in France and rising fast on other markets except Latin America
(in millions of euros)

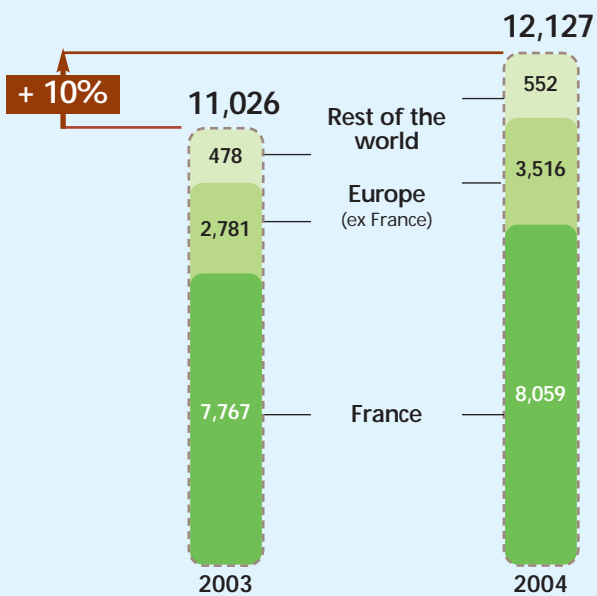


* EDF SA Contribution.

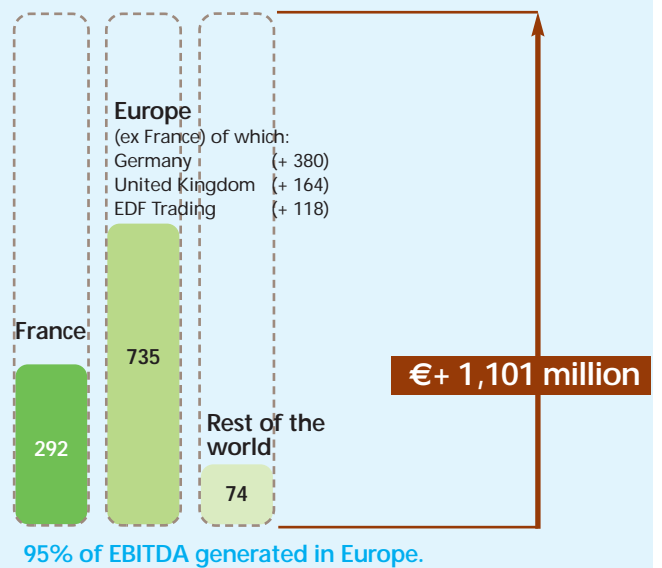
Sales growth sustained by all activities (in millions of euros)



Remarkable increase in EBITDA: twice the rate of sales growth (in millions of euros)

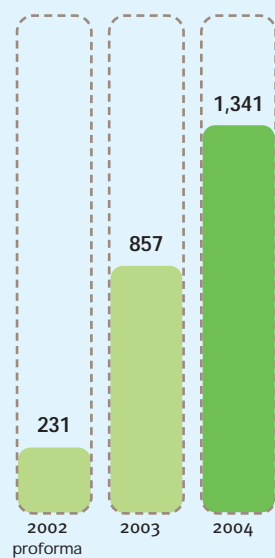


Breakdown of growth in EBITDA (in millions of euros)



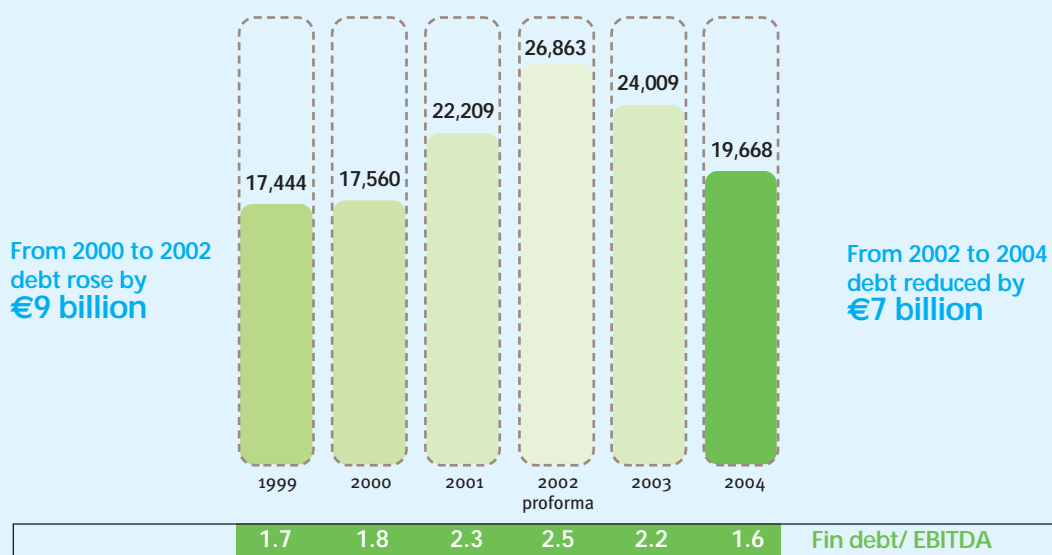
Trend in net income

(in millions of euros)



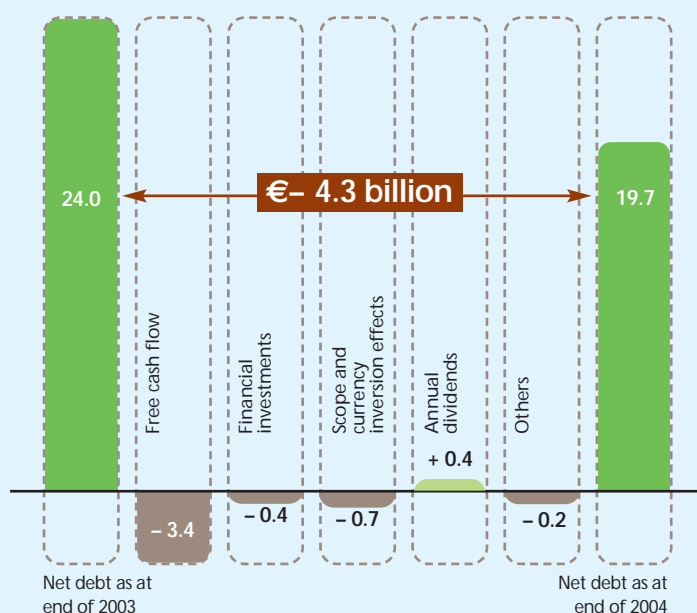
Financial outlook: strong momentum maintained

Debt reduction initiated in 2003 and stepped up in 2004



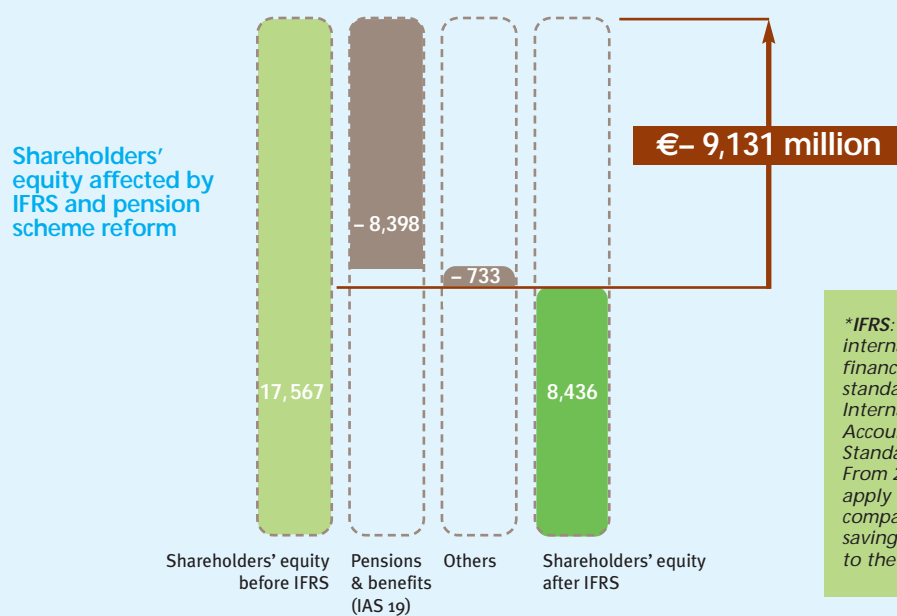
Debt reduced by 18%

(in billions of euros)



Summary of IFRS* and pensions impact as at 31/12/04

(in millions of euros)



*IFRS: The international financial reporting standards of the International Accounting Standards Board. From 2005, these apply to European companies offering savings products to the public.

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Group governance:

consistency and the subsidiarity
principle





Pierre
Gadonneix

Michel
Francony

Bruno
Lescœur

Yann
Laroche

— In the space of a few years, EDF has built a European and international Group focused on its core electricity and energy businesses. The Group's governance, announced in early 2005, aims to promote company-wide synergies by optimising the activities of its constituent parts and fitting them into a global dynamic. We thus expect to obtain maximum leverage from the strengths of the teams contributing to the Group's industrial strategy.

The enactment of the 9 August 2004 law relating to the public service of electricity and gas, and to electricity and gas companies, marks a new stage in EDF's history. The Group has acquired limited company status, with procedures, obligations and rights in line with those of its competitors.

With a new organisational structure and Board, the Group now has scope to develop its business in increasingly competitive markets. Management is developing new procedures founded on the principles of sharing and delegating of responsibility. The governance tools, whether in ethics, risk management, synergies or R&D to build the future, are all the more effective because they directly involve the Group's operational entities.

In order to achieve its objectives, the Group is constantly looking to enhance its performance, most notably through the productivity programme *Altitude 7500*, and is combining innovation, through a vigorous R&D programme, with planning via new management control tools.

HIGHLIGHTS

In January 2004, the EDF Group ISO 14001 certification granted by the AFAQ in 2002 was confirmed, with 50 new company entities satisfying auditors.

In April, EDF joined a new consortium with American electricity companies and nuclear reactor vendors General Electric and Westinghouse in the United States to conduct a study on advanced technology reactors.

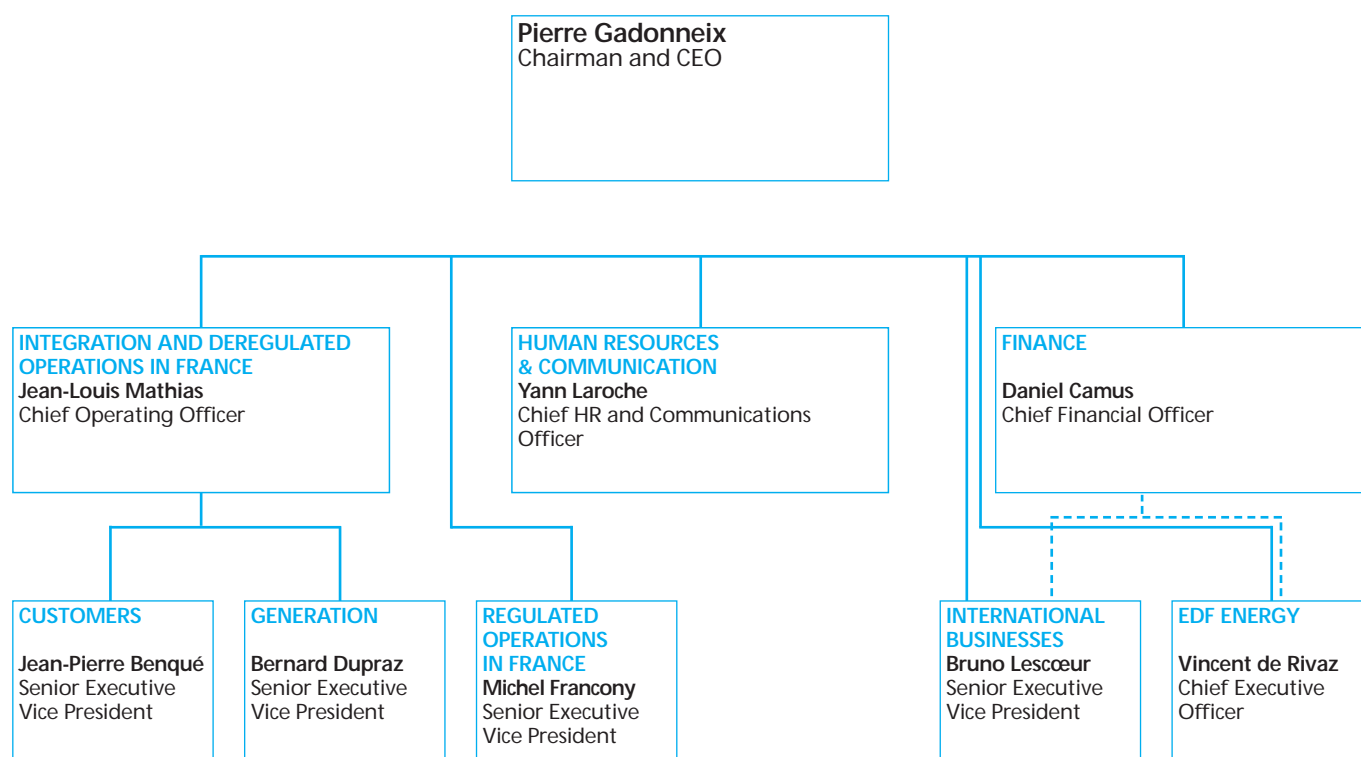
EDF's new status as a limited company was officially published in the French government's *Journal Officiel* on 19 November 2004.

On 14 December 2004, Pierre Gadonneix presented EDF executives with a proposed Group industrial strategy for the period 2005-2007.



Executive Committee

AT 30 NOVEMBER 2004





Governance: a new dynamic

— A new framework and organisational structure to leverage profitable development in the European energy markets.

EDF SA: A CLEARER REGULATORY FRAMEWORK

EDF's transition to a limited company, other than putting the company on an equal footing with its competitors, allows for the opening of up to 30% of its capital to support its development. The law of 9 August 2004 reaffirms the company's public service missions in France. A three-year public service contract will be signed with the French State, defining its requirements, their cost and funding. The law transcribes into French legislation the European directives unbundling open market activities and the regulated area of electricity transmission and distribution, which

must be independent both in terms of management and organisation in order to guarantee their neutrality towards all market players. The division which handles electricity transmission (*Réseau de transport d'électricité – RTE*) will also become a limited company but will remain 100% public sector, and may welcome public sector shareholders other than EDF. Its activities will still be controlled by France's energy regulatory body (*Commission de régulation de l'énergie – CRE*) which is responsible for ensuring equal treatment for all market players.

To the same end, the electricity distribution network becomes the responsibility of EDF Distribution Network, the operator that is governed by the CRE and that has all prerogatives for guaranteeing European directives. With its counterpart, Gaz de France, it relies on a common operator EDF Gaz de France Distribution, charged with the operation and maintenance of the gas and electricity networks operated by the two companies. EDF Gaz de France Distribution takes on most of the operations and employees of the former common operator.

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THE BOARD OF DIRECTORS OF EDF SA
– AT 21 NOVEMBER 2004

Pierre Gadonneix

Chairman and CEO of EDF SA

REPRESENTATIVES OF THE FRENCH GOVERNMENT

André Aurengo

Head of Nuclear Medicine Department
at La Pitié Salpêtrière Hospital

Bruno Bézard

Deputy Director General of state-owned companies and public
shareholdings, Ministry of Economics, Finance and Industry

Pierre-Mathieu Duhamel

Director of the Budget,
Ministry of Economics, Finance and Industry

Yannick d'Escatha

President of the French
Space Agency (CNES)

Jean-Pierre Lafon

General secretary, Ministry of Foreign Affairs

Michèle Rousseau

Director of demand and energy markets at the General
Directorate for Energy and Raw Materials (DGEMP)

QUALIFIED MEMBERS

Frank E. Dangeard

Chairman and CEO of Thomson

Daniel Foundoulis

Consumer advocate, Member of the National Consumers
Council (CNC), French representative
to the European Commission Consumer Committee

Claude Moreau

Chairman of the Interdepartmental Commission
for clean and energy-efficient vehicles

Henri Proglio

Chairman and CEO of Veolia Environment

Louis Schweitzer

Chairman and CEO of Renault

EMPLOYEE REPRESENTATIVES (ELECTED ON 06.05.04)

Jacky Chorin

Laurence Drouhin-Hoeffling

Alexandre Grillat

Catherine Nédelec

Philippe Pesteil

Marie-Catherine Polo

OTHER PARTICIPANTS

Gilbert Venet : Chief Controller

Bruno Rossi : Government Controller

René Camporesi : Secretary to the Work's Council

Pierre Merviel : Corporate Secretary

Christine Collaert : Corporate Secretary to the Board of Directors



IEG⁽¹⁾ personnel (or electricity and gas workers), including those of EDF, retain the same terms and conditions of employment. Pension funding is now backed by the State scheme and pension management by a separate body, the additional costs of specific regimes being borne by branch companies.

Pierre Gadonneix, a Ph.D. in Business Economics from Harvard Business School, is a graduate of the École Polytechnique, and of the École Nationale Supérieure du Pétrole et des Moteurs. An experienced businessman, he has served most of his career in industry, most recently, from January 1996, as Chairman and CEO of Gaz de France, a group he joined in 1987 as Managing Director. Under his leadership, Gaz de France underwent successful financial restructuring and continued its strong growth in France and elsewhere in Europe. Pierre Gadonneix has founded an IT company, been a director of an industrial development institute (*Institut pour le développement industriel – IDI*) the leading French investment trust for small and medium-sized companies, and held high level positions in the French Ministry of Industry, where he was notably Director for the Metallurgical, Engineering and Electrical Industries. Pierre Gadonneix has been European Vice President of the World Energy Council since 2004.

GROUP MANAGEMENT: PRAGMATISM AND SHARED RESPONSIBILITY

Nominated by the Board of Directors, Pierre Gadonneix was appointed Chairman and CEO of EDF SA by the French government on 24 November 2004. He put forward the names of three Chief Officers to the Board:

- Daniel Camus, Chief Financial Officer,
- Yann Laroche, Chief HR and Communications Officer,
- Jean-Louis Mathias, Chief Operating Officer, Integration and Deregulated Operations in France.

The Comex consists of the Heads of the main business lines, functions and geographical areas within the Group. Other than the three Chief Officers, this executive committee, known as the Comex, includes executives from Customers, Generation, the French Regulated Operations and International Businesses as well as the Chief Executive Officer of EDF Energy. The Comex is the most senior management body; when necessary it can also call on the expertise of Utz Claasen, Chairman of EnBW and Umberto Quadrino, Chairman of Edison.

Assisted by the support functions, the Chairman defines and directs Group strategy, whose main lines are determined by the managing board. He is responsible for risk control, guiding performance and extracting synergies. He also promotes Group values.

At the end of 2004, Pierre Gadonneix outlined a strategy for the Group through to 2007, the broad lines of which have been presented to management and approved by the Board of Directors.

(1) IEG : Industries Électriques et Gazières.



Board meeting, 16 March 2004.



A NEW BOARD OF DIRECTORS

The Board of the EDF public company had already been functioning along the main lines laid down by French law relating to quoted companies. The transition to a limited company formalised the process.

Half the Board newly appointed. The Board of Directors of EDF, an EPIC or state-owned specialised entity whose mandate was renewed 9 September 2004, has two new members: Pierre Gadonneix, ex-Chairman of Gaz de France, and Henri Proglio, Chairman and CEO of Veolia Environnement. It also welcomed six employee representatives elected by the personnel on 6 May 2004. At its 14 September meeting, it proposed the nomination of Pierre Gadonneix as EDF's Chairman to the French government, who accepted the appointment at the 15 September Council of Ministers.

After EDF's transition to a limited company, a new board was created and 12 out of 18 members nominated by a decree published in France's *Journal officiel* of November 2004. It comprises six representatives of the French State, six individuals with relevant business experience and six elected employee representatives.

There are some significant changes from the board of 2003. There are nine new members. Other than Pierre Gadonneix, these are Frank E. Dangeard, Chairman and CEO of Thomson, Henri Proglio, Chairman and CEO of Veolia Environnement and Yannick d'Escatha, President of the French Space Agency. They strengthen the representation of large international French companies on EDF's Board, joining Louis Schweitzer, Chairman of Renault and an EDF administrator since 1999. Also new are Jean-Pierre Lafon, General Secretary, Ministry of Foreign Affairs, and Michèle Rousseau from the General Directorate for Energy and Raw Materials, Ministry of Economics, Finance and Industry, who previously attended board meetings in her capacity as government representative. One-third of the employee representatives are new, with the arrival of Jacky Chorin, Alexandre Grillat and Philippe Pestell⁽¹⁾.

Procedures and operations: new internal rules. The Board of Directors determines the direction and monitors the results of the EDF Group through its responsibility for the parent company. It deliberates on all the Group's strategic aims, on matters expressly entrusted to it by law and on those it has made its preserve (the purchase or disposal of strategic shareholdings worth more than €200 million, innovative financial deals, etc.). The Board of the EDF public company met eight times in 2004 and the EDF SA Board three times.

(1) Further information on board members can be found in the management report, p. 101-102.



Meetings of the Audit and Ethics Committees.

FACTS & FIGURES

Values and ethics⁽¹⁾

True to its commitments, EDF has continued to roll out its ethical charter, drawn up in 2003, extending it to most of its affiliates who have integrated its principles into their own charters and codes of conduct. An ethical alert system was put in place, with an Ethics Advisor, contactable via the EDF internet site. The Group confirmed its membership of the United Nations Global Compact and adopted the tenth principle on tackling corruption.

(1) This issue is addressed in more detail in EDF Group's 2004 "Sustainable Development Report".

The Audit Committee met five times. It reviewed the audit schedule, EDF and RTE risk mapping and the Group's counterparty risk policy. It prepared the Board meetings on the EDF and RTE 2003 annual accounts and reviewed the internal control section of the 2003 Annual Report. It also analysed EDF and RTE's first-half accounts for 2004.

The Strategy Committee met five times. It reviewed gas strategy and the upstream and downstream organisation of the Group in France. It studied the delivery on the 2001-2003 contract, the public service contract and the twenty commitments to quality public service. In the run-up to 1 July 2004, it looked at EDF's marketing strategy, its positioning, product offer and staffing. It prepared the Board meeting on the 2001-2007 contract with Areva on the downstream nuclear combustible cycle.

The Ethics Committee met four times. It focused on solidarity and on the company's ability to deliver a local service in a competitive market place. The policy of subcontracting in the nuclear business and the living and working conditions of subcontractors were the subject of several meetings, culminating in a visit to the Cruas plant. It reviewed the Mediator's annual report, the Sustainable Development Report and the 2003 Annual Report. It also looked at EDF's policy on asbestos, its approach to social responsibility as well as changes for the Board of Directors.

The EDF SA Board set up an ad hoc committee to develop internal controls. The latter in turn created a **Remuneration Committee**. The former operations and investment commissions were abolished (the latter only dealing with markets). Their focus, as with large-scale investments, will be directly reviewed by the Board (above €100 million for the markets, in line with large company practice). The mandate also provides for Board review of issues linked to nuclear fuel policy.



Building the future

— To ensure the success of its industrial project, the Group is implementing *Altitude 7500*, an ambitious programme aimed at increasing productivity by optimising performances and unleashing synergies. It is shaping its future by insisting on a dynamic approach to R&D, a careful policy of risk prevention, and consistently careful management.

IMPROVING PERFORMANCE

The new *Altitude 7500* plan incorporates past performance-improvement programmes and targets savings totalling €7.5 billion at Group level by 2007.

Achieving productivity gains in 2004. In France, the Group has achieved productivity gains in the generation and engineering businesses through proactive personnel management and efforts to optimise maintenance, purchasing and outsourcing. Staff is mobilising to bring two important projects to fruition, one designed to better organise the hydro and fossil-fuel businesses, the other to enhance the long term performances of the nuclear plants.

The productivity gains achieved by EDF Energy in the UK thanks to merger-related synergies, exceeded the £189,2 million target set for 2006 during the year.

In Germany, EnBW has carried out an in-depth reorganisation. Long negotiations led to an ambitious agreement on headcount reductions. Personnel expenses are expected to be cut by €337 million by 2006 thanks to pay restraint, shorter working hours, a revision of how bonuses are calculated, and 2,140 job cuts not involving economic redundancy. These efforts are part of the Top Fit programme designed to generate €1 billion of recurring savings by that year.

ENBW STAFF FIGURES

	2004	2003
Staff (not consolidated)	18,556	34,719
Staff (consolidated)	8,692	15,904

EMPLOYMENT POLICY

	2004	2003
Staff hired	859	4,786
Staff laid off	160	1,438



EDF affiliates in Central Europe are also adjusting staff levels and restructuring. SSE of Slovakia notably turned non-core businesses into affiliates and reduced its headcount following an agreement with unions.

Driving performance with inter-business synergies. Since 2003, EDF has been using international synergies between its businesses to drive performance by spreading best practices throughout the Group. Some 1,400 proactive people work to further this process every day. Between 2003 and 2004, these synergies translated into cost savings of €13 million and added €43 million to earnings. The savings have resulted chiefly from synergies relating to sales to large customers (more than €2 million) and to equipment purchasing for the electricity distribution net-

works, where volume buying and harmonised specifications have saved €8 million. Cooperation with Dalkia in the field of energy services has saved a further €14.8 million in France and €18 million in the UK. For instance, the Group is negotiating an international framework agreement with General Electric for the purchase of spare parts for gas turbines. Likewise, combined equipment purchases for the distribution networks are expected to save €15 million a year starting in 2005.

The Group is also comparing operating and maintenance costs between its different fossil-fired generation plants to save an estimated €55 million a year. Similarly, the information-and experience-sharing platform p@ge, originally developed for the fossil-fired facilities, has been extended to other generation methods and to the trading activity.

EDF also launched a new plan in 2004 to maximise cooperation amongst its sales and marketing units dealing with companies that are active in several European countries. The goal is to give the EDF Group brand pre-eminence in Europe. The actions undertaken in 2004 – product promotion, testing of tools and methods – focus on setting up and organising sales and marketing functions with responsibility for large European accounts in the different countries where the Group is active.

Synergies were also at work in the consumer sales and marketing activity, where they helped EDF better respond to customer needs while improving the profitability of its operations. EDF Energy, Yello, Demasz and EDF all use decision-making tools based on estimated customer lifetime value (CLV), which corresponds to the net present value of profits coming from individual customers over the life of their relations with the Group. The same processes will be adapted to each affiliate company.

In Germany, Dalkia and EnBW worked together to win the loyalty of Visteon, a large customer attracted by the simplicity of dealing with a single interlocutor. In the UK, Performance Partnership, a joint initiative between EDF Energy and Dalkia focusing on energy savings



Information technology, low production cost photovoltaic cells, materials behaviour: EDF's R&D team gives the Group a competitive edge.



with guaranteed results, earned the trust of five customers: Xerox, Connex Train Stations, Abingdon Police Station, Evans of Leeds and Zara Retail.

Altitude 7500: teaming up for results. Pierre Gadonneix presented the Altitude 7500 project to the Group's 600 executives in December 2004, calling it the "summit to be conquered together". More ambitious than the programmes of the past, *Altitude 7500* is a cornerstone of the Group's industrial project. The goal is for staff to work together to achieve savings totalling €7.5 billion between 2005 and 2007, including, among others, the management of inter-business synergies.

The *Altitude 7500* plan calls for EDF employees to strive towards three main goals. The first is to cut operating costs by saving on personnel expenses (€1.5 billion) and saving on current expenses through a reduction in costs relating to support functions, selling and marketing expenses and IT systems (€3 billion). The second is to reduce working capital requirements by €1.5 billion through more efficient management of inventories and accounts receivable and payable. The third is to extract new synergies between divisions, particularly between generation and selling units. These efforts will be split between France (70%) and other countries (30%).

DEVELOPING THROUGH INNOVATION

The Group's reliance on and investments in R&D reflect its conviction that innovation is and will remain a competitive advantage. At a time when much effort was focused on controlling costs, EDF maintained its R&D spending at a healthy €395 million.

R&D: pursuing primary missions and activities. The primary missions of the R&D division include reducing costs, enhancing operating results and plant availability, complying with safety, health and environmental standards, and anticipating future trends by keeping at the cutting edge of technology.

EDF's R&D teams are widely recognised for their expertise in material physics, solid and fluid mechanics, hydraulics and electrotechnology. Their know-how enables them to conduct studies to understand, simulate and forecast the mechanisms by which materials age, a key factor in determining the useful life of nuclear facilities.

R&D staff have important testing and analysis tools at their disposal and continue to develop IT tools. They provide support to the Group's operating units, and contribute significantly when it comes to developing solutions for large customers.

They are also working on new technologies to make solar energy competitive, extend battery life and push back the technological barriers hindering fuel-cell battery development. The R&D units have also focused closely on rational energy use, and have acquired significant know-how in energy markets in general, in price projection, risk control and environmental sciences in particular.

The R&D Team at end 2003

2,300 PEOPLE
of which 1/3 women

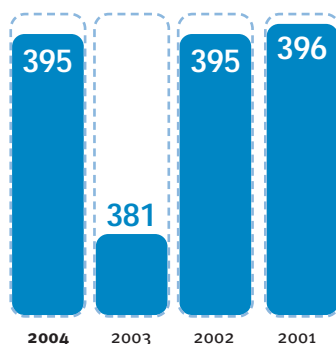
55 DOCTORAL RESEARCHERS

49 NEWLY HIRED
of which 9 from other European Union countries



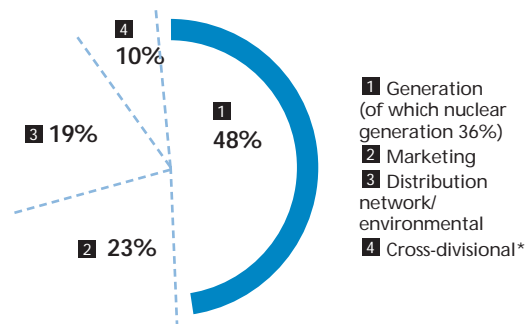
R&D teams from EDF and EnBW put their energies together at the European institute for Energy Research (EiFER) in Germany, notably testing new fuel cell designs.

EDF parent company R&D budget (in € millions)



Straight costs to which must be added induced costs (ex: our IT Division) for a full budget figure. These budgets do not include partnership with the CEA (€60 million in 2003).

Breakdown of R&D by field of research



** Cross-divisional programmes: innovative projects aimed at improving overall performance and security of EDF Group information systems.

Leveraging partnerships. To ensure access to all key areas of expertise over the long term and at a reasonable cost, EDF's R&D division calls upon outside sources and is forging partnerships to build a network of laboratories.

EDF and France's national scientific research centre (*Centre national de la recherche scientifique – CNRS*) had already worked together in 2003 to create a laboratory dedicated to developing competitive photovoltaic energy (*Cuivre indium sélénium électrodéposé laboratoire – Cisel*). In 2004, the two strengthened their partnership with the creation of a laboratory for durable industrial structures (*Laboratoire de mécanique des structures industrielles durables*), one of whose main accomplishments was to develop a new material for fuel-cell batteries.

EDF has also teamed up with the Electrical Power Research Institute (EPRI) on nuclear power and future management of electrical systems, exchanging engineers between Palo Alto (USA) and France.

The European Institute for Energy Research, created jointly with Germany's Karlsruhe University, is developing clean energy technologies, notably fuel-cell batteries and heat pumps, as well as sustainable development solutions such as urban management. As part of these efforts, EDF's R&D services are working more closely than ever with EnBW and implementing joint initiatives that produce fast results. Other R&D partnerships include one with the Thermal Power Research Institute for thermal energy in China. In France, EDF is working with the *Centre scientifique et technique du bâtiment* (building science), the *Institut de recherche pour l'ingénierie de l'agriculture et de l'environnement* (agricultural and environmental research), the research centres of the major engineering schools (*Mines, Ponts et Chaussées, Supélec*) and the National Institute for Research in Computer Science and Control, just to name a few. In 2004, the Group signed a cooperation agreement for environmental protection with five Polish technical universities located in cities where EDF has fossil-fired plants. Similar agreements, such as those with France's Atomic Energy Commission and Framatome ANP (Areva Group), cover the nuclear field.

Making the most of R&D investment. 70% of the R&D budget is devoted to programmes set up in collaboration with operating units, targeting 200 projects and 1,000 partnerships. 30% of the budget is devoted to upstream R&D, focusing on four objectives:

- Maximising performance of generation facilities over the long term,
- Strengthening EDF's relations with and services to its customers with an eye toward promoting sustainable development and equal access to electricity,
- Analysing and understanding the rules of electricity markets in order to capitalise on competitive advantages and make the best possible choices between different sources of energy, and
- Broadening the scope of research to include, for instance, digital simulation.

PURSuing DEVELOPMENT WITH AN EYE TO THE FUTURE

The EDF Group has implemented processes to control and evaluate risks in all its activities. Those responsible for the processes report directly to the CEO, and submit reports to the Executive Committee and Board of Directors to contribute to the decision-making process⁽¹⁾.

Using audit functions to ensure consistency. EDF uses audit functions to ensure consistency throughout the Group by applying methods that conform to international standards at every level. The process is overseen by the Corporate Audit Division, to which the auditors of EDF and affiliate companies report.

Ensuring nuclear and radiation safety. The Inspector General for Nuclear and Radiation Safety works with a team to review the practices, work methods and organisational structures implemented at EDF's nuclear sites. They make comparisons with nuclear power plants outside France and sectors with similar security and safety requirements, like civil aviation. Each year, the Inspector General makes a report that is presented to the Board of Directors and provided to the media and public (available on EDF website, www.edf.fr).

Risk management⁽²⁾. Created in 2003, the Corporate Risk Management Division (DRCG) has implemented specific systems. In 2004, it produced a first "risk map" system now used throughout the Group. The audit programme is based on a summary of its conclusions. The map is updated every six months.

Once the second risk map was produced, the division defined official plans of action for controlling the identified risks as tightly as possible. At the same time, an in-depth analysis of the financial aspects of these risks was conducted. The Group's insurance and risk hedging policy has been adapted based on the new risk map. Efforts to identify those risks that can effectively be insured against will be completed in 2005. A similar approach is being adopted with regard to human resources, with efforts focusing on guaranteeing access to key expertise throughout the Group.

Leading those working in the field to assume more responsibility for risk control is essential to the success of the programme, with the DRCG providing motivation, methodology and consistency.



Limiting impact from existing EDF facilities is one of R&D's long term programmes.

Responsibility is being delegated at three levels: operating units and those responsible for analysing and controlling risks; support functions, which contribute their expertise; and the small DRCG team, which is in charge of defining risk control policies and methods and communicating these at Group level.

The CEO also relies on other sources of information in conducting the Group's business: the Mediator, who handles disputes with third parties, the "Solidarity Mission" and the "Disability Taskforce". Their reports are available on the EDF website at www.edf.fr.

R&D on the move



B_U Risk: tools for managing risks Group-wide R&D has designed two tools for Group entities to measure "market" risks:

- B_U Risk to assess, using financial indicators, the portfolio's exposure by examining risk (VaR) and cash at risk (EaR),
 - Corporate_Risk measures aggregate risks at Group level and serves as a basis for more reporting to the Executive Committee.
- These tools integrate a modelling of price fluctuations, factoring in the correlation between European wholesale markets.

(1) Results described in detail in Management Report.

(2) See Management Report for details on risk management.

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Taking action on increasingly competitive markets



HIGHLIGHTS

In March, EDF launched two new brands in France, *EDF Entreprises*® and *EDF Pro*®, illustrating its commitment to respond to specific customer needs.

In the UK, EDF Energy received a National Customer Service Award for its top quality technical response and priority service offer for the disabled.

A growing number of cities opted for electric transport systems as a means of improving air quality, reducing noise and limiting greenhouse gas emissions. EDF offers comprehensive solutions through its affiliate Sodetrel, chosen in September by the city of Lyon, France.

In Germany, Yellow Strom's retail offer is successful, winning close to a million customers.

— The global energy industry, and especially the electricity market, is witnessing steady and sustained growth both in volumes and prices. In Europe, the EDF Group is operating in fully deregulated markets like the UK and Germany, as well as markets that are just beginning to be liberalised, notably in Central and Eastern Europe. Market opening and stricter environmental regulations are causing customer needs to change. In response to these new requirements, EDF is offering solutions that combine energy provision, an increasing number of services, and advisory services on energy efficiency. It is also working to unleash more synergies within the Group and to build new partnerships. The earnings growth recorded by all of the European affiliates is a tribute to the appropriateness of this approach. In France, 2004 was a watershed year for the EDF Group. In compliance with European directives, 70% of the market was opened to competition, and the law passed on 9 August effectively changed EDF's status to a limited company. The law also called for separating the Group's distribution network management activities from its generation and marketing businesses, in accordance with suggestions submitted by EDF and Gaz de France. This dissociation took effect on 1 July; an independent distribution network operator was created, staff teams were separated, and IT systems were adapted. EDF saw these developments as an opportunity to build on its products, create new brands targeting specific categories of customers (*EDF Entreprises*® and *EDF Pro*®), and take proactive steps to ensure customer loyalty. At the same time, the Group is increasingly offering eligible customers gas services in conjunction with electricity provision. Elsewhere in the world, the Group is contributing to the development of emerging countries and offering customers quality supply combined with energy cost saving services.



EDF Energy in the UK has launched a spirited customer loyalty programme as seen here at the Sunderland customer call centre.



Europe: synergies in action

— Wholesale energy prices increased throughout European markets in 2004, as situations of excess generation capacity came to an end and coal, oil and gas prices rose. The gap between forward prices on the French and German markets narrowed, mirroring the trend witnessed in spot markets. Conversely, the gap widened between France and the UK, where electricity prices are more sensitive to gas prices. Against this backdrop, the Group is consistently working throughout Europe to develop new solutions to help customers save on their energy bills.

EDF ENERGY: FOCUSING ON CUSTOMER LOYALTY AND DEVELOPMENT

In the British market, where customers are not known for their loyalty, EDF Energy, a fully-owned EDF affiliate, adopted a segmentation strategy featuring targeted service offers and intense efforts to build customer loyalty. More than 1.4 million customers have signed up for the Nectar loyalty programme, which earned EDF Energy the Utility Industry Award for best marketing initiative of the year. The programme was extended to include SMEs in 2004, a first in the sector. The company consistently ranks high in the quarterly ratings assigned by independent consumer watchdog Energywatch, which gave it top ranking for generating the lowest number of complaints from direct customers.

Providing new services for large customers. Working with its large customers, EDF Energy has developed Energy Zone, a new internet application designed especially for large corporate clients.

The service allows them to directly access their energy consumption data to print out their bills and transmit their meter readings online. Online payment services are also available. Starting in 2005, Energy Zone will include online services similar to Adviso® and @viso®, both of which are used by EDF's corporate customers in France.



4.8 million customers buy their electricity and gas from three EDF Energy brands: London Energy, Sweb Energy and Seeboard Energy.

FACTS & FIGURES

EDF Energy is backing efforts aimed at promoting energy efficiency in Newham, one of the five "warm zones" identified by the British government's programme to fight fuel poverty. The company announced in 2004 that it would expand its efforts by helping more than 800,000 households.

The **EDF Energy Trust Fund**, an independently managed fund, was set up in October 2003 to help individuals keep debt under control and promote energy efficiency. It has already benefited several hundred customers and contributed more than £436,831 to associations devoted to helping those caught in the spiral of debt.

EDF Energy's Priority Services team was awarded the **National Customer Service Award**, sponsored by the Disability Rights Commission, for its efforts to help the elderly, disabled and vulnerable with services ranging from bills in Braille to home visits.

For London Underground (LU), the largest customer of several of the company's divisions, EDF Energy has developed a concerted approach overseen by a key account manager. With this approach, much welcomed by LU, EDF Energy gets a more accurate idea of its main customer's needs and can respond more fully. This new way of working will also be applied to other major customers.

EDF Energy also created a Development Division in 2004, bringing together the businesses that work with major electrical infrastructure, notably the rail industry, airports, motorways and their lighting systems. It is also involved in joint projects with London Underground, British Airports Authority (Heathrow, Gatwick and Stansted), Docklands Light Railway, Heavy Rail and the Channel Link. The division is taking part in the fast expansion of public-private partnerships (PFI and PPP). Its expertise was officially recognised by a British Construction Industry major project award for the Channel Tunnel Rail Link.

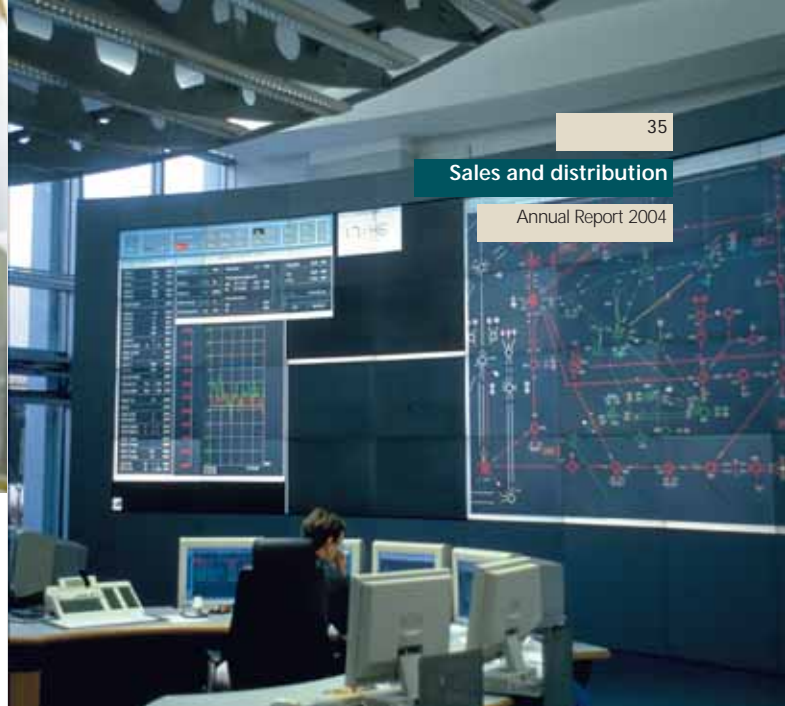
Distribution: a core business for EDF Energy. EDF Energy owns and operates three contiguous networks covering the southeast of England and the greater London area. With more than 7.8 million points of supply, it thus serves more than one quarter of the UK population.

In 2004, Ofgem⁽¹⁾ announced a favourable conclusion of its five-year distribution price control review (DPCR) for the 2005-2010 period. The DPCR was the fruit of long negotiations (18-24 months). Once approved by the regulator, the prices set remain in effect for five years. Ofgem has recognised the distinctive nature of the networks operated by EDF Energy and the company's need to increase its investments. It has also approved an increase in allowed returns for

(1) Ofgem: The Office of Gas and Electricity Markets.



In Germany, EnBW's offer Yello Strom® has won 1 million customers.



The command room of the electricity power station of Wendlingen, in Baden-Württemberg.

the networks. This approval gives the company more leeway to invest in improving supply quality and safety. In terms of network operation, EDF Energy learnt from the feedback provided after the storms of 2002, and set up an emergency response plan. The primary objectives of the plan are to ensure that staff is mobilised without delay, that customer queries are addressed in a timely manner, that relations with customers and authorities become more proactive, that sufficient phone service is available, and that weather forecasts are improved.

GERMANY: REVENUE GROWTH AND REORGANISATION

In 2004, EnBW, a 38.99% ⁽¹⁾ EDF affiliate, recorded a significant increase in electricity sales, which rose from 92.5 TWh to 99.7 TWh, lifting revenues (excluding VAT) from €6.26 billion to €7.02 billion. Over the period, gas sales rose from 78 TWh to 83 TWh, and gas revenues from €1.38 billion to €1.49 billion. This improvement in operational results was a main driver of earnings growth, along with optimisation of the customer portfolio, the reorganisation of the sales network, the unleashing of synergies following the integration of retail affiliate Yello, and a tight control of costs under the Top Fit programme. Net profit thus rose to €308 million.

Yello Strom®'s retail offer has attracted close to one million customers, and brand recognition amongst Germans stands at 97%. The company posted its first profit in 2004 thanks to its relentless efforts to trim costs and maximise revenues.

EnBW strengthened its positions both in its original market, Baden-Württemberg, and throughout Germany. Ongoing efforts to expand the range of services, combined with the launch of a comprehensive offer featuring firm commitments in terms of services, helped bolster customer loyalty. The group also expanded the range of services offered to industrial customers and energy resellers.

(1) Stake increase to 45.01% in February 2005.

EDF Energy

5 MILLION residential customers
including 250,000 SMEs (gas and/or electricity supply)

170,000
CORPORATE CUSTOMERS

164,840 km of electricity
networks

63.8 GWh of "green" electricity
sold to residential customers

EnBW

4.6 MILLION electricity customers

385,000 GAS CUSTOMERS

147,236 km of electricity
networks, of which 94,038 km are low voltage,
43,566 km medium voltage and 9,632 km high
voltage

1.25 GWh of "green" electricity
sold to consumers, not counting 48 MWh of solar
energy. Hydro: 3.1 GWh (residential customers and
SMEs) plus 4.5 GWh (industrial customers)



Fenice research centre in Rivoli, near Turin.

Poland represents the largest energy market of the new entrants to the European Union. Here, the fossil-fired plant at Rybnik.

FACTS & FIGURES

Poland consumes about 110 TWh of electricity annually, making it the largest energy market amongst the new EU entrants. The eligibility threshold was lowered to 1 GWh on 1 January 2004. The Group sold 14.5 TWh of energy in Poland in 2004.

A consortium led by **Tecnimont**, Edison's fully-owned engineering affiliate, was awarded a contract to build the Fos LNG* terminal.

2004: First year of Italian electricity exchange.

* Liquefied natural gas.

ITALY: MAKING HEADWAY IN THE ELECTRICITY AND GAS MARKETS

Gas and electricity offers are the cornerstone of profitability for **Edison**⁽¹⁾. The Greenstream gas pipeline, inaugurated in 2004 and running from Libya to Sicily, added 4 billion m³ to Edison's gas capacity. The company intends to capture 12.5% of the Italian electricity market by 2008, and to

lift its share of the Italian gas market to 20% by that year, covering 29% of gas requirements for the country's fossil-fired plants, 17% of industrial demand and 13% of residential demand.

EDF Energia Italia (EEI), the group's marketing arm, bolstered its position in 2004, notably strengthening its relations with several of the Group's large European customers. This was made possible by the integration of EnBW Italia staff, closer coordination with EDF's sales and marketing structures in France, and the use of EDF France's R&D expertise.

Fenice, a leading provider of ecological and environmental energy services to industry, improved its operational results in 2004 while matching the business volumes of 2003.

SPAIN: LEADING THE WAY AMONG FOREIGN ELECTRICITY RETAILERS

Hispaelec Energia confirmed its position as the leading foreign electricity retailer in Spain in 2004 while achieving financial balance. The company serves 104 customer sites, including eight for key accounts, selling 780 GWh in all. Hispaelec also began selling to SMEs in 2004 and marketing the EDF Group green energy offer, *kWh Équilibre*[®].

BELGIUM: MAKING FURTHER INROADS

EDF's sales affiliate in Belgium offers customised services to companies consuming more than 1 GWh annually. It made further inroads in the 10-100 GWh segment during the year, lifting its customer base from 30 to 50, which increased EDF's market share to more than 6%. Wholesale prices rose by 10% over the period.

POLAND: EVEREN, JOINING FORCES TO BOLSTER MARKETING STRENGTH

In 2004, the EDF Group created **Everen**, an energy supply and trading company, by bringing together EDF EnBW Polska, which serves the eligible customer market, and the sales department of the Rybnik power plant, a trader on the wholesale market. Everen is a fully-owned affiliate of the Rybnik power plant. This entity backs the Group's sales efforts on an increasingly liberalised Polish market.

Everen offers its business customers energy management solutions, facility management, and waste management services via Fenice

(1) EDF owns 18% of Italenergia Bis' capital (IEB, Edison's parent company).



Demasz, in Hungary, serves 751,000 customers.

Poland, Dalkia Termika and A.S.A. Eko Polska. It also works with multi-site customers that are established in Poland. In addition, Everen handles the sale of the Rybnik's production (10TWh in 2004) on the wholesale market, represents the plant on the power exchange, and has a trading activity. Starting in 2005, Everen will manage CO₂ trading for the Group in Poland.

HUNGARY: IMPROVING GROWTH AND QUALITY

Demasz, EDF's 60.91% electricity distribution and sales affiliate in Hungary (751,000 customers), reduced its technical losses to just 10% of power delivered in 2004, and optimised its investments by trimming its operating costs. It was ISO certified in three areas in 2004: quality (ISO 9001), environmental (ISO 14001) and safety (OHSAS 18001). Consumers also named it the best supplier in terms of quality for the third year in a row.

D-Energia, which sells electricity to eligible customers in Hungary for Demasz, recorded further growth in 2004, winning 17 large new accounts and keeping 90% of its eligible customers. The customer base expanded by 50% during the year, while revenues rose 52% and gross margin trebled.

R&D on the move

Bringing new tools and methods to European affiliates

EDF's R&D teams have updated and parameterised consumption forecasting tools, notably for Hispaelec and EDF Energia Italia. They have also developed a tool measuring the correlation between customer satisfaction and customer loyalty, and contributed methodology input to the analysis of "customer life-time value". Working with EDF Energy, the teams have helped explore many aspects of energy efficiency: heat pumps, micro cogeneration and home services.



A Yellow Strom® customer adviser in Germany. Growing sales at all of EDF Group European affiliates bears out the value of providing an array of energy-related services.

SLOVAKIA: SECURING SUPPLY

SSE, EDF's 49% electricity distribution and sales affiliate in Slovakia, saw its margins expand further in 2004. With 22% of the market now open to competition (annual consumption of more than 20 GWh), SSE did not lose any of its 691,000 customers. Synergies between EDF Group affiliates in Central Europe worked well in 2004, with SSE signing trading and purchasing contracts (500 GWh) with Rybnik in Poland,

Dalkia in the Czech Republic and D-Energia in Hungary. These contracts allowed the company to diversify and optimise its supply sources.

The Slovakian market continues to open to competition. All non-residential customers have been free to choose their energy supplier since 1 January 2005; SSE generates 65% of its sales with this customer category. Residential users will become eligible on 1 July 2007.

NEW ELECTRICITY CONTRACTS

	31/12/2004	31/12/2003
New electricity contracts	15.15 TWh*	16.5 TWh
Breakdown by country		
Italy	7 TWh	6 TWh
UK	2.01 TWh	2.2 TWh
Poland	2.069 TWh	0.4 TWh
Benelux countries	2.845 TWh	7 TWh
Spain	0.424 TWh	0.8 TWh
Hungary	0.802 TWh	0.1 TWh

*Total quantities for 1st and 2nd halves of 2004. Above and beyond the 15.15 TWh of new contracts at 31 December 2004, contracts won through cooperation with EnBW represent an additional 3.1 TWh (3.9 TWh in 2003).



Dalkia manages the urban heating network in Dubravka, Slovakia.



Dalkia takes a further lead in the health sector. Here, the energy facility at the Venice Hospital, Italy.

DALKIA: LEADING THE EUROPEAN ENERGY SERVICES MARKET

Dalkia (34% owned by EDF and 66% by Veolia Environnement) is Europe's leading supplier of energy services to businesses and local authorities, providing heating and air conditioning networks, thermal energy and mixed technology services, production equipment, and facilities management services. With the opening of the electricity and gas markets and increasing concern about environmental factors, Dalkia is helping its customers to optimise their energy purchases and improve energy efficiency. Starting in 2005, it will also help them make the most of CO₂ trading.

Dalkia's heating network management business in Central and Eastern Europe grew considerably in 2004. In Slovakia, it extended its heating network operating contract for 20 years. In Poland, Dalkia acquired the combined heat and power plant in the city of Poznan. In Rumania, the company began operating the district heating network for the city of Ploiesti.

Dalkia is also reinforcing its leadership in the health sector. Its Italian arm, Siram, won a contract to manage energy equipment for hospitals and health-care facilities in the Rome area and Liguria. In the UK, Dalkia was awarded a contract to provide steam and electricity to the Broadgreen and Prince Charles Hospitals and the James Cook University Hospital.

Dalkia also expanded its service offer in 2004. In Sweden it signed a number of mixed-technology maintenance and energy management contracts for municipal buildings in Sollentuna, health-care facilities in Filipstad, and the rail network linking the airport to Stockholm.

BRINGING EUROPEAN CUSTOMERS MULTI-COUNTRY SOLUTIONS

An increasing number of large groups are attracted to EDF's European coverage and broad sales and marketing network. The EDF Group's sales teams and affiliates join forces to respond to calls for tender launched at European level: in 2004, they signed contracts totalling 15.15 TWh in Spain, Italy, Hungary, Poland, Belgium and the UK. In addition, EnBW was selected to provide 3.1 TWh in Germany thanks to the synergy unleashed between sales and marketing teams.

FACTS & FIGURES



Scottish & Newcastle: Building on customer trust

The EDF Group has been working with this beer specialist since 2002. Scottish & Newcastle reaffirmed its confidence in EDF late in 2004 with a contract to supply 300 GWh of electricity in France (Kronenbourg), Belgium and the UK. Scottish & Newcastle appreciates the pan-European coverage the EDF Group provides, and is particularly happy with EDF Energy's innovative Flexibility offer and its access to the Group's R&D expertise.



Retailers, craftsmen, local authorities, individuals, small companies or large ones: EDF offers are adapted to specific customer needs.

France: on track for success

— All non-residential customers in France (companies, professionals and local authorities) have been free to choose their electricity supplier since 1 July 2004. From that date, they were given a choice between remaining within the existing regulated framework or opting for new offers created by EDF or those of its competitors. In the run-up to this deadline, EDF revised its organisational structures and separated its competitive commercial activities from the network management business, which remains regulated. The Group stepped up its marketing efforts by launching new brands and innovative, targeted offers. This phase of market opening was a success.

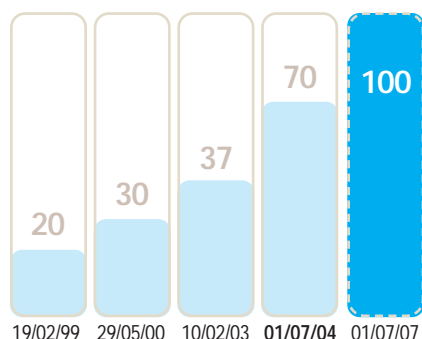
COMMERCIAL OFFENSIVE

Setting up a proactive selling strategy. EDF has designed specific offers for SMEs and professional customers based on three principles: innovation, with a new range of offers combining electricity supply and services; energy optimisation, with diagnostics and efficiency services allowing customers to monitor consumption and control costs; and economic security, with energy prices that track regulated rates. The Group has created two new brands in response to customer needs: *EDF Pro*® and *EDF Entreprises*®. The brands assign dedicated teams to these customers and offer services tailored to their needs and to the values specific to these market segments.

EDF has also made its customer service even more efficient through new or upgraded telephone reception services, internet sites, information letters and systems, and by hiring and training new sales and marketing staff.

Looking ahead. EDF's new status as a limited company frees it from the "speciality principle" and gives it new freedom to expand its commercial offering. EDF and its partners can now extend their energy management and usage services to include multi-energy offers that go beyond the provision of electricity. The Group began to launch much-awaited gas offers late in 2004 and will unveil more in 2005. The gas offers are simple and competitive, and like with electricity, EDF will be there to advise customers on how to use the energy efficiently.

Market deregulation threshold in France (%)





Starting in 2007, 24 million residential customers, 9 million of which also require gas services, will become eligible to choose their energy supplier. EDF is preparing to transfer the management of these customers from the distribution to the sales and marketing arm, and is identifying the most appropriate offers to launch.

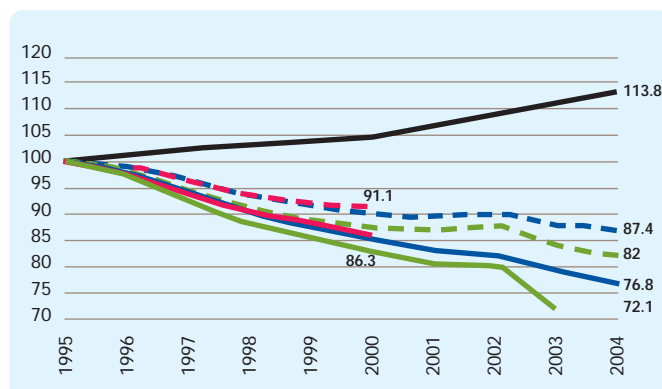
Working together to optimise sales and marketing. To ensure that all available expertise goes into each solution offered to customers, EDF is constantly forging new partnerships. The Group has notably signed an agreement with installers and electricians (*Fédération française des installateurs électriciens*) to design solutions based on proximity and quality for professionals and consumers alike. Another partnership with professionals from the heating, cooling, and refrigeration sectors (*Union climatique de France, Syndicat national des entreprises du froid, de l'équipement de cuisines professionnelles et du conditionnement de l'air*) aims to get

FACTS & FIGURES



The French market was opened against a backdrop of rising energy prices. Baseload wholesale prices increased from €24 MWh early in 2003 to €31 MWh in January 2004, before hitting €34 MWh late in December. Regulated tariffs did not follow the same pattern, and this difference probably dissuaded some eligible clients from leaving the regulated segment.

Electricity rates in France. Annual trend in prices before tax excluding CSPE for regulated tariffs. (Price index 100 in 1995)



Residential customers and retailers**:

Small and medium-sized businesses and assimilated**:

Large industrial customers:

Price index:

*CSPE: Contribution to Electricity Public Service Fund.

**As of 1 July 2004, commercial customers have been able to choose their electricity supplier.

Customer loyalty remains strong
(share of customers that have remained with EDF)

LARGE COMPANIES: 75%

SMEs: 99%
(eligible since 1 July 2004)

PROFESSIONALS: 99%
(eligible since 1 July 2004)

LOCAL AUTHORITIES: CLOSE TO 100%
(eligible since 1 July 2004)



Delifruits cold conditions fruit juices and other uncarbonated beverages. The company chose the **EDF Entreprises®** brand's offer **kWh Excelis®**.

the associations' thousands of members involved in spreading the word about EDF's offers and quality guarantees to residential customers and professionals. EDF has also joined forces with OPAC, an organisation aimed at social solidarity in Paris, in an agreement calling for major efforts in three areas: social responsibility and energy efficiency, the development of renewable energies, and a project to install fuel-cell batteries in 250 homes. EDF's collaboration with France's national housing improvement agency (*Agence nationale pour l'amélioration de l'habitat*) focuses on thermal comfort, controlling heating costs and electrical safety in existing homes.

Other partnerships are tailored for business customers, with **EDF Entreprises®** offering advice on optimal energy usage and electricity quality. EDF approves installers based on objective criteria, and signs contracts with them to ensure that the recommendations associated with the offers are implemented. This is a means to ensure maximum service quality at all levels: sales, recommendations, implementation, after-sales service and maintenance.

EDF ENTREPRISES®: BRINGING WINNING SOLUTIONS TO MARKET

The EDF Entreprises brand was designed for small, medium-sized and large enterprises. Sales staff work closely with customers, who know they will be dealing with energy professionals anxious to respond to their needs quickly and efficiently. The edf.entreprises.fr website gives customers access to online information and services, like P@norama, which enables them to monitor their consumption. The "chat on edfentreprises.fr" event attracted some 150 company leaders who came to discuss EDF's new offers.

Large companies and accounts. EDF has tailored solutions to the specific needs of this customer category: electricity supply contracts are adapted to their requirements and associated with services that simplify their energy management, while advisory services allow them to optimise their energy spending. Depending on its needs, each customer is provided with a range of tools and reporting mechanisms allowing it, for instance, to consult load curves via

FACTS & FIGURES

Delifruits chooses Excelis. Specialising in the manufacture and packaging (via cold aseptic filling) of still soft drinks and fruit juices, Delifruits opted for **EDF Entreprises® Excelis®** offer, based on a diagnostic carried out by EDF. The company was able to install desensitisation equipment to guarantee uninterrupted power supply to avoid the outages that only last a few seconds but affect the production chain, and to ensure steady power supply in the most sensitive areas of its facilities. The result was an improvement in productivity.

EDF Entreprises® customers:
large companies and accounts

6,950 CUSTOMERS

338,000 SITES

166,000 GWh

kWh ÉQUILIBRE® :

- 32** MAJOR CUSTOMERS
- 62** SITES
- 210** GWh



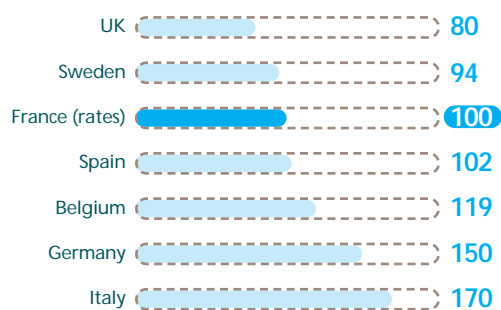
Since December 2004, EDF supplies both electricity and natural gas to companies. Champagne maker Nicolas Feuillate chose this type of combined energy offer.

ELECTRICITY SUPPLY PRICE INDEX (source: Eurostat)

Large industry

4 MW x 6,000 h (24 GWh/year)

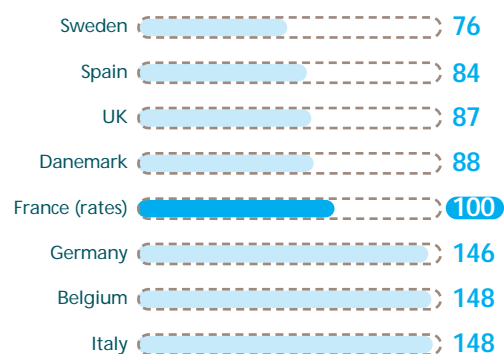
(Prices, excluding VAT, July 2004. Base 100: France)



Light industry

100 kW x 1,600 hours (160,000 kWh/year)

(Prices, excluding VAT, July 2004. Base 100: France)





EDF Entreprises® offers SME's on-line advice and services aimed at simplifying energy management.

FACTS & FIGURES

➔ **The Névian vineyard cooperative** opts for *kWh Équilibre*®. The Névian cooperative, part of the grouping of producers from the Val d'Orbieu, counts 194 members producing a total 40,000 hectolitres of wine a year. The cooperative has been actively working to promote wine-growing practices that preserve both land and the environment for many years, notably through land use contracts including specific measures to protect agriculture and the environment, for instance by limiting the use of pesticide products. The goal is to set the example in terms of sustainable wine growing with responsible energy, water and waste management, hygrometric comfort, and limited noise and "smell" pollution. The signature of an all-*kWh Équilibre* contract with EDF is in keeping with this ambitious and proactive policy. Early in 2005, the cooperative bottled its wine using wind power, with a back label showing the *Équilibre* logo. This initiative will bring 12,000 bottles of white and rosé wine produced with "clean energy" to the market.

e-mail (@viso®) or directly on the internet (Adviso® and Adviso+®). Customers can also rely on diagnostics to limit electrical disturbances at their facilities (Excelis®) or monitor their energy consumption (Optimia®). Meanwhile, the *kWh Équilibre*® green energy service gives them a chance to promote the development of renewable energies.

SMEs: facilitating energy management. Small and medium-sized business customers expect *EDF Entreprises* to help them find ways to simplify their energy management, optimise their costs and improve their competitiveness. The range of services covers electricity provision, energy management and advisory services. Under the *Visibilité*®, *Alliance*® and *Premium*® offerings, SMEs opt to pay for electricity based on average annual prices indexed to regulated rates, or to pay different rates depending on the time of day or season. The services offered are adapted to customers' different priorities. For instance, the *Alliance* solution is for companies seeking advice on energy management. Like large enterprises, SMEs also have access to EDF's *kWh Équilibre*® offer.

SMEs

196,000 CUSTOMERS

460,000 SITES

40,000 GWh

kWh ÉQUILIBRE® :

337 SMEs

700 SITES

26 GWh



The Périgueux hospital, France, opted for Dalkia's energy offers.

EDF signs multi-site contracts (one bill for consumption at all sites) with all companies subscribing to services for more than one site, regardless of their size.

Forging ever closer customer relations. *EDF Entreprises* has 200 salespeople responding by phone to the needs of SMEs Monday through Friday, from 8:00 a.m. to 6:00 p.m. Other dedicated sales teams ensure that large enterprises and accounts benefit from customised assistance. Multi-site customers can also call a special phone number with any queries about their contracts.

EDF Entreprises has created a "business club" to facilitate the exchange of ideas with its large customers on a number of subjects, including the impact of new environmental regulations, the future of electricity generation, gas as a resource and market opening. More than 170 large companies have participated in these exchanges.

DALKIA IN FRANCE: EXPANDING THE RANGE OF SERVICES

Dalkia is actively building on its business with industrial customers by helping them to improve energy efficiency and anticipate environmental regulations. The company notably provides maintenance and facilities management services. Dalkia has been selected to supply steam, electricity and related services to Continental. Nexans has signed contracts for the management and maintenance of its industrial utilities, as well as for facilities management services. Aventis has chosen Dalkia to handle general and technical services at its pharmaceutical research facilities in Romainville.

Dalkia also landed a number of urban heating network contracts in

R&D on the move

Innovative energy efficiency technologies to win industrial customers

One new solution involves substituting emission heaters for arc furnaces and using them in conjunction with new power units. This solution allows a threefold reduction in the amount of energy required for heating liquid aluminium baths. EDF is currently testing this innovative process with a carmaker. The objective: to work together to achieve energy efficiency. The French emission heater market is estimated at 5,000 units, representing potential savings of about 1 TWh.

Goélan: Helping to ensure the profitability of the gas business over the long term

Ensuring the optimisation of a gas business over the long term requires careful planning of supply, transport and storage contracts. To guarantee supply to customers, it is necessary to optimise short term planning of daily gas deliveries to the network and inventory and supply management. The Goélan software developed by R&D serves just this purpose.

Residential boilers for homes

A fuel-cell battery has been installed in the management office of a subsidised housing complex in Sarreguemines and a Stirling motor is being used in a retirement home at Créhange. R&D is working hand in hand with Dalkia, EDF Energy, EnBW and Estag to promote micro cogeneration units that run on clean technologies and bring high energy yields into the home.



The town of Salies de Béarn, France, was equipped with a public lighting management system with a mapping application, based on power line technology. This makes it possible to stabilise and vary the voltage in each lamp, with annual electricity savings of more than 30%.

FACTS & FIGURES

Lending a hand in disadvantaged areas. EDF has signed "major city project" contracts with local authorities and the State to help foster social and economic progress. The contracts involve taking action locally, improving city landscapes, strengthening social cohesion and employment. The Group has signed 35 such contracts since 2002 and 50 are currently being prepared.

Lisors (Eure Department) became the first local authority to opt for the new *Citélia communes* offer in 2004. This comprehensive package of electricity provision plus management and advisory services gave this small town in Normandy and its population of 332 a chance to optimise energy usage and thus keep expenses in check.

2004, including ones for the city of Liévin (notably for the construction of a highly energy-efficient gas-fired boiler) and for Lyon-Villeurbanne, the third largest district heating network in France, where Dalkia provides high performance solutions involving the use of local renewable resources.

LOCAL AUTHORITIES: WORKING SIDE BY SIDE

EDF works in close partnership with local authorities. The Group is thoroughly familiar with the wide range of needs of local governments, and has corresponding expertise in all areas. Local authorities manage between 80 and 100 contracts on average, ranging from municipal buildings to public lighting, purification plants, gymnasiums, swimming pools, schools, etc. To ensure the quality of these relations, EDF consistently assigns dedicated sales staff to each local authority. The Group has also designed special offers and a wide range of multi-site solutions for larger local authorities. With the *Citelia*® range, local authorities sign only one contract and receive only one bill for all points of delivery, but can track consumption at all times thanks to *Dialège*® and to the new di@lege online services, where a special space is devoted to them. They also have access to the *kWh Équilibre*® offer, energy efficiency advice on public lighting, municipal buildings and equipment with *Optimia*®, and advisory services on renewable energies.

EDF PRO®: GUARANTEEING PROFESSIONAL CUSTOMERS FLEXIBILITY AND SIMPLICITY

EDF created the EDF Pro® brand for professional customers in March 2004, promising to deliver on four commitments: proximity, experience, professionalism and flexibility. As soon as their market segment was opened to competition on 1 July 2004, professionals were given a choice between different solutions that responded to their individual needs: custom advisory services and follow-up with *Présence Pro*, flexibility with *Souplesse Pro* and simplicity with *Essentiel Pro*. Customers can also help protect the environment by opting for the *Équilibre Pro* service.

EDF makes their lives simpler in a number of ways: payment facilities, overviews, choice of the day their account is debited, or custom monthly payments, to name a few. Professional customers can also benefit from advisory services on energy efficiency with the

Local authorities

49,000 CUSTOMERS

900,000 SITES

18,000 GWh



Commercial customers benefit from advice on using – and saving – energy.

Conseil climatisation, *Conseil éclairage* and *Info Fiabélec* services to ensure that they conform to requirements. In sum, all of the EDF offers include, in addition to electricity provision, advice and services specially adapted to the different phases of customers' professional lives: start-up, growth, fitting out of business offices and location changes.

Communication is part of the service, and EDF has stepped up its efforts in this area. The sector review, *"Projecteur sur"* and the *Lettre EDF Pro* newsletter provide facts that help customers better manage their energy usage. *EDF Pro*® has also set up special reception services for professionals with eight dedicated customer centres. In all, 700 employees work a special hotline to ensure online help, advice, sales and management services for the cost of a local call. Customers can also subscribe to offers directly on the edfpro.fr website.

EDF Pro® will expand its range of services in 2005 to add *EDF Pro*® and *EDF Pro Énergie*, specialising in natural gas sales. The service will be tested initially in two regions.

Professional customers

2.3 MILLION CUSTOMERS

2.8 MILLION SITES

26,000 GWh

83.2 % OF PROFESSIONAL CUSTOMERS

say they are satisfied with the services provided by EDF.

kWh ÉQUILIBRE:**
(ÉQUILIBRE PRO)

*Since 1 July 2004

301 PROFESSIONALS

1.27 GWh



Following EDF customer advice, the town of Betheny, France, opted for a High Environmental Quality (HQE) certified building for *La Passerelle*, an addition to its social services facility.



Residential customers can reach EDF 24 hours a day, 7 days a week.

FACTS & FIGURES

To date, **192,000** customers moving into a new home have chosen *Conseil confort Vivrélec*[®] to optimise their energy use, and a further **120,000** have subscribed for homes they already live in. About **15,000** households have taken out a *Prêt Vivrélec rénovation*[®] loan.

ELECTRICITY SUPPLY PRICE INDEX

Residential

3,500 kWh/year of which 1300 off peak

(Prices, excluding VAT, July 2004. Base 100: France)



RESIDENTIAL CUSTOMERS: ENERGY EFFICIENCY AND COMFORT

The residential market is scheduled to be opened to competition in 2007. EDF's sales teams are preparing for this development by promoting electricity packages that save money and are competitive compared with other energies.

Vivrélec[®]: staying on track to success. EDF continued to promote comfort in the home in 2004 with its *Vivrélec*[®] offers, providing high performance solutions that respect the principles of sustainable development.

EDF helps its customers optimise energy usage and enhance comfort in many situations, whether they are moving, building a home or acquiring or renovating an existing one. The Group involves a number of partners (electricians, installers, etc.) in its customers' projects: these outside parties have committed to deliver quality,

24.1 MILLION RESIDENTIAL CUSTOMERS

27.3 MILLION SITES (CONTRACTS)

126,000 GWh

sold in a market that will not be opened to competition before 1 July 2007.

89.1% OF RESIDENTIAL CUSTOMERS

say they are satisfied with EDF's services.

Customers with disabilities: EDF made 815 of its agencies handicap accessible in 2004 and adapted a number of its services to their needs.



EDF has made a commitment to not disconnect electricity to those with payment arrears without having first tried to contact them and offer “energy maintenance services” of 3 kW.

and an outside organisation verifies regularly that this is the case. The *Vivrélec* offer also includes financing solutions (*Prêt Vivrélec habitat neuf* and *Prêt Vivrélec rénovation*). Residential customers can reach EDF by telephone 24 hours a day, seven days a week.

Taking part in the modernisation of subsidised housing. EDF's *Montant des charges* offer is part of the Group's efforts to support the rehabilitation of all-electric subsidised housing. Since 1997, nearly 100,000 residences have used the service, and saved an average 30% on their heating bills. At the same time, EDF is taking action to advise tenants, notably on location-specific energy savings ideas.

Reaching out to vulnerable customers. Special “basic necessity” prices went into effect for vulnerable customers in 2004. The project is financed by the public service electricity fund (*CSP - Contribution au service public de l'électricité*) to which all French consumers contribute in an amount defined by the French regulator⁽¹⁾. Some 1.4 million households will benefit. This measure is in keeping with the actions EDF and public authorities have been taking in favour of solidarity for more than 15 years now. Other examples include the energy solidarity fund, into which EDF paid €18.7 million in 2003 and €17.5 million in 2004, and which helped 200,000 vulnerable customers over the two years.

EDF committed in 1999 not to disconnect electricity to those who default on payment of their bills without having first tried to contact them. People in trying situations can benefit from 3kW energy maintenance services (SME). Nearly 200,000 residences took advantage of SME in 2004. When EDF is unable to reach a customer, it switches to a minimum service (SMI) which avoids immediate power cuts by leaving 1kW of electricity. More than 125,000 SMI were initiated in 2004. SME and SMI are temporary measures designed to help families avoid taking on more debt and leave them time to contact social services. These services helped reduce the number of disconnections from 670,000 in 1993 to 225,000 in 2003.

Customers experiencing financial difficulties can call EDF's special toll-free “solidarity number” 24 hours a day, seven days a week.

(1) CRE: *Commission de régulation de l'énergie*.

FACTS & FIGURES



Island energy: Specific projects for specific situations

Corsica and the French overseas departments have been faced with annual increases in electricity demand of 3-7% a year (vs. 1.5% on the mainland), structurally deficient generation (which is made up for by the CSPE fund), and insufficient interconnections. On the other hand, retail electricity prices are identical to those on the mainland, in keeping with the “equal pricing principle”, and cover no more than 50% of local production costs. It is impossible to create a competitive market under these conditions. In compliance with the European Directive, which provides for this type of specific situation, and in order to guarantee equal pricing, competition will only be introduced between producers, via calls for tenders launched by public authorities. As the operator of the islands' electricity systems, EDF will, under the watchful eye of the regulator, purchase electricity from a private generator or its plants under the same terms, paying in part with revenues generated on energy sales, the balance being made up by the CSPE fund.

Regulated Business

Distribution in France: successfully transforming a regulated business activity

In France, EDF conducts all network-related activities in accordance with the principles of independent management, transparency and neutrality with respect to all players: EDF itself, its competitors and their respective customers. The French regulator (*Commission de régulation de l'énergie – CRE*) determines the rates applied in these activities.

A NEW ORGANISATIONAL STRUCTURE IN RESPONSE TO A NEW ENVIRONMENT

As of 1 July 2004, EDF separated its competitive commercial activities for its eligible customers from the still-regulated distribution business.

The law of 9 August 2004, which transposed the European directives on the internal energy market, confirmed the organisational

structure adopted by EDF and Gaz de France for regulated distribution businesses, with the creation of three entities: EDF Distribution Network, Gaz de France Distribution Network and EDF Gaz de France Distribution.

With effect from 1 July 2004, customer management activities relating to eligible customers (reception, contract management, information on commercial offerings) were transferred to the EDF or Gaz de France sales and marketing teams. Meanwhile, a distribution network operator, which is managed, organised and makes operating decisions independently, was set up. It guarantees that all network users (suppliers, producers, customers) benefit from absolutely equal treatment.

All of these developments were carried out in application of the EU directive and with an eye to providing the regulator and all market players with the necessary guarantees that the network is being managed independently. They also allowed EDF and Gaz de France to pursue their shared and specific objectives, while ensuring that the distribution business in France is conducted in accordance with principles of quality public service, proximity and solidarity.

R&D

on the move

Heat wave: Identifying the causes of the underground cable failure

The R&D teams worked hard to find out why medium voltage underground cables failed during the heat wave, gathering information in the field and creating simulations in the laboratory. They discovered that the main culprit was the deterioration of the paper insulation impregnated with oil, placed on cable joints, when temperatures reached 50°C and in the presence of water. The teams are now coming up with corrective measures to avoid this type of incident.

Using ash to fill cable trenches

Research has proved that ash from coal-fired plants is suitable for use in filling in the trenches around underground distribution cables. A test site is currently being used to determine the type of savings this would generate.

DEVELOPING NEW TOOLS FOR NEW SITUATIONS

The separation of the network operation business from EDF's commercial business activities required a major overhaul of information systems, particularly because



With *Info Réseau* on-line, customers can monitor the electricity network in real time and keep up on works in the planning.

of the necessity to separate billing services for eligible customers. The goal was to create a clear and absolute separation between data pertaining to the commercial businesses and to regulated activities. The EDF Gaz de France Distribution centres have set up customer-supplier phone reception services that respond, on behalf of energy suppliers and in absolute neutrality and confidentiality, to service requests from eligible customers. This means that customers have been able to change suppliers since the market was opened. The accessibility rate of the telephone reception services had already reached 90% by the second half of August.

EDF has also created a powerful tool, *Info réseau*, allowing employees that are in contact with customers to monitor the state of the electricity network in real time via the internet. In the event of an outage, they have access to updated, homogenous and reliable information. *Info réseau* also provides information of scheduled maintenance to customers and staff alike.

A pocket-sized computer tool, *Pictrel*, has been tested with success. Employees use the device to input summaries of their interventions, and this information can be transferred to customer information systems. *Pictrel* makes inputting simpler, ensures data reliability, and guarantees traceability, as required by market opening. In 2005, 8,500 technicians and 1,500 supervisors will use the devices.

32.5 MILLION
connections

100 LOCAL DISTRIBUTION CENTRES
managing local public service

815 CUSTOMER AGENCIES

1,800 CONCESSION CONTRACTS

KEY FIGURES FOR DISTRIBUTION BUSINESS IN FRANCE

	2004	2003
Number of residential customers	29,246,000	28,928,700
Number of tertiary/ industrial customers	3,663,400	3,623,500
Network length (km)	1,240,000	1,229,000
% of new medium voltage networks buried	95%	95%
Total EDF Gaz de France Distribution* staff	57,938	63,990
of which EDF staff	44,000	49,632

* EDF GDF Services until 1 July 2004.



The Lajes hydrodam, Brazil.

Optimising performance in the rest of the world

— Outside Europe, EDF counts 2.6 million customers in Argentina, 3.7 million in Brazil, and a further 350,000 in South Africa.

LATIN AMERICA: OPERATING IMPROVEMENT DESPITE DIFFICULT ENVIRONMENT

Revenues in Latin America (expressed in euros) rose slightly in 2004, from €1,406 million to €1,444 million, this despite a sharp devaluation of local currencies. The overall revenue figure translates contrasting trends, but the future economic strength of

the companies will be determined in large part by the pricing decisions made by national regulators in 2005.

In Argentina, Edenor distributes and sells electricity to 2,250 million customers in Buenos Aires. Economic recovery triggered a 5.4% rise in electricity consumption within its concession area, lifting sales from €277 million to €304 million. The company has nonetheless been faced with a freeze on distribution prices since 2002.

To make it easier for customers to manage their energy spending and better control billing, Edenor is testing 5,000 pre-payment meters with volunteers. 97% are very satisfied with the pre-payment system, such that Edenor plans to install 10,000 meters in 2005. Edenor's customer satisfaction ratings remain high on the whole, despite a still-challenging economic climate.

In Brazil, Light distributes and sells electricity to 3.7 million customers. The company was authorised to increase its prices by 5% in November 2003, but this is not by any means sufficient to counter-balance inflation. Sales volumes remained steady in 2004, and revenues increased from €1,081 million in 2003 to €1,104 million. Customer satisfaction rose from 66% to 76%.



In Buenos Aires, Edenor distributes electricity to over 2 million customers.



Work on the network in the township of Khayelitsha near Capetown, South Africa.

EDENOR: FOCUSING ON QUALITY



Edenor achieved ISO 14001 and ISO 9001 certification in 2003. The company focused in 2004 on safety with OHSAS 18000 and CSR certification. It is working to develop programmes to monitor security at its sites and on public roads, also applying to subcontractors.

Light took part in a number of youth education projects during the year. Working with local authorities and NGOs, the company helped close to 300 people from underprivileged backgrounds attend university. It also teamed with the *Fondation São Marthino* to help young people trying to get their first job. Light's collaboration with the *Niteroiense de deficientes fisicos* association is aimed at promoting employment of the disabled. The company's cultural centre welcomes some 30,000 schoolchildren every year.

AFRICA: SHAREHOLDINGS THAT BENEFIT ALL

South Africa's PNES (50% EDF and 50% Eskom) provides customer management services and carries out connections and extensions. Service quality is highly satisfactory, and the company generates particularly low loss rates compared with the averages observed in South African townships.

In Morocco, the Group sold its 18% stake in Lydec to Fipar Holding, a fully-owned affiliate of *Caisse de dépôts et de gestion du Maroc*. Lydec distributes electricity and water in Casablanca. The disposal of Lydec, which is turning in good results, is in keeping with the Group's strategy of refocusing on Europe.

DALKIA WORLDWIDE: EXPANDING COVERAGE OF SOUTH AMERICA

Dalkia also expanded its Latin American coverage in 2004. It notably acquired Conade of Chile, which provides energy optimisation services and supplies fluids and services to industrial customers. In Mexico, Dalkia set up a joint venture with the IGSA group to bolster its positions in the multi-technology maintenance sector.

// /// / / // // / // / /



Generating and transmitting electricity

at the lowest economic and
environmental cost

The Dampierre-en-Burly nuclear power plant, France.



// /// / / // / // / /

HIGHLIGHTS

In March, EnXco, EDF Énergies Nouvelles' American affiliate, put on stream 65 wind turbines in Minnesota in the United States. In August, EDF and Areva signed an agreement for the processing of 5,250 tonnes of spent fuel from EDF's nuclear plants. The agreement provides for the reclamation of recyclable materials, the supply of 100 tonnes of MOx fuel per year, and the isolation of remaining residues.

In October, after discussion with regional stakeholders and EDF's Board of Directors, Pierre Gadonneix announced the company's plans to build an EPR nuclear plant at Flamanville, France.

On 23 October 2004, the new 400 kV power line between Amiens and Arras, France, was inaugurated, securing the region's electricity supply and thus favouring its development. Three fuel-oil units will be re-commissioned between 2006 and 2008 in response to increasing peak demands.

— Energy needs grew throughout the world in 2004, including in well-equipped regions like Europe.

Growing consumption put pressure on fossil energy markets, triggering a sharp increase in hydrocarbon and coal prices (up 30,4*% and 38**%, respectively), which together account for more than 60% of global electricity generation. After a long period of low prices, the increase in wholesale electricity prices in Europe clearly reflected market players' perception that the balance between supply and demand is shifting.

Like most leaders in the European electricity industry, the Group has implemented a solid model combining an industrial base of power plants and networks. In 2004, it consistently satisfied demand and covered peak consumption in France. To cater to longer term growth in demand, EDF SA has approved a new series of investments in nuclear, fossil-fired and hydropower plants. Most of the Group's European affiliates have also invested in the expansion and modernisation of their generation capacity, particularly in the fossil-fired segment. In the rest of the world, the Group is helping to construct infrastructures in Mexico, Africa and especially Asia, where it is a long term partner of Chinese operators.

The Group has the resources needed to adapt its generation strategy to any local context, thanks to its experience and expertise in the entire range of power generation technologies, from nuclear to wind power, and from fossil to hydropower. Its aim is to secure the supply of electricity, to stabilise supply costs, to help protect the environment and to limit the use of fossil resources.

*Crude oil (source: MINEFI DGEMP).

**Solid minerals (source: MINEFI DGEMP).



The Rheinhafen Dampfkraftwerk coal-fired plant near Karlsruhe, Germany.

Europe: providing the answer to growing needs

— Price increases on European wholesale electricity markets reflect an increasingly delicate balance between supply and demand. This is mainly due to rising electricity consumption and the decommissioning of older power plants, particularly in the fossil-fired segment (coal and fuel oil). The European market is emerging from a period of low rates, which makes this price increase even more apparent. Against this backdrop, the Group is expanding and modernising its generation capacity ahead of changes in European regulations.

EUROPEAN MARKETS UNDER PRESSURE

A new environment. In the current market, European investment decisions not only factor in projected margins (and therefore prices) but also environmental regulations. Effective from 1 January 2005, the European directive on Tradable Emission Permits created a market for greenhouse emissions quotas in the industrial sector, including energy generation. This penalises coal and will enhance the profitability of EDF's nuclear and hydropower divisions. It may also affect how existing capacities are used as well as future investment decisions.

Peak and extreme peak demand will become an issue in 2006. The need for new basic or semi-basic load capacities will be felt starting in 2012/2015 when many European power plants will reach the end of their life.

This situation is especially critical in Germany, where half of all power plants, with a capacity of 50,000 MW, will have to be replaced over the next twenty years. EnBW (14,366 MW installed capacity) plans

Facts & figures

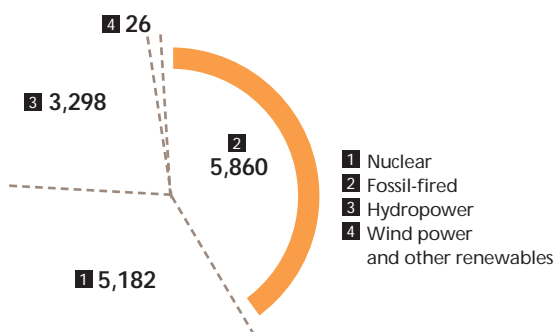
Factors underlying price increases in Europe

- higher raw materials prices
- growing demand
- a gradual shift in the balance between supply and demand
- the finances needed to refurbish and replace the installed base of power plants
- price volatility owing to the fact that electricity is not storable
- limited interconnection capacity and therefore cross-border exchanges
- environmental regulations



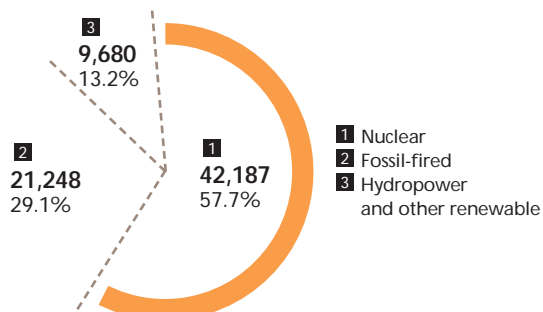
The Rybnik fossil-fired plant, Poland.

EnBW: installed capacity in MW in 2004 (raw data)



Total EnBW direct (KWG: Kraftwerkgesellschaft, generation company): **14,366 MW**

EnBW: generation by area in GWh in 2004 (raw data)



Total EnBW direct (KWG*: Kraftwerkgesellschaft, generation company): **73,115 GWh**

*Of which EDF shares and contracts (Cattenom, Fessenheim and long term contracts).

to invest in fossil-fired power plants. The Group's affiliates in Italy, the UK and Central and Eastern Europe all increased their generation capacity in 2004.

Trading: first kWh, then CO₂. EDF continued to contribute to the emergence of an open and liquid wholesale market by auctioning off generation capacities on a quarterly basis. In 2004, EDF put 6,000 MW at the disposal of its competitors, selling 42 TWh (23% more than in 2003).

Under a deal agreed in June 2004 between EDF Trading and Rätia Énergie, EDF will supply about 100 MWh of hydropower a year to the Swiss utility for the next 20 years.

In December 2004, EDF restructured its Optimisation and Trading Division to improve control of purchase/production/sales volumes and prices. EDF Trading is part of this unit. This division will manage EDF's CO₂ emission quotas through EDF Trading.

NUCLEAR POWER IN EUROPE

In Germany, EnBW draws on a diversified and balanced energy mix in which nuclear power plays an important role. Its five reactors generated more than 42 TWh in 2004, i.e. 57.7% of EnBW's supply. Availability was a high 89.3%. EnBW ranks among the best worldwide in terms of safety and protection results, with 0.6 event classified in the INES scale⁽¹⁾ (1 or more) per reactor in 2004 and an average collective operational dosimetry per reactor of 0.563 man.Sv. Not one employee recorded a dose of over 15 milliSieverts in 2004.

In Belgium, EDF takes off 50% (480 MW) of the power produced by Electrabel's Tihange 1 power plant. In return, Electrabel gets 12.5% (460 MW) of the power generated by EDF's power plant in Tricastin. Under an agreement signed in 2004, EDF uses Tihange 1 to serve its Belgian customers (via EDF Trading), while Electrabel reserves its Tricastin power for French customers. This simplification is in keeping with requests from transmission network operators.

(1) International nuclear events scale.

FOSSIL-FIRED POWER PLANTS: A STRONGER AND MORE EFFICIENT INSTALLED BASE

The Group owns independent production units in Poland and Hungary. EnBW in Germany and Edison in Italy run a large number of fossil-fired power plants. Initially focused on distribution and trading, EDF Energy (wholly-owned by EDF) in the UK is building up generation facilities to support its commercial activities.

In Germany, EnBW's fossil-fired power plants delivered 21.2 TWh in 2004, corresponding to 29.1% of the company's total output.

In the UK, EDF Energy commissioned a flue gas desulphurisation unit at West Burton (2,000 MW) and is preparing to do the same with the four units in Cottam (2,000 MW). Moreover, co-combustion trials have been completed successfully at both power plants. With Sutton Bridge (combined cycle gas turbine, 790 MW), total generation came to 25.22 TWh in 2004, up 9% on 2003.

In Italy, Edison is building four CCG (combined cycle gas turbines) at Altomonte (760 MW), Torviscosa (760 MW), Candela (380 MW) and Simeri Crichi (760 MW) and can use half of the energy generated by the power plants of Edipower (40% owned by Edison). By 2010, Edison wants to have a capacity of 14,000 MW, whether directly or indirectly, mainly in fossil-fired power plants but also in the hydro and wind power segments.

In Poland, the Rybnik power plant and the ECK, Kogeneracja, ECW and Zielona Gora cogeneration units have combined installed power of 4,150 MW (thermal) and 3,200 MW (electrical). EDF is upgrading them to European environmental standards and building new capacities. The start-up of the CCG turbine in Zielona Gora (190 MWe – 95 MWth), which complements the site's coal-fired units, will allow the Group to close the oldest facilities. The project was completed on time and cost 10% less than initially budgeted. The Group pools its coal purchases through its affiliate Energokrak, the second-largest customer of the Polish mines, allowing it to cushion the recent coal price hikes.



The control centre at the Cottam fossil-fired plant in the UK, which is to be equipped with desulphurisation technology.

R&D on the move

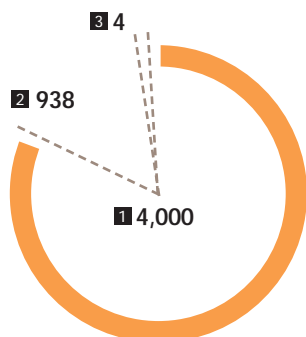
Eventail: A consumption forecasting tool

Efficient management of an energy production base begins first and foremost with accurate prediction of consumption. Developed by the R&D unit, Eventail software is easy to apply to every context and remains reliable even when certain information is missing (such as incomplete historical data). EDF Trading and the Group's French affiliates already use the software, and they were joined by EnBW in 2004.

Energy potential of wood to depend upon collection costs

Several Group affiliates, including Dalkia, EnBW and EDF Energy, use wood to generate electricity and heat. The projected cost of fuel wood collection helps determine where generation units should be set up. Key parameters include calorific values, the speed at which the trees grow, local topology, and transport distances and costs. In Karlsruhe, EDF R&D has developed an evaluation method using geographical information system software approved in Germany.

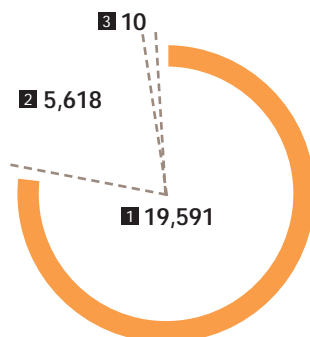
EDF Energy: installed capacity in MW in 2004 (raw data)



Fossil-fired:
1 coal and **2** gas
3 Wind power and other renewables

Total: 4,942 MW

EDF Energy: generation by area in GWh in 2004 (raw data)



Fossil-fired:
1 coal and **2** gas
3 Wind power and other renewables

Total: 25,219 GWh



Put on stream in 2004, the Clef des Champs windfarm in the Aisne region consists of four 2.75 MW turbines, the most powerful aerogenerators to date in France.



The control panel at the Asasp hydroplant in the French Pyrenees.

In Hungary, BERT is replacing and refurbishing its cogeneration units. The company has renegotiated its debt in order to finance these investments, aimed at increasing production capacity, improving energy yields and reducing pollutant emissions. The cogeneration

plants at Kispest (75 MWe – 42 MWth) and Kőbánya (16 MWe) came on stream in 2004, and the Kelenföld unit (50 MWe – 91 MWth) is under construction. These investments meet environmental standards and will generate additional electricity revenue.

RENEWABLE ENERGIES: A EUROPEAN GOAL

The European Union is counting on the development of all types of renewable energy to help it fulfil its commitments to the Kyoto Protocol, and the EDF Group is contributing actively to the growth of this market.

To organise an efficient base of renewable energies (except large hydro), the Group has set up EDF Énergies Nouvelles, which has taken over the assets of SIIF Énergies. Nearly 300 MW of wind power was installed in 2004, and solar power continues to gain momentum.

In Germany, EnBW operates hydro plants with a capacity of 3,298 MW and wind, solar and biomass facilities generating 26 MW. It plans to install 55 fuel cells in Baden-Württemberg before the end of 2006 to test this technology of the future. The first installation was inaugurated in November 2004.

In the UK, EDF Énergies Nouvelles plans to build wind turbines with a combined capacity of 44 MW, with generation being sold to EDF Energy.

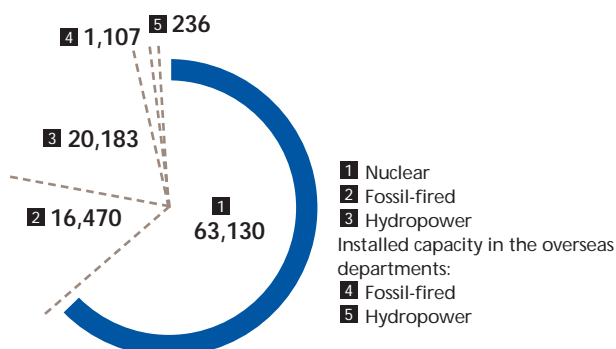
In Italy, Edison continues to add wind turbines and plans to have a capacity of 400 MW by 2007. Edev Italia has brought wind turbines with a capacity of 22 MW on stream.

In Switzerland, EDF has annual capacity of 600 GWh through its hydropower affiliates, Électricité d'Emosson SA (50% EDF), Forces Motrices de Mauvoisin SA (10% EDF) and Forces Motrices de Châtelot SA (50% EDF).

In Spain, the biomass plant in Lucena is in the final phase of construction. It will start burning farm waste in 2005 to produce 27 MWe.

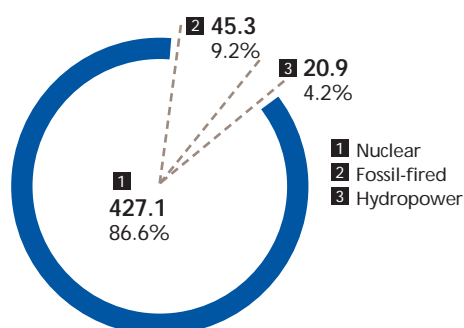
In Portugal, EDF Énergies Nouvelles is constructing a wind park with a capacity of 54 MW; so far, 20 turbines have been put into service.

EDF parent company (metropolitan France and overseas departments): installed capacity by area in MWe in 2004 (raw data)



Total installed capacity in MWe: 100,126

EDF parent company (metropolitan France and overseas departments): generation by area (in TWh in 2004)



Total production by EDF parent company in TWh: 493.3



Machine room at nuclear power generation plant of Tricastin, in the Drôme region.

France: performance and development of a diversified base

— EDF operates a highly integrated generation system in France. Its powerful installed base of nuclear and hydropower plants, which do not emit greenhouse gases, accounts for more than 95% of generation. With hydro and fossil-fired power plants, generation can easily be adjusted to consumption needs. EDF keeps its installed base at maximum efficiency and is preparing to strengthen and lengthen the life of every link in the chain.

NUCLEAR POWER: THE CORNERSTONE

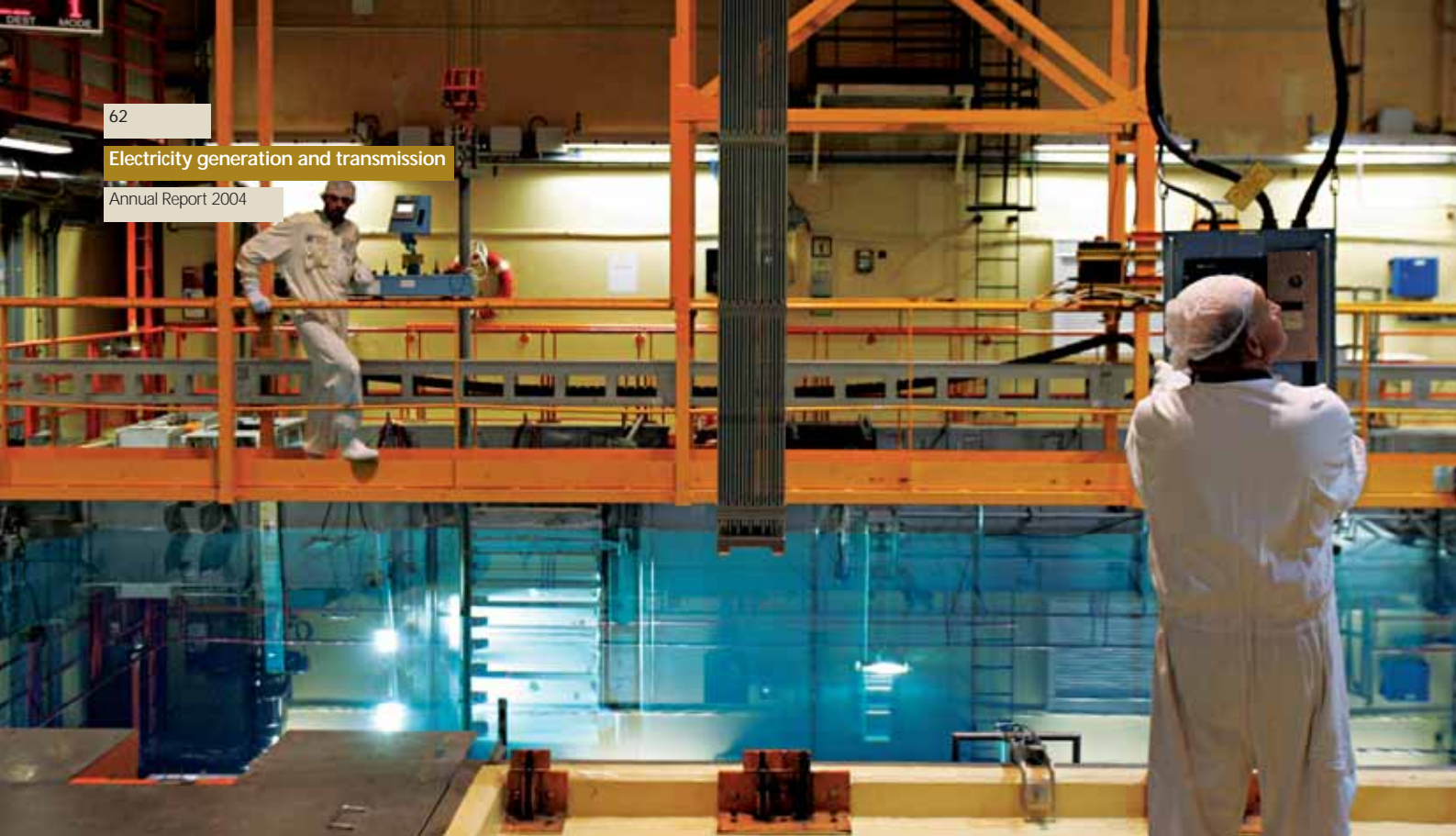
EDF's nuclear power plants cater to massive electricity needs. They are safe, competitive and do not produce CO₂. Together with the other nuclear installed bases in Europe, they help keep prices down and improve Europe's supply security.

In 2004, the output of EDF's 58 nuclear reactors increased by 1.5% (6,4 TWh) to 427.1 TWh, accounting for 86,6% of the Group's total production in France. EDF thus confirmed its nuclear plants' capacity to meet market requirements in terms of volumes, delivery times, safety, prices and environmental protection. All indicators improved, showing that safety and economic efficiency go hand in hand.

Availability: targeting 84% by 2007. The availability of the installed base reached 82.8% in 2004, which was above target. EDF pursued the technical and operational programme dubbed Reducing Downtimes of Plant Units (to refuel and service reactors), adding 52 generation days. This improvement offset the unavailability caused by the spring strike and technical problems at Fessenheim, Paluel and Bugey. EDF intends to raise availability to 84% by 2007.

62,180 MW

On 16 December, for the first time ever, all of EDF's 58 French nuclear reactors simultaneously delivered power to the grid, delivering an aggregate of 62,180 MW. This new record was proof that availability is constantly improving.

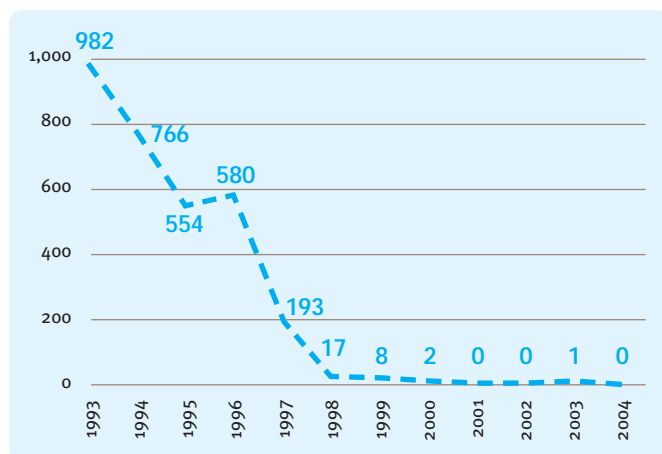


Transport of a new fuel assembly to the fuel pool. Each assembly comprises 264 fuel rods containing thousands of uranium pellets.

Safety and radiation protection remain priorities. In 2004, all safety indicators continued to improve. This was demonstrated by the reduction in automatic reactor shutdowns⁽¹⁾, which dropped from 1.13 to 1 per 7,000 operating hours, and the decrease in significant events, which fell from 8.12 per reactor per year to 7.62. The fire fighting

(1) Automatic reactor shutdown: reactors stop automatically in the case of an incident or wrong operation (switch principle).

Staff (EDF and service-providers) exposed to over 20 µSv/year



and prevention measures adopted over the past two years have also produced results. The priority for 2005 will be to upgrade the fire fighting networks and improve detection systems.

Radiation protection also improved considerably. Individual doses continued to decrease in all professions: no EDF employee or service provider received a dose exceeding 18 milliSieverts (mSv) over a 12-month period, and the number of people who received a cumulative dose of 16 to 18 mSv dropped from 64 to 34. EDF thus remained below its self-imposed cap of 20 mSv per person per year, which will become the regulatory standard in 2005. The collective dosimetry also improved, to 0.8 man. Sv/reactor (down from 0.89 in 2003).

These improvements were made possible by wider dissemination of a safety and radiation protection culture. People are the driving force behind this, and their commitment was boosted early in 2005 with the distribution to EDF staff and subcontractors of a radiation protection manual, the *Mémento de la Radioprotection*, which sets out best practices.

Forging long term partnerships with service providers. To satisfy all operating and maintenance requirements, EDF and its service providers are pursuing a specific industrial policy based upon a win-win relationship and mutual commitment. These partnerships aim to maintain overall control, generate savings, optimise competition, and strengthen and update internal and external skills. These goals are reflected in the Progress and Sustainable Development Charter signed in 2004 by 13 trade organisations representing maintenance companies and a temp job industry organisation, the *Syndicat des Entreprises de Travail Temporaire*. This initiative has resulted, among others, in the creation of an Inter-Company Safety and Working Conditions Committee at every power plant. In the same spirit, service providers have taken part in internal maintenance-related forums.

Stronger environmental commitment. With the certification in 2004 of the support services centre (*Centre d'Appui au Parc en*



All of the reactors of EDF's French nuclear fleet have been ISO 14001 certified.



From now on, a robot will be able to reach otherwise hard-to-get-to areas of the primary circuit of the nuclear plants.

Exploitation) and the Dampierre and Civaux power plants, all parts of the Group's nuclear business have achieved ISO 14001 certification, in line with the objectives.

Liquid and gaseous radioactive waste remained 10% below the new authorised limits, which are well below the previous ceilings. Tritium emissions—directly linked to power delivered—were also below authorised limits. EDF stepped up surveillance of chemical waste and the prevention of amoeba and Legionella in cooling systems. The teams at the power plants used the experience acquired with the heat wave of 2003 and implemented the preventive measures set out in the Extreme Weather Plan to protect the aquatic environment.

Decommissioning shut-down nuclear units and waste management. EDF continued to decommission permanently shut-down power plants in 2004 with the closures of the Brennilis, Chooz A and Bugey 1 units. The electromechanical machinery at the Creys-Malville power plant was dismantled, and the public decommissioning enquiry took place in a positive atmosphere. After the safety authority (*Autorité de Sécurité*) validated the decommissioning programme proposed by EDF, a fast-track procedure allowed the Group to launch ten works sites.

EDF and CEA agreed on the decommissioning conditions of UP1, the shut-down spent fuel reprocessing unit in Marcoule. Under the deal, CEA assumes ownership and EDF will contribute financially to the operation.

Andra commissioned a storage centre for very low activity radioactive waste in Morvilliers, allowing the nuclear power plants to remove 2,200 loads of waste stored onsite. Three reactor vessel heads were shipped to Andra's storage centre for very low activity radioactive waste in Soulaines. Another 55 will be removed between now and 2013.

Preparing the future of France's nuclear installed base. Twenty-five years of experience have shown that a working life of at least 40 years is a feasible target for existing power plants. In the United States, authorities have approved a working life of 60 years for 19 power plants with similar reactors (PWR). In 2005, the *Autorité de Sécurité* will wrap up the programme for the third ten-year inspection of France's 900 MW power plants. Currently in preparation, these inspections result in significant operational and safety upgrades. EDF is also preparing the second ten-year inspection of its 1,300 MW plants and the first ten-year inspection of its N4 plants (1,450 MW). In 2004, EDF decided to build a pilot EPR (European Pressurized Reactor) at its Flamanville site. Following a public debate conducted

Facts & figures

Reprocessing spent fuel: a new contract with Areva

With a budget of €4 billion for the period from 2001 to 2007, the nuclear fuel management agreement signed in 2004 with Areva covers transportation of spent fuel to the plant in The Hague, reprocessing of 850 tonnes a year, nuclear waste packaging and interim storage. Pending the conclusions of the studies conducted under the law on long term management of very high activity and long life radioactive waste, this agreement clarifies the respective responsibilities of EDF and Areva and establishes new financial relations based upon the principle of a fixed fee.

R&D

on the move

Robotised intervention for less expensive repairs

Certain hard-to-access areas of the primary circuit of nuclear power plants may show signs of thermal fatigue. Using a full-scale model, EDF researchers have shown that they can be checked and maintained by inserting an articulated robot with 6 axes into the piping.

Working life of nuclear vessels: more precise evaluation, better safety

In collaboration with the *École des Mines, École Centrale, Institut de Recherche Sidérurgique* and CEA, R&D has developed a method to predict the sensitivity to wear of nuclear vessels subjected to radiation, used notably to estimate their residual working life after 40 years. Based upon digital simulations, this method boosts precision. It will also be used to calculate the safety of the future EPR.

by the CNDP ⁽¹⁾, administrative authorisation procedures and invitations to tender, construction is expected to begin in 2007. The reactor should be commissioned in 2012. Developed by French and German teams, notably from EDF's engineering arm, the EPR will incorporate every recent innovation in the areas of safety, security, environmental protection and economic efficiency. Its technology will factor in the Group's experience

(1) CNDP: Commission nationale du débat public, the national committee for public debates.

with existing power plants. Its schedule gives EDF the time needed to launch the construction of the following units from 2015 onwards and thus begin the gradual replacement of its nuclear installed base with state-of-the-art knowledge. The development teams are already working in collaboration with those working on the Finnish EPR project approved in 2003.

FOSSIL-FIRED PLANTS AND HYDROPOWER PLANTS: ADJUSTMENT

Strong demand for electricity from fossil-fired and hydropower plants shows their importance in adjusting EDF's power production to consumption needs. Rapid start-up and flexible power capacity allows the plants to respond quickly to swings in demand.

Fossil-fired plants: a four-pronged programme. In 2004, EDF's fossil-fired plants produced 20.9 TWh. The response coefficient improved to 96.2% for fuel oil-fired plants and to 97.4% for coal-fired plants. Nevertheless, the availability coefficient dropped from 69.3% in 2003 to 64% in 2004. This was due to programmed maintenance operations, to prolonged shutdowns and to several disruptions. The programme to upgrade the installed base of fossil-fired plants aims to significantly boost these performances. It has four priorities: shutdown of the oldest and least competitive units, re-commissioning between 2006 and 2008 of three fuel-oil units (Porcheville B2, Cordemais 3 and Aramon 1) with combined power of 2,000 MW, refurbishing of plants that will remain in service, and preparing for construction of future power plants. The overall project includes an important sub-programme to support employment and manage competencies.

In 2004, the Montereau 4, Loire-sur-Rhône and Ambès power plants were shut down. The Vaires-sur-Marne and Dunkirk units will be shut down in 2005. Decommissioning of the Gennevilliers and Pont-sur-Sambre power plants has started.

EDF also initiated a complete overhaul of the Le Havre plant and launched the denitrification process (reducing NOx emissions by 80%), in addition to the recent desulphurisation campaigns for the Le Havre 4 and the Cordemais 4 and 5 units. The ten-year inspections of La Maxe 1 and 2 were completed successfully, while those of Blénod 2, 3 and 4 are being prepared.

Hydropower: the leading producer in the EU. With a hydraulicity rate of 86%, the annual drought was similar to 2003 (83%). Hydropower generation came to 45.3 TWh (after 45.5 TWh in 2003), reflecting significantly lower-than-expected river production, partly offset by lake production. This said, the technical performance topped the objectives, and was up from 2003 with an availability rate of 92.2% and demand response of 99.2%.

One of the key decisions of 2004 was to refurbish the hydropower chain along the Romanche (Isère Department), the biggest investment in hydropower resources for several decades (€160 million). Starting in 2013, the new power plant in Gavet will supply 560 MWh, or 80 MWh more than the six run-of-river hydro plants it is designed to replace.

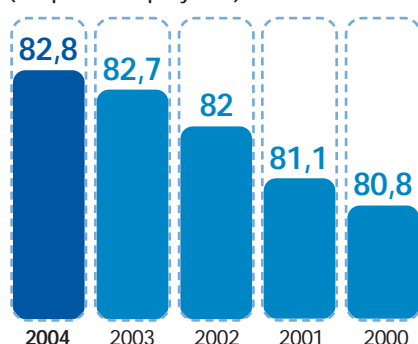
The growth prospects for hydropower are limited in France, as most of the potential is already being exploited. EDF manages three-quarters of current reserves and wants to preserve the renewable-energy capacity of hydropower by renewing its 370 concessions and 123 authorisations at a pace of 5 to 20 per year.

Facts & figures

Promising potential for clean fossil-fired power

EDF has launched preliminary studies of combined cycle gas turbines – which emit less SO₂ and CO₂ – and “clean coal” technologies (supercritical pulverised coal). Clean coal technologies are expected to be serious candidates for replacement of centralised basic nuclear generation after 2020. The objective is to standardise the steps involved in construction in order to minimise maintenance and operating costs from the design stage on down.

EDF nuclear fleet: trends in availability rates
(EDF parent company in %)





The Blénod-les-Pont-à-Mousson fossil-fired plant in France is preparing for its ten-year inspection.

At the same time, EDF's teams are optimising management of the Group's industrial base. In the last two years, EDF subjected 34 of its 150 large dams to ten-year inspections. Twenty-six inspections were conducted with camera-equipped underwater robots, thus avoiding emptying dam reserves and its consequences for the environment and tourism.

OTHER RENEWABLE ENERGIES: RALLYING ALL RESOURCES

EDF Énergies Nouvelles is contributing to the growth of industrial wind power in France and aims to achieve a market share of 20 to 30% by 2010. Following construction of the Petit Canal wind park in Guadeloupe, several projects in France's overseas departments are on the drawing board. In mainland France, three projects were completed in 2004: Bouin in Vendée Department (20 MW), Saint-Simon-Clastres in Aisne (11 MW) and Oupia and Riols in Hérault (12 MW). EDF is also building wind turbines on such sites as the Dirinon power plant in Brittany, commissioned in 2004.

With Total Énergie, the EDF Group is developing solar energy and end-to-end offers for the residential sector. This is a growth market, and Total Énergie will double its capacity to produce photovoltaic panels at its new factory in Toulouse.

R&D on the move

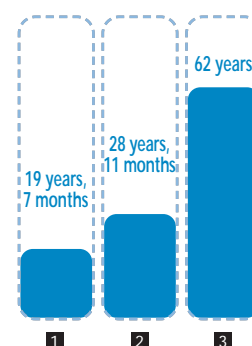
Smooth management of sediments in the Durance (photo)

The accumulation of sediment in the reservoirs of the hydropower plants along the Durance poses a number of problems, ranging from clogging of agricultural and industrial water intakes to the risk of sticking valves. Using the GIS Durance digital model developed by the R&D staff, EDF can simulate sediment flows over a ten-year period—including such events as floods—and test and optimise operating scenarios while ensuring a smooth transit of sediment.

Argos: optimising the installed base on a daily basis

Used at national level and in the hydraulic regions (Lyon, Marseille and Toulouse), the ARGOS software optimises the daily management of the overall installed base of nuclear, thermal and hydropower plants. Thanks to the latest versions of the optimisation models developed by EDF R&D, Argos ensures that both local operating constraints and broader requirements in terms of demand (consumption) and reserves (security) are taken into account.

Average age of EDF parent company generation plants – first grid connection (as of 31 December 2004)



- 1 Nuclear
- 2 Fossil-fired
- 3 Hydropower

Regulated activity

Transmission network: a regulated activity to ensure supply security

Network activities, which demand sophisticated technical expertise and a quality public service culture, are part of EDF's core business. Events of recent years have shown that electric companies that have managed to preserve or build up a portfolio including power generation, transmission, distribution and sales are strongest and the leaders of the European electricity industry.

EDF's transmission network (high and very high voltage) is managed by RTE. Set up in 2000, this independently-operated entity ensures the neutrality needed to guarantee equal treatment of all operators. Pursuant to the law of 9 August 2004, RTE will become a limited company with state-owned capital. It will be an affiliate of EDF SA.

PLAYING AN ACTIVE ROLE IN MARKET OPENING

In the run-up to the deregulation of 70% of the French electricity market in 2004, RTE worked hard to prepare for the eligibility of 2.5 million new customers, notably by industrialising electronic data exchanges with distribution network managers.

RTE also upgraded the interchange tools and mechanisms available to customers on the European market. It made its supply adjustment

mechanism easier to use and extended its availability to the UK and Spain. New services were created for customers on the link between France and England.

In these and other ways, RTE is contributing to the vitality of the European electricity market, as witnessed by the 5% increase in contractual exchanges of electricity through its network (119 TWh). RTE stepped up the volume of contractual exchanges with the UK (up 2 TWh), Spain (up 0.9 TWh) and the other neighbouring countries in Europe (up 2.6 TWh).

SAFEGUARDING THE SUPPLY OF ELECTRICITY AND PROTECTING THE ENVIRONMENT

In order to improve supply security, RTE has added 435 km of power lines, including 55 km at 225 kV and 85 km at 400 kV, mainly the overhead power line between Amiens and Arras, which safeguards the supply of the Somme and Pas-de-Calais Departments. Pursuant to the electricity network and environment agreement signed with the State, these operations did not extend the overall length of the overhead network thanks to the removal of other lines and the burial of new high voltage lines. RTE further invested in network equipment in Brittany and Pays de Loire to offset the lack of power generation in these areas.

RTE's customers

- Generators that feed energy into the transmission network
- Distributors: 21 local distribution companies and the EDF distribution network, 2,500 delivery points in total
- Industrial customers (580 sites), direct consumers of high and very high voltage power
- Trading companies (70)

94.3%

According to surveys, 94.3% of RTE's customers are satisfied, up five points from 2003.



Installing COE optical fibres on the network in southern Brittany, France, August 2004.

TECHNICAL CHARACTERISTICS OF THE RTE NETWORK

As of 31 December 2004

	400 kV	225 kV	150 kV	90 kV	63 kV	Total
Pylon lines (km)	13,198	21,212	1,124	12,710	29,239	77,483
Overhead power lines (km)	21,003	25,343	1,148	15,051	33,738	96,283
Buried power lines (km)	2	921	1	367	1,884	3,175
Total	21,005	26,264	1,149	15,418	35,622	99,458
Stations* (number)	125	508	27	534	1,250	2,444
Transformers* (number)	263	1,175	45	40	35	1,558
Capacity (MVA)	119,571	107,830	1,823	1,588	942	231,754

**Figures for stations and transformers correspond to the transmission network operated by RTE in 2004. Conformant with new regulations defining the limits of public transmission and distribution networks respectively, a number of transformers and other electricity station equipment now belong to the public distribution network.*

On 1 July 2004, the RTE network integrated the Houillères network in Lorraine, France: 100 km of 63 kV lines, 2 225/63 kV stations, 11 63/5 kV stations.



The Ling Ao nuclear plant in China.

A world in need of energy

— The energy equipment requirements in the rest of the world are even more obvious than in Europe. In recent years, EDF has endeavoured to meet these needs by investing in facilities designed to exploit local resources: gas and hydropower in Latin America, gas in Egypt, Ivory Coast and Vietnam, coal in China and hydropower in Laos. Thanks to its experience as an electricity generator and the expertise of its engineering and R&D teams, the Group is recording more and more demand for its generation and transmission services.

SERVICE SALES GAINING MOMENTUM

The only operator in the world with an integrated engineering unit covering the whole range of generation and network speciali-

ties, EDF provides services to the owners of other works. Its industrial model offers many advantages, particularly expertise in both construction and operation, acquired over several decades. The Group is stepping up sales of its engineering and consulting services around the world, including in Africa (Algeria, Morocco, Gabon, Ivory Coast, Sudan and South Africa), China, India and Europe.

FOSSIL-FIRED POWER: TWO-THIRDS OF GLOBAL ELECTRICITY

Coal, gas and fuel-oil power plants account for more than two-thirds of global electricity and their share continues to grow.

In Mexico, the Group has become the largest independent generator with four combined-cycle gas (CCG) turbine power plants, which turned in good availability percentages in 2004 and were added to the Group's ISO 14001 environmental certificate. A fifth power plant, Rio Bravo 4, is under construction for inauguration in 2005. The Group's engineering teams are committed to the success of these projects, which benefit from pooled maintenance services.

In Brazil, the CCG power plant in Norte Fluminense came on stream in December. Its installed capacity of 771 MW covers about 15% of the energy consumption of the State of Rio de Janeiro.

The Chinese energy development programme out to 2020: 40 GW a year. In total:

65 GW

nuclear capacity, the equivalent of France's installed base

400 GW

coal-fired power, about 40 times the French fossil-fired installed base

150 GW

hydropower, six times the French installed base

Facts & figures



Renewed interest in nuclear power in the world

In addition to China, many countries are showing renewed interest in nuclear power, particularly Brazil, India, South Korea, Japan and, in Europe, Finland. The latter imports 70% of its energy, and TVO decided in late 2003 to build an EPR reactor in the country.

Light was awarded the triple ISO 9001, ISO 14001 and OHSAS 18000 certificate for its hydropower plants.

Electricity transmission in Argentina

Distrocuyo manages 1,250 km of very high voltage lines between Mendoza and San Juan. It has received the ISO 9001 and ISO 14001 certificates.

In China, the Laibin B and Shandong coal-fired plants produced 19.5 TWh, up from 2003. Thanks to agreements with the Guangxi government, Laibin B's production in excess of its contractual obligations rose by 30%. EDF has acquired Alstom's 40% stake in this unit. In the Shandong province, the Liaocheng power facility (inaugurated on time and on budget in 2004) and the Shiheng and Heze plants turned in good results.

In Vietnam, the Phu My 2-2 CCG (715 MW) plant came on stream at the beginning of 2005.

In Egypt, the gas-fired power plants in Suez and Port Said lived up to expectations with a remarkable availability rate of 99% in their first full year of operation.

In Ivory Coast, the Azito power plant continued to meet contractual obligations despite the troubled environment, and to comply with the ISO 14001 certificate awarded in 2003.

NUCLEAR POWER: LONG TERM COOPERATION WITH CHINA

For more than a decade, EDF has worked actively with nuclear operators in China, where it sells general contracting services for the construction, start-up and operation of power plants. Following the success of the Daya Bay (two 1,000 MW reactors) and Ling Ao plants (also two 1,000 MW reactors), EDF was awarded a contract for two new units in Ling Ao by the Chinese group CGNPC. This assistance contract is accompanied by strategic long term partnerships in the area of nuclear power.

EDF has forged industrial partnerships with two major Chinese electricity producers, China Power International and Huaneng, each of which has an installed base of 20 GW. The Group has also signed an R&D and operating agreement with China National Nuclear Corporation (CNNC), the nuclear power authority.

HYDROPOWER: RENEWABLE AND PROFITABLE

Hydropower is the foremost and by far the most profitable source of renewable energy. Its potential is exploited very unevenly in the world, and its growth prospects are high. Major projects are underway. EDF is involved in hydropower as an investor, generator and, especially for consulting and engineering services.

In Asia, preparations for the construction of the Nam Theun 2 dam began in the spring of 2004. The project is supported by the World Bank and conducted in close partnership with the government of Laos. EDF is involved as the lead manager of a consortium of investors and as a service provider. In this capacity it is responsible for design studies, selecting builders, monitoring construction, etc. Most of the electricity will be exported to Thailand, where EGAT, the local operator, signed an energy acquisition agreement at the end of 2003. EDF's hydraulic engineering team is also active in China, where it provides services for the transfer and pumping stations of Zhangwan and Yixing and for the Three Gorges Dam project. Other projects are underway in Korea (Siwha) and Nepal (Kol Dam).

In Latin America, the power plants of Argentine affiliates, Hinisa and Hidisa, have a combined capacity of 660 MW. They produced 1.92 TWh in 2004 and were awarded the triple Quality-Safety-Environment certificate. In Brazil, Light's power facilities (850 MW) in the State of Rio produced 4.16 TWh with higher-than-projected availability of 92.2%. EDF engineers are involved in hydro projects in Costa Rica (Balsa Inferior), Argentina and Honduras.

OTHER RENEWABLE ENERGIES: SAILING AHEAD ON WIND POWER

In 2004, EDF Énergies Nouvelles was one of the most active wind power operators in the world, notably inaugurating 60 MW in the US, where it has 137 MW installed power via EnXCo.

In Morocco, EDF is a partner in the wind farm in Tetouan (50 MW). The wind farm operator remained profitable despite slightly lower-than-expected generation (178 GWh).



Working
together
towards a
common goal



HIGHLIGHTS

In March, after seeing in the European Works Council and a consultative body in Latin America, the Group's Asian entities set up their own committee for dialogue.

13 July 2004, the CEO's of EDF and Gaz de France alongside union representatives from the CFDT, CFE-CGC, CFTC, CGT and FO, signed an innovative agreement on professional gender equality.

Created in 2004, the job exchange GEO aims at facilitating international mobility within the Group.

To help the population hard hit by the tsunami of 25 December 2004, the association Electriciens sans frontières was able to send several teams of electrical engineers to affected areas thanks to the support of the EDF Group and the generosity of its employees.

— The EDF Group is composed of often long-standing companies, each bringing their own culture and history. The Group is committed to developing a common spirit and shared values. Standardised procedures are gradually being introduced and employees mobilised around shared objectives.

The achievements of 2004 testify to the progress made towards this goal. The Group's industrial strategy was finalised and its employee roll-out will be one of the management highlights of 2005.

Employees of the EDF parent company and those of its majority-controlled affiliates know that they could soon become shareholders in EDF SA, reinforcing their ties with their Group and giving them a stake in its success.

Across the Group, social dialogue is the norm rather than the exception, as is its policy of valuing competence and managing career progression.

Everywhere employee health and safety is a priority. The Ethical Charter is available to everyone.

The setting up of a Group savings scheme, the development of a common policy of social responsibility for the main centres across the world and the creation of an international job exchange all move us closer to the creation of a vital, human community which is both rich in diversity and guided by common values and practice.



Making EDF a better place to work

— EDF has always included a social dimension in its industrial strategy. Making the company a better place to work enhances employee loyalty and commitment to the Group.

SOCIAL DIALOGUE: THE RULE RATHER THAN THE EXCEPTION

Social dialogue is an integral part of EDF culture and has developed naturally within the Group. In 2004 several agreements were signed with union bodies.

Numerous agreements. At the beginning of the year, agreement was reached as to the main themes for negotiation: employment, reorganisation, working hours, health, safety, professional equality, social dialogue and remuneration. In 2005, other areas will be tackled such as mobility, professional training, apprenticeship and the special needs of disabled employees.

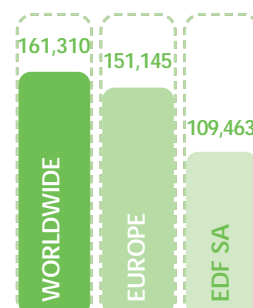
One of the agreements reached in 2004 gave each union body the use of an internet site and services. Another reinforced the commitment to social dialogue on employment matters. It opens the way to setting up an observatory for EDF core competencies and regional bodies for information sharing on job opportunities and skills.

At EDF Energy, a national works committee has been set up. It meets three times a year to discuss issues relating to performance, organisation, the company's financial situation and any other subject of interest to the company or its employees. In order to guarantee the business is constantly moving forward, it was agreed to set up a spe-

cial body to meet with management once a month for mutual updates on progress within the company.

At EnBW, the long-established practice of co-management resulted in an employment

EDF Group staff 2004





In all its core businesses, EDF is rolling out skill development programmes.

agreement signed at the beginning of 2004. In return for a commitment to no redundancies over the next five years, a plan to optimise employment combined with salary restraint over the next two years was put in place, allowing for reduction in the working week at reduced salary.

In Poland, Group companies continued to implement the agreements on industrial conversion with support for employees looking for a new job.

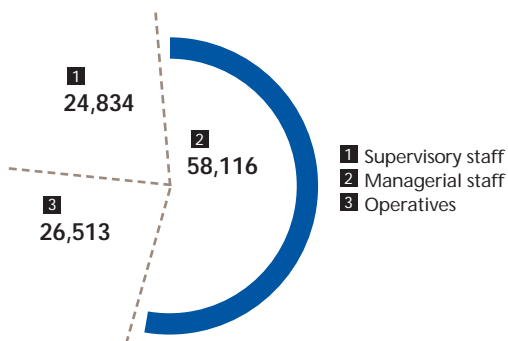
Professional gender equality: an innovative agreement. Based on the shared conviction that equality between men and women is at the root of performance both for the individual and the company as a whole, an agreement was reached with the five union bodies representing employees. The agreement takes a truly innovative approach to putting right inequalities and opens the way to pragmatic measures on equal salaries, external recruitment, professional development and training. With a dedicated intranet site, a 'professional equal opportunity' officer in each business unit, etc., the objective is to change mind sets. A joint committee will monitor compliance with the agreement.

PENSION SCHEME IN FRANCE: A DECISIVE STEP

A precondition to EDF's future development, the reform in the funding of the special pension regime for electricity and gas employees has been achieved. EDF is now able to move to international accounting standards on acceptable terms, keeping the long term cost of pensions at a level close to that of its competitors. Employees benefit from a scheme which has been secured for the long term.

The law of 9 August relating to the public service for electricity and gas consolidates and strengthens the pensions for electricity and gas employees. Funding reform was achieved via agreements with the national Insurance and retirement fund (*Caisse nationale d'assurance vieillesse – CNAV*), and the associations of graduated pension schemes and of institutional executives retirement plans (*Association générale des institutions de retraite des cadres – Agirc*), and (*Association des retraites de régimes complémentaires – Arrco*). Employee and company pension contributions are now similar to those in competitor companies. As of 1 January 2005, the special energy industry retirement fund (*Caisse Nationale des Industries Électriques et Gazières – CNIÉG*), is responsible for pensions, accidents in the workplace, professional illness, invalidity and death compensation.

EDF parent company staff 2004



Staff with full EDF status : 109,463



In 2004, EDF Energy launched training initiatives further involving management.

Investing in skills and motivation

— Dynamic career management, professional training, profit-sharing: the Group is investing in competence and plans to give employees a share in profits. This quest for performance goes hand in hand with a priority on safety.

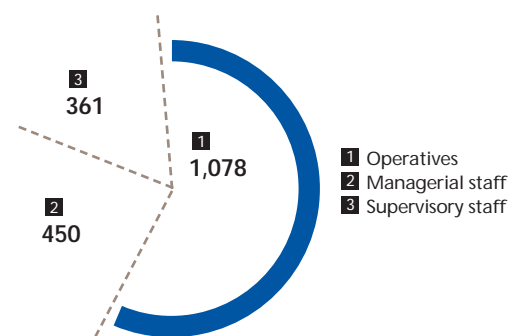
EMPLOYMENT AND TRAINING: PLANNING AHEAD

With a view to renewing the skills needed to deliver on its industrial strategy, the EDF parent company is looking to recruit 3,500 employees between June 2004 and the end of 2005. This recruitment targeting priority skills and a strategy of redeploying existing competencies will compensate for the growing number of employees retiring in the years to come.

In all of its key competencies, EDF is planning for the future. In nuclear power, where close on half its 20,000 agents will retire between now and 2015, the company is looking to update its skill base in both operations and engineering. At EDF Gaz de France Distribution, the aim is the same, whether in operations or in network maintenance. The opening to competition of the professional customer market in France has also led to a recruitment and training drive. More than 115 online advisers, most with professional experience, have been recruited, notably in the call centres. All customer advisers have benefited from training in the new products on offer and online sales techniques. Overall, more than a thousand employees have joined the eight new Customer Service Centres. This major redeployment exercise was undertaken after consultation with the unions.

In EDF Energy, numerous initiatives have been launched with management taking a hands-on approach to professional training. Employees have at least three meetings with their line manager to discuss their objectives, appraise performance and draw up personal training schedules. Tools are being developed to help with this approach. Hence the Management Competency Framework on the intranet helps present and future managers at all levels to perfect their management skills.

EDF parent company recruitment 2004



Total recruitment: 1,889

STAFF TRAINING

	2004	2003
Cost	332.6	336.8
% of wage bill	8.13	8.28



In China, at the Laibin B fossil-fired plant, employment policy is focused on building employee loyalty in order to get the most benefit from their training and experience.

PROFIT SHARING

The number of employees benefiting from profit sharing is being broadened to give employees a stake in their own performance and that of the company.

In France, based on an agreement with union bodies, the average profit share (€938) has increased by 8.3%. The level is determined by the results of the local entity for which the employee works, those of EDF in France and overall Group profitability. This scheme has also been extended to a number of French affiliates such as the holding company (*Compagnie Financière de Valorisation pour l'Ingénierie – Cofiva*) and EDF *Développement et Environnement*, Edev, where the first payments are expected to be paid in respect of 2004. In the United States, EnXco, an affiliate of EDF Énergies Nouvelles, pays bonuses based on its employees' performance and results. The remuneration scheme has been reviewed and, under the auspices of its remuneration committee, a bonus scheme has been set up based on individual and team objectives.

HEALTH AND SAFETY: A PRIORITY

Group companies draw their health and safety policy from the value put by the group on respect for the rights of the individual and on a common desire to put the human dimension at the core of the organisation.

In France, health and safety policy is the result of extensive internal consultation and is the concern of the national committee for health, safety and working conditions (*Comité National d'Hygiène, de Sécurité et des Conditions de Travail – CNHSCT*). The number of occupational injuries, whether requiring time off work or not, has been markedly reduced, the frequency rate falling from 4.9 in 2003 to 4.3 in 2004. There are fewer accidents and they are less serious, the gravity rate moving in one year from 0.23 to 0.17. EDF nonetheless deeply regrets the deaths of eight employees, three in road accidents, as well as the death of eight employees of outsourcers. Preventing factory floor accidents, which represent more than half the total number, and road accidents, remains a priority. As to the risk of occupational illness, the company has a proactive policy for the control of toxic risk (asbestos, chemical products) and musculoskeletal and psychosocial illness. In the UK, EDF Energy runs employee awareness programs on occupational risk management for manual workers and on stress via a series of seminars and its "Fit for work" training programme. Its Health, Safety and Environment policy includes asbestos risk. EDF's AIDS prevention program, articulated by its in-house medical team, runs in the Ivory Coast and in Asia where employees have also been vaccinated against Hepatitis B.

Facts & Figures

Health and safety policy 2003-2007

Six priority areas: road risk, factory floor (lifting and equipment handling), toxic, musculoskeletal risk, psychosocial risk, safety of subcontractors.

Six principles: subsidiarity, hands-on management, the human dimension, ongoing improvement, inter-comparison, multi-disciplinary approach.

A national committee for direction and monitoring: assesses progress and problems and directs the necessary corrective measures.

Seven groups responsible for driving priorities: one per priority and one responsible for ongoing improvements.



The Corporate Social Responsibility agreement signed in 2004 testifies to the EDF Group's efforts to become a reference in social and environmental responsibility.



Building the Group

— EDF is gradually building a united human community from the individual businesses of which it is composed.

CREATING THE GROUP SAVINGS SCHEME

Drawn up in association with union bodies, the Group savings scheme (*Plan d'Épargne Groupe – PEG*) is the successor to an earlier company-based savings scheme and is open to the affiliates in France. The open-end investment trust structure has been retained and a working group is looking into the possibility of adding a socially responsible investment fund. The top-up contribution rules have been rolled over for EDF SA and are at the discretion of affiliates who are members of the scheme. A dedicated fund will be opened within the PEG to allow EDF SA employees to subscribe to the capital increase.

THE GROUP'S POLICY OF SOCIAL RESPONSIBILITY

In 2004, for the first time, a worldwide agreement on the Group's Corporate Social Responsibility (CSR) was drawn up between employee representatives and the management of the Group's main affiliates in eleven countries⁽¹⁾.

This worldwide agreement reaffirms the Group's commitment to sustainable development values and marks the EDF Group's ambition to be a reference in the environmental and social fields wherever it may operate. This broad-based agreement covers, notably, the relationship with employees, customers and subcontractors, environmental protection and commitment to the quality of urban life.

The agreement provides for the creation of a committee for dialogue on the Group's social responsibility (*Comité de Dialogue sur la Responsabilité Sociale – CDRS*), to monitor progress.

In the run-up to the CSR agreement, Edev conducted a survey of its companies yet to benefit from a collective labour agreement. Several have since instituted a collective labour agreement to enhance employee protection: Edev itself, CPL Technologies and, at the beginning of 2005, EDF Énergies Nouvelles.

GEO: A JOB EXCHANGE TO FACILITATE INTERNATIONAL MOBILITY

Since 2004, employees of the parent company and French and foreign affiliates have access to Group Employment Opportunities (GEO), the Group's job exchange. As presented to the European Works

Council, GEO aims to help employees plan their career path by moving between Group companies, to enhance employee professionalism through the exchange of experience and know-how, to broaden career opportunities and to develop a group culture. It complements the job exchanges within each affiliate company. Using the website, employees can consult job opportunities, receive a selection of job offers or put their name into the "candidate pool" to advertise their intention to move and apply on line.

TOWARDS THE EMPLOYEE SHAREHOLDER

The law of 9 August 2004 transforming EDF into a limited company provides for the opening of up to 30% of its capital to private sector investment. The text specifies that 15% of the proportion corresponding to the opening of the capital must be reserved for EDF personnel or that of its majority-controlled affiliates. This represents a completely new opportunity for EDF employees to benefit directly from the company's success. Outside France, it will often be the first clear sign to every employee that they are very much part of the Group.

(1) This agreement was signed on 24 January 2005.

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EDF Group management report 2004



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1. Economic environment

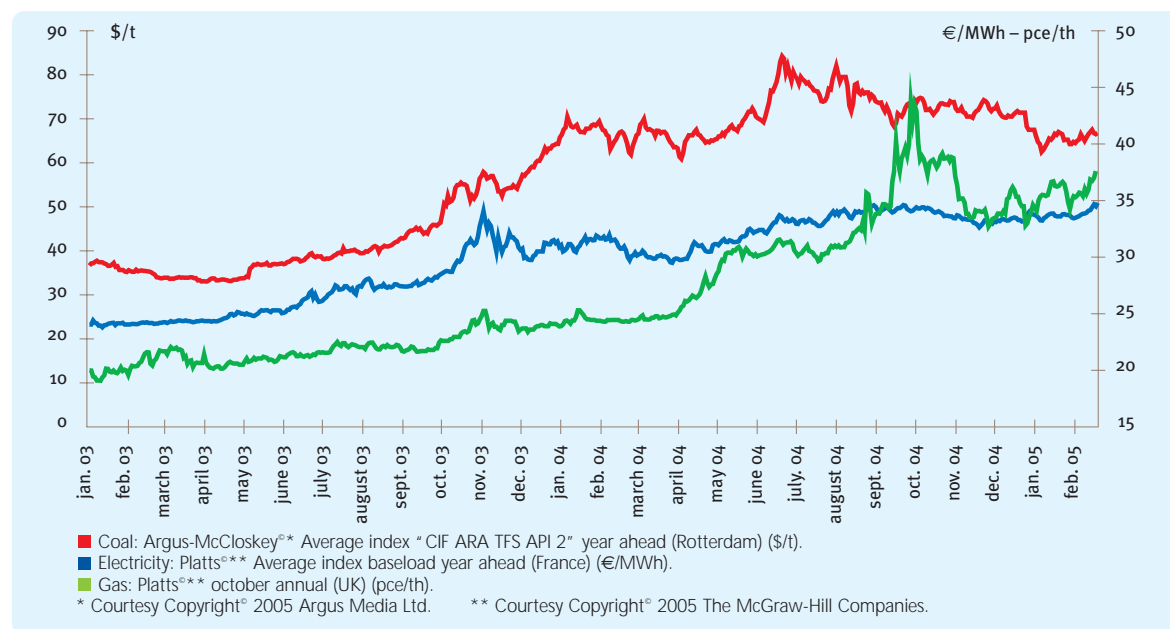
The progressive deregulation of Member States' national electricity markets begun by the EU directive of 19 December 1996 has already brought about significant changes. In anticipation of the new environment, which will eventually lead to a fully deregulated, integrated European market, the major European 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 CO₂ emission quotas.

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

(in millions of euros)



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 competitiveness 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.

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.

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.

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.

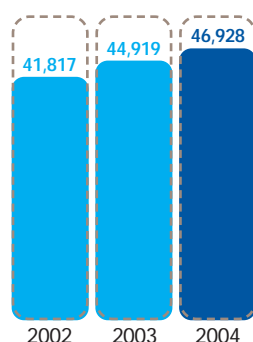
The Group's results for 2004 reflect its achievements both in terms of net income and reduction in debt.

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⁾.

(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.

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

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

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.

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.

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 down-sizing 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 Said 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.

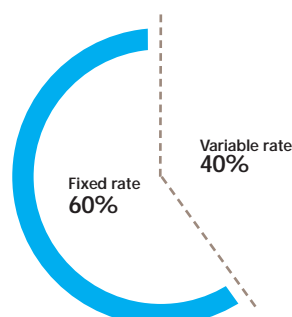
In Germany, higher net income, reinforced equity and various disposals enabled EnBW to reduce net indebtedness by almost half (€3.2 billion: Group's share - €1.4 billion).

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

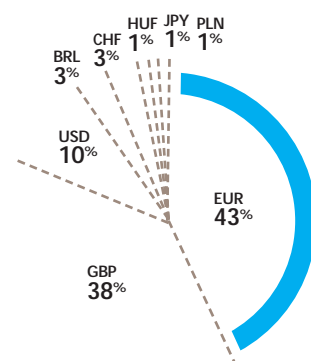
Maturities of gross debts at 31 December 2004, totalling €25.8 billion, are as follows:

- 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

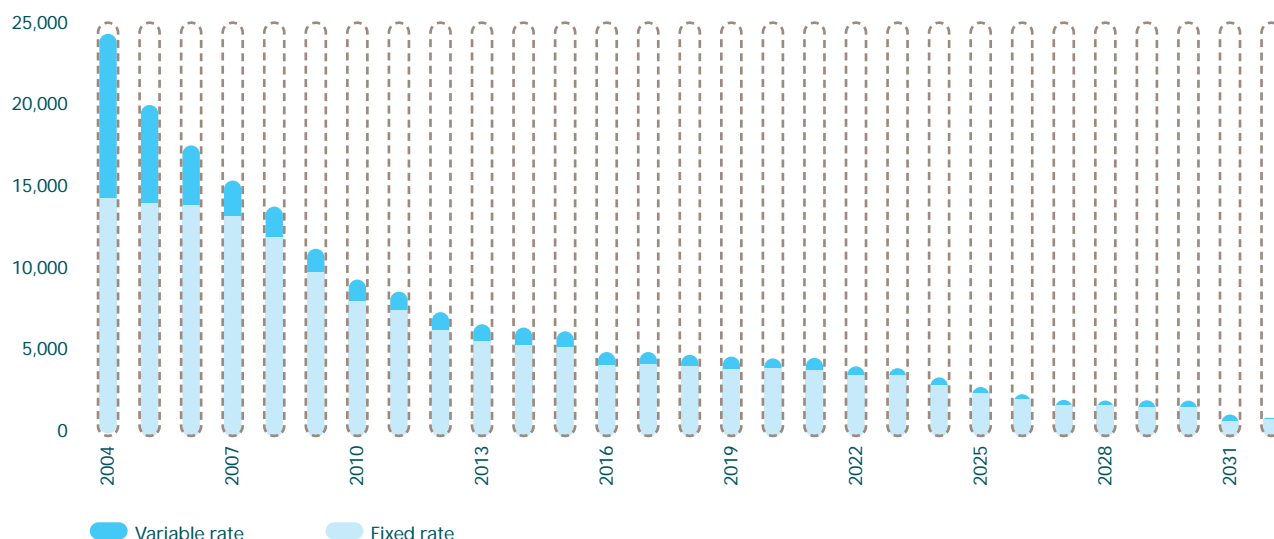


Breakdown by currency



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		2004	2003
Goodwill and intangible assets	6,205	6,518	Equity	17,567	18,924
Property, plant & equip.	97,407	99,012	Minority interests	893	915
Investments including cos in companies accounted by equity method	9,781	9,461	Special concession accounts	20,146	19,743
Inventories and WIP	6,660	6,924	Provisions for risks and expenses	48,359	46,395
Deferred tax assets	200	216	Deferred tax liabilities	5,624	5,853
Trade and other receivables	22,004	19,174	Financial liabilities	25,786	29,604
Short-term financial assets and cash	6,118	5,595	Trade payables and other liabilities	30,000	25,466
Total assets	148,375	146,900	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.

eration, 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 rigorous risk management.

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 (gen-

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 infor-

mation 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 current 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	EQUITY (GROUP SHARE)				31 Decembre 2004	MINORITY INTERESTS	CONSOLIDATED TOTAL
		1 January 2004	Net income	Pension Reform	Other			
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	Adjustements 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 liabil-

ity". 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 Pestell
(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

Glossary



Capacity auctions: In January 2001, the Group agreed to auction a portion of its generation in order to allow European energy groups to compete in the French market, just as EDF competes in foreign markets. The agreement signed with the European Commission stipulated that EDF would sell 6,000 MW of its electricity "capacities", or 8% of the electricity generated in France.

Cogeneration: A process by which electricity and thermal energy (heat) are generated sequentially using a single primary energy source. A cogeneration site can thus respond to the demands of both industrial customer and local authorities for heat (hot water or steam) and electricity. The system improves the efficiency of generation processes and allows operators to consume 20% less fuel on average.

Corporate Social Responsibility (CSR) Agreement: On 24 January 2005, a CSR Agreement was signed by CEO Pierre Gadonneix and staff representatives from the eleven countries where the EDF Group is most active. Four international labour unions from the electricity sector also signed the agreement. The text sets down the commitments made by the Group and its staff to corporate social responsibility and provides for structured social dialogue worldwide.

CRE: The Energy Regulation Commission (CRE) was created on 30 March 2000. Its mission is to ensure that the electricity market runs smoothly. An independent administrative authority, the CRE acts as a regulatory body for the opening of the French energy market (just as the *Autorité de Régulation des Télécommunications* – ART regulated the opening of the telecommunications market). The CRE ensures that all producers and eligible clients have equal access to the network. Its functions include monitoring the market, issuing authorisations, settling disputes and, in some cases, imposing sanctions.

Dosimetry: The determination, by estimation or measurement, of radiation exposure received by a substance or individual.

Eligibility threshold: This corresponds to the minimum volume that must be consumed per site and per year to make customers eligible to choose their electricity supplier. The number of eligible clients increases each time the eligibility threshold is lowered. In France, eligibility thresholds were first lowered from 100 GWh in 1999 to 16 GWh in 2000, and then to 7 GWh on 10 February 2003. The threshold introduced in 2003 meant that 37% of the electricity market had been deregulated. On 1 July 2004, 70% of the market opened to competition (all commercial customers, businesses and local authorities). The next important date will be 1 July 2007, when 100% of the market will be liberalised with the eligibility of residential users.

EPR: European Pressurized Reactor, a "third" or latest generation of nuclear reactor.

Fuel-cell battery: A system whereby electricity and heat are generated simultaneously thanks to a chemical reaction between oxygen and hydrogen. The latter can be obtained from oil products, natural gas, alcohol or other combustibles. Fuel-cell batteries have a high energy yield and low environmental impact (no noise pollution, gaseous emissions such as carbon monoxide or nitrogen oxide, release of soot or other particles).

Interconnections: This refers to the electricity networks that connect the very high voltage networks of different countries. Interconnections were created early in the 20th century in the goal of allowing neighbouring countries to help one another in times of need and to generate savings on the deployment of generation resources. As of today, 21 European countries are interconnected, and technically, it is possible to transport electricity from the UK to Rumania. However, existing interconnections remain insufficient and continue to hinder the creation of a European electricity market. There are still congestion areas throughout Europe, and the situation could remain problematic until 2010, despite major construction underway.

kWh Équilibre®: EDF offers its professional customers the possibility to purchase electricity generated from renewable energy sources. The *kWh Équilibre®* offer is backed by green certificates delivered by the French agency Observ'ER (l'Observatoire des Énergies Renouvelables).

MOX fuel: A mixture of uranium oxide and plutonium oxide derived from reprocessing of spent fuel.

National allocation plan (NAP): NAPs are a lead-up to the future European greenhouse gas allowance trading scheme aimed at reducing emissions of European industries. NAPs focus on limiting, for the period 2005-2007, the CO₂ emissions of the most polluting industrial and generation sites.

Nuclear generation unit: An electricity generation unit comprising a nuclear steam supply system and a turbo alternator set. Units are generally characterised by

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the type of reactor used and the capacity of the turbo alternator set. Most of EDF's nuclear plants have two or four units, and a small number has six.

Powernext: Created late in July 2001 and operational since November of the same year, Powernext is France's first electricity exchange. It operates an organised market in which French and foreign players can buy megawatt-hours on a voluntary, anonymous basis. Operators are offered "blocks" of energy for each hour of the following day, and Powernext determines prices and equilibrium volumes based on a comparison of supply and demand. MWh prices are made available at 11:30 a.m.

RTE: This electricity transmission network (*Réseau de Transport d'Électricité*) was created on 1 July 2000. It is solely responsible for the management of France's high and very high-voltage electricity transmission networks.

The RTE's management, accounting and finance functions are independent of those of EDF. In keeping with the opening of the French electricity market, its main mission is to ensure the continuity and quality of public service with regard to electricity transmission by guaranteeing that all producers, distributors and eligible consumers have equal access to the network. In practical terms, it operates the high and very high voltage electricity grids and oversees the maintenance and development of transmission infrastructures.

Watt: A unit of power representing the energy consumed or generated in a given time. One watt is equal to one joule per second. The watt's symbol is W. It is usually referred to in multiples: kW (kilowatt) with 1 kW equal to 1,000 W; MW (megawatt) equal to 1 million W; and GW (gigawatt) equal to 1 billion W.

Financial vocabulary

Assets: The company's resources, which have a positive financial value. They may consist of physical goods or intangible, monetary or financial rights.

Balance sheet: Made up of two distinct parts: assets and liabilities. A snapshot of the company's assets, and of the resources used to finance these assets (its liabilities), on a given date.

Consolidated accounts: A summary of the financial situation and results of more than one company as though they were a single business, for example a parent company and its subsidiaries.

Depreciation: An accounting item showing an irreversible decrease in the value of a fixed asset over a period of time, resulting from expected wear and tear, technical obsolescence or legal constraints.

EBIT (or operating result): Earnings before interest and taxation, i.e. EBITDA less amortisation and provisions. An indicator of the company's financial performance.

EBITDA (or gross operating surplus): Earnings before interest, depreciation and amortisation. Turnover less external purchases, personnel costs and tax (except corporation tax). An indicator of the company's ability to finance its own growth.

Equity: The capital and assets contributed by the shareholders to the company when it is established, or available to it in the form of profits brought forward or earned during the current period.

Free cash-flow: Cash generated by operations over a specific period, after payment of operating investment, cost of finance and taxation, and including the change in working capital. Reflects the business's ability to generate resources which can be used for financial investment, to pay dividends or to reduce debt.

Goodwill: The difference between the price paid for a company's shares on acquisition and their value as shown in the accounts of the acquired company. This is the premium paid by the purchaser for expected future operating profits. It is shown as an asset in the consolidated balance sheet and depreciated over a specific period.

Group share of net income: Net result in the consolidated accounts after deduction of minority interests.

IFRS: The international financial reporting standards of the International Accounting Standards Board. From 2005, these apply to European companies offering savings products to the public.

Liability: An obligation representing a negative financial value to a company, such as equity, provisions, and debt.

Minority interests: The proportion of the net results and equity of a consolidated subsidiary attributable to interests not held by the parent company either directly or indirectly through its subsidiaries.

Net financial debt: Financial debt (bonds, interest payable, etc.) less cash and short-term financial assets (liquidity, bank current accounts, investments, etc.).

Net current result: Net result adjusted for certain non-recurrent items defined by the group, such as gains on sales and accounting changes.

Financial vocabulary

Net result: The balance of a company's income and expenditure over a given period. Reflects the wealth it has created, and its profitability.

Operating cash flow after exceptional items: Cash flow after deduction of one-off items (e.g. Brussels decision and IFRS effects).

Operating cash flow: EBITDA less tax and cost of finance and excluding exceptional items.

Profit and loss account: A summary of a company's income and expenditure over a given period. This helps to assess its ability to generate wealth from its business.

Provision: A sum set aside to cover a future risk or an item of expense payable in the future.

Rating: The score allocated by a specialist rating agency such as Standard & Poor's or Fitch, reflecting a borrower's ability to repay its debts. The higher a company's rating, the lower its cost of new borrowing will be.

Recurring free cash flow: Free cash flow excluding exceptional items.

Separate accounts: Separate balance sheets and profit and loss accounts for such areas as production, transmission, and electricity distribution.

Turnover: The company's total sales of goods and/or services during a specific period of normal current operations.

Working capital requirement: The amount the company needs to finance its current business. It results from the time lag between acquiring and using stocks on the one hand, and operating cash flows on the other.

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