

2005 REPORT by the Chairman

of the EDF Board of
Directors on corporate
governance and internal
control procedures

Table of contents

Introduction	3
1. Corporate governance	4
1.1 Preparation and organization of Board of Director meetings	4
1.2 Missions and functioning of the Board of Director working groups	5
1.3 Information and training for Directors	6
2. EDF Group internal control procedures	7
2.1 Internal control framework	7
2.2 Internal control procedures relating to the implementation and optimization of the Group's operations	12
2.3 Control procedures relating to the reliability of financial information	15
2.4 Control procedures relating to compliance with laws and regulations	17
3. The dynamics of change	18

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Introduction

In compliance with French law 2003-706 of August 1, 2003 on financial security, this report covers the preparation and organization of Board of Director meetings as well as the internal control procedures implemented at EDF SA, including those that apply to consolidated subsidiaries. The structure of this report is based on the Coso¹ reference system. The first section in Chapter Two describes the internal control framework and the three following sections list the procedures designed to achieve the three recognized objectives of internal control:

- Internal control procedures relating to the implementation and optimization of operations;
- Internal control procedures relating to the reliability of financial information;
- Internal control procedures relating to compliance with laws and regulations.

Chapter Three recalls the rapid development of internal controls within the EDF Group as well as the process implemented to draw up and validate this report, in line with the French financial markets authority (*Autorité des Marchés Financiers – AMF*²) recommendations.

The aim of this document is not to provide an exhaustive presentation of all the control methods within the Group but rather to focus on the procedures relating to activities or risks deemed to be significant.

This report sets out the systems which were in place throughout 2005.

Two major changes should be noted:

- A new audit and internal control policy, approved by the Executive Committee (Comex) on November 22, 2005 and which is currently being implemented (see 2.1.1);
- The implementation, since the stock market listing, of procedures designed to prevent any breach of stock market regulations (see 2.4.2)³.

1. Committee of Sponsoring Organizations of the Treadway Commission.

2. See 2005 report of the AMF on corporate governance and internal control, published January 18, 2006.

3. Within the framework of the stock market listing a registration document was registered by the AMF on 07/13/05 and updated on 09/23/05.

1. Corporate governance

1.1 Preparation and organization of Board of Director meetings

1.1.1 Functioning of the Board of Directors

The Board of Directors determines the direction of Group activities and monitors the implementation of its guidelines. It meets once a month on average and deliberates on all the Group's strategic, economic, financial or technological aims as well as on matters expressly entrusted to it by law or which it has reserved for itself. It thus examined, in 2005, numerous subjects to do with the company's normal activities as well as the year's major events, particularly the preparation for and execution of the stock market listing and the resolution of the Edison situation. Four exceptional Board meetings were held to deliberate on these two major events in 2005, of which two for Edison and two relating to the opening of the company's capital.

In 2005, the Board of Directors comprised eighteen members¹: six representatives of the French State, six individuals with relevant experience appointed by decree, as well as six elected employee representatives. In addition, the following attend Board meetings without the right to vote: representatives from the State Economic and Financial Control Commission² and the Secretary of the Works Council.

1. See law relating to the democratization of the public sector of July 26, 1983.

2. This body is the executive for the French State's economic and financial control, pursuant to the decree of May 26, 1955. Its control procedures may be exercised across a broad remit.

The regulations applying to the cumulation of mandates are respected by each Board director. The functioning of the Board of Directors in 2005 was supported by internal regulation voted by the meeting held on December 14, 2004.

1.1.2 Appointment and powers of the Chairman of the Board and of the Chief Operating Officers

The Chairman is appointed by decree following recommendation by the Board of Directors. The Chairman of the Board of Directors assumes the function of Chief Executive Officer. The Board determines the powers to be delegated. Thus the involvement of the Board of Directors is required on the following issues:

- Acquisitions or disposals worth more than €200 million. This limit is reduced to €50 million for operations which are not in line with the Group's strategic objectives;
- Property transactions exceeding €150 million;
- Financial transactions, subject each year to the Board's exceptional deliberation. Thus, in 2005, long-term loans of more than €2 billion and sureties, endorsements or guarantees, exceeding €500 million. Additionally, the Chairman advises the Board of sureties, endorsements or guarantees whose unit value is in excess of €100 million;
- Contracts or total contracts resulting from the same consultation (excluding nuclear fuel purchases) involving sums of more than €100 million; endorsements of more than €10 million for contracts initially examined by the Board and more than €100 million

for contracts not examined by the Board (including potential successive endorsements in these two cases);

- Long-term contracts for the purchase or sale of energy, by the Group or by an exclusively controlled subsidiary, for quantities of over 7 TWh/year per operation.

Pursuant to article 17 of the bylaws, the Board of Directors can appoint, following recommendation by the Chairman and Chief Executive Officer and the majority of the members present or represented, up to five Chief Officers. Their powers, and the duration of their mandate, are conferred to them by the Board of Directors, in agreement with the Chairman and Chief Executive Officer. At the end of 2005, the Chief Officers were:

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

1.1.3 Evaluation of the functioning of the Board of Directors

The attendance rate for directors at Board meetings was 84.9% in 2005. This rate should be seen within the context of the high number of Board meetings (14).

Consistent with the guidelines on high standards of corporate governance which recommend that the functioning of the Board of Directors be evaluated, the Board's internal regulation states, in article 15, that "the Board should conduct an annual evaluation of its functioning". In addition, this regulation specifies that "the Ethics Committee should report every year to the Board (.../...) on the development of Board functioning".

This evaluation was carried out through a questionnaire examined by the Ethics Committee then approved by the Board of Directors of October 19, 2005.

The results, examined at the beginning of 2006 by the Ethics Committee and the Board of Directors, show a good level of satisfaction for the directors as a whole. This does not rule out more deliberation into possible developments in Board of Director functioning.

1.2 Missions and functioning of the Board of Director working groups

In order to conduct its duties, the Board of Directors is supported by a number of working groups, charged with examining and preparing certain issues prior to their submission to the full Board. At the end of 2005, these were: the Audit Committee, the Strategy Committee and the Ethics Committee. During 2006, the Remuneration Committee will be established.

1.2.1 The Audit Committee

The Audit Committee, comprised of five members, is chaired by a Board director (a respected figure from outside the EDF Group). Prior to their submission to the Board, it reviews and comments on the Group's financial situation, its medium-term business plan and the budget, the annual and half-year financial statements, both parent company and consolidated, the risk control policy and the internal audit program. It also reviews the report of the Statutory Auditors.

The attendance rate for the Audit Committee, which averaged 94% in 2005, is high given the number of meetings (10).

The monitoring of risk was, notably, regularly examined by this Committee, with an in-depth review of the Group's risk mapping, its risk control procedures and the internal audit program across all areas, including for energy markets.

1.2.2 The Strategy Committee

The Strategy Committee, comprised of seven members, is chaired by a Board director (a respected figure from outside the EDF Group). It examines the Group's overall strategic development, its industrial and sales and marketing policies, the Public Service Agreement, the strategic agreements, alliances and partnerships. It comments on all growth projects, both external and internal, or on disposals submitted to the Board for prior approval, on strategy relating to the upstream and downstream operations of the nuclear fuel cycle, on the multi-year supply program for the reactors and downstream services as well as the contracts submitted to the Board for prior approval.

The Strategy Committee met four times in 2005, with an attendance rate of 85.7%, far higher than the average seen since 2001 (75.1%).

1.2.3 The Ethics Committee

The Ethics Committee, comprised of six members, is chaired by a Board director (a respected figure from outside the EDF Group). It ensures that ethical considerations are taken into account in the work of the Board of Directors and in the management of the company. It reports to the Board on:

- The methods chosen by the company to this end;

- The ethics procedure implemented by the Group;
- The procedural development at Board level (see 1.1.3);
- Annual reporting excluding financial statements;
- The annual reports from the Mediator and the Head of Ethics.

The attendance rate for the Ethics Committee in 2005 (95.8%) was the highest since its creation in September 2001.

In 2005, this Committee notably continued its in-depth review of the policy on partnership with service suppliers in the nuclear operations.

1.3 Information and training for directors

At each Board meeting the Chairman and Chief Executive Officer brings to the attention of Board members the main significant facts and events occurring in the company since the previous Board meeting.

The company also communicates information to Board directors, so that they may complement this by meeting with the Group's main executives, on subjects included in the Board's agenda.

In addition, in 2005, training sessions were organized for Board directors on the adoption of IFRS (International Financial Reporting Standards) as well as on financial expertise.

2. EDF Group internal control procedure

2.1 Internal control framework

2.1.1 Internal control policy

Following an in-depth review undertaken by the Audit Division in the middle of 2005, a new internal control policy was approved by the Executive Committee (Comex) on November 22, 2005. This aims to make management more responsible for its own internal control, in line with the delegation of management authority. Several levels of control were identified:

- Self regulation and reporting line control exercised at activity level;
- Internal control exercised within the structure of the management entity for the activities (at unit or controlled subsidiary level reporting to a Division of the parent company);
- Internal control exercised in the structure of the entity (Branch, Division or directly controlled subsidiary reporting directly to Group senior management).

Each of these levels of control is established in line with the corresponding level of delegation of management power and includes the control of control exercised by the inferior level. In addition, the anomalies detected by one management level as well as their rectification are reported to the level above.

Each Head of a Group operating or support function entity is henceforth designated an "internal control coordinator" and must, by the end of 2006, outline his or her internal control procedures based on a format established by

the Group. The Head of Audit is responsible for driving the internal control process (professionalism of those involved, drawing up of a reference framework for control and self diagnosis...) ensuring, within the scope of this mission, the regular monitoring of control arrangements ("control of internal control" audits).

Regarding subsidiaries not controlled by the EDF Group, such as Edison and EnBW where EDF is not the only shareholder, EDF's Board representatives are encouraged, within the framework of their powers and in cooperation with the other Board members, to monitor the quality of the internal control procedures in these subsidiaries.

2.1.2 Ethics policy and environmental quality

2.1.2.1 ETHICS POLICY

The ethics policy launched in 2003 aims to outline a reference framework for the definition of a set of criteria for individual or collective professional conduct in certain areas or businesses of the Group:

- in 2004, procurement procedures and the use of IT systems;
- in 2005, the definition of a supplier charter and the revised audit charter (see 2.1.4.3).

In addition, the ethical dimension is taken into account in fundamental processes such as recruitment, professional training and performance appraisal. In 2005, this ethics policy inspired the adoption of similar ethics policies

in subsidiary companies: a common policy in the four Polish companies, policy developed at EDF Energy and in the Group project Nam Theun, policy introduced at EnBW.

In May 2005, the Head of Ethics reported to the Board of Directors on the deployment of the ethics policy in the Group since March 2003 and on a review of the first year of functioning (2004) of the ethical alert system. Of a total of one hundred and thirty requests of an ethical nature, the handling, in support of management, of the alerts identified resulted in individual measures to correct or repair the shortfall or in collective measures aimed at procedures or behavior.

The results of the 2005 financial year are consistent with those of 2004; they do not change the assessments made for that financial year.

2.1.2.2 ENVIRONMENTAL QUALITY ASSURANCE

The environmental certification of the EDF Group was renewed in 2005 by a new authorising body¹. The certificate was awarded in December 2005. This confirms the quality of the environmental management system in operation since 2002 which has been adapted to the new Group organization.

This certification guarantees better control of the environmental risks and greater respect for environmental considerations by the operational personnel.

2.1.3 Delegation of powers and technical authorizations

EDF's Board of Directors has granted its Chairman and Chief Executive Officer and his or her Chief Operating Officers a delegation of authority who, in turn, delegate part of their powers

to their immediate associates. Such delegation of power provides the basis for further delegation of powers to the main operating managers. Following organizational changes in the Group at the end of 2004, new delegations of power were implemented in 2005.

Since June 2003, the new delegations of power have allowed greater control to be exercised over procurement contracts, with only the Head of Procurement able to sign off on purchasing contracts.

The powers of the 'nuclear energy operator' have been delegated to the Senior Executive Vice President in charge of Generation who in turn delegates to the Senior Vice Presidents in charge of Nuclear Operations and Nuclear Engineering.

Each facility manager, subject to prior assessment of relevant skills, issues the technical authorizations that allow people to work in facilities (power plants, electricity transmission lines, etc.) These requirements apply to all workers, be they employees of EDF or of other outside providers.

2.1.4 Internal control functioning

2.1.4.1 INTERNAL GROUP CONTROL BODIES

The Group is organized to respect two major priorities: to improve the functioning of the integrated Group and to involve the operational personnel in the decision-making process.

The Executive Committee comprises nine members who are directly attached to the operational and functional divisional management. Its composition reflects the need to give equal treatment to the Group's three strategic priorities:

1. DNV – Det Norske Veritas.

- Regulated activities in France;
- Deregulated activities in France;
- International activities.

A small number of decision-making committees support the Executive Committee: the France Coordination Committee, the Committee for Commitments and Shareholdings, the Senior Executive Development Committee and the Nuclear Safety Committee.

2.1.4.2 FINANCE DIVISION

The Finance Division ensures the tracking and control of financial risk. It monitors market trends and financial techniques; it assesses the financial risk involved in projects. The Chief Financial Officer chairs the Commitments and Shareholdings Committee (see 2.2.3.1).

Within the Group Control division:

- Financial Control is responsible for:
 - Steering the processes of the Group's management cycle (medium-term budgeting and planning arising from the Strategic Development Plan), summarizing the major results of these processes and arbitrating between conflicting claims at Branch and Group levels by notifying the parties concerned, prior to decision-making, of the financial consequences of the planned projects or the performance levels proposed and providing analytical advice;
 - Helping operational management to keep track of performance; monitoring of budget execution (involving forecast revision at least three times a year) and operational results is effected through regular broad-based performance appraisals across all operational divisions and subsidiaries;
 - Acting as Group financial controller, notably by participating in investment monitoring and analysis to ensure economic and financial optimization.

Financial control is embedded at each managerial level. The financial controllers are members of the Management Committees of the entities to which they belong. Heads of Financial Control in the Group's entities are appointed and evaluated by the Chief Financial Officer.

- The Accounts Department is responsible for:
 - Establishing a reference framework within the Group to guarantee the standardization of accounting treatment and the correct input from the upstream processes;
 - Defining once a year the benchmarks to be deployed by process;
 - Organizing feedback on implementation by the entities of the control procedures stipulated in the accounting and financial area (see 2.3.2.2).

Within the Corporate Finance and Treasury Department, the Financial Risk Control Department is responsible for managing interest rate, currency, cash flow and counterparty risk across the Group (see 2.2.2.2).

2.1.4.3 GROUP AUDIT FUNCTION

The Group's audit function is made up of all the Group's control resources involved in internal audit, at Group, parent company and affiliate² level. Supervision of this function is the Chairman's responsibility; he delegates this task to the Head of Audit. Pursuant to the SPEGEEG law³ of August 9, 2004, the EDF distributor has cre-

2. According to separate agreements for non-EDF-controlled subsidiaries. Thus, the Transmission Network Manager (RTE EDF Transport) within the framework of the French law of February 10, 2000 giving it management autonomy, has developed its own control mechanisms: Audit Mission and Accounting and Finance Control.

3. Public Electricity and Gas Service and Electricity and Gas Companies.

ated its own audit function. A decision taken by the Chairman on September 10, 2004 defines the rules of its functioning within the Group's own Audit framework. It monitors the respect of the confidentiality rules with regard to sensitive information and the optimization of the resources dedicated to the control function.

The Group's audit division, which covers all the activities included in the Group¹ scope, applies the international standards defined by "The Institute of Internal Auditors" :

– Qualification standards:

- The duties, powers and responsibilities of the auditors are defined in a charter approved by the Executive Committee on March 10, 2003 and presented to the Audit Committee. In the light of feedback and a benchmarking exercise, this charter is being revised;
- The Head of Audit reports directly to the Chairman;
- All the auditors are trained to use the same methodology, consistent with international standards. They are recruited from the Group's different business lines, as well as from external audit offices. Each auditor is evaluated at the end of each mission and a transfer to audit is considered as a positive career move;
- The number of auditors is in line with the industry average: 0.5 auditors per 1,000 employees²;
- The audit process is laid out as a quality plan and performance indicators allow for the tracking of the different phases. An independent evaluation was conducted at the beginning of 2005. This evaluation confirmed the rigor of the processes in place, the upgrades intro-

duced, such as the strengthening of audit follow-through, a natural part of the ongoing improvement process.

– Standards of functioning:

- The audit program is decided by the Chairman, after examination by the Audit Committee. It is based on the Group risk map and also includes the audits of internal control procedures implemented by operational divisions and corporate functions (see internal control policy) as well as project audits. So-called "snap" audits are also undertaken on request by an Executive Committee member (six in 2005);
- The audits lead to recommendations which, after ratification by the entities audited, form the basis for action plans. During the year that follows an audit, the Audit Division monitors the progress of the implementation of these rectification plans;
- The audits are presented in three ways to facilitate their appropriation: a detailed report for the audited entity, a summary report for the management of the audited entity, a summary report for members of the Executive Committee;
- Two meetings are systematically held with the Chairman and with the Audit Committee in order to examine the audit program, the salient facts as well as the closing dates for audits.

Along with strengthening the internal control procedures within the framework of the new policy, the audit division is refocusing on its core function: the "control of internal control", the coordination of internal control resources and the undertaking of cross-divisional audits and/or those relating to risk at Group level.

1. See note 2, page 9.

2. Source IFACI: results of the survey on internal audit practice in France in 2005.

In order to contribute to the strengthening of internal control procedures to be supported at divisional level, the Audit Division established, at the end of 2005, a diagnostic procedure to prevent, detect and handle incidences of fraud. Lastly, project audits are carried out to verify that risk factors, even at project organization level, are taken into account right from the start (see audits carried out into the opening of the capital and the employee shareholding plan).

2.1.4.4 CORPORATE RISK MANAGEMENT DIVISION

In an evolving context, the Group has strengthened its risk control procedures by the implementation of a global management and control process, managed by the Corporate Risk Management Division (*Direction du Contrôle des Risques Groupe – DCRG*), reporting to the Chairman of EDF. Its main duties are as follows:

- Warn the Chairman and the Comex of emerging risks or those insufficiently identified;
- Devise and update on a half-yearly basis the mapping of Group risk identified by each entity (see 2.2.1);
- Consolidate and update the Group's risk control policy, ensuring notably the exhaustiveness and the consistency of the different sector risk control policies (see 2.2.2);
- Ensure the exhaustiveness and the relevance of risk analysis undertaken with regard to the Group's strategic priorities and presented to Executive Committee meetings for approval (CEP, CEC...);
- Ensure the deployment of the Group's policy on energy market risk and, more generally, to ensure the control of these energy market risks (see 2.2.2.1);
- Update and coordinate the Group's risk management policy (see Chairman's decision of June 14, 2005) by organizing regular risk con-

trol exercises to prepare for potential emergencies directly linked to the Group's businesses as well as those of a more general nature;

- Ensure the control of all suppliers and sensitive contracts in liaison with the Purchasing Division and the divisional managements of those businesses involved.

The Corporate Risk Management Division has complete independence in the execution of its duties and is supported by several levels of specialized counterparties at Group level (operational, subsidiary and corporate level management).

2.1.4.5 THE LEGAL AFFAIRS DIVISION

In order to remain as close as possible to the decision-making bodies, at Group, Branch or regional level, the organizational structure of the Legal Affairs Division is based on that of the EDF Group. The Legal Affairs Division keeps track of legislative and regulatory changes. It is consulted whenever contracts have to be drawn up and whenever the legal risks of corporate projects have to be analyzed. It also monitors major ongoing litigation. Its task leads it to issue warnings and to play a key role in avoiding litigation.

2.1.5 External controls

Like all quoted companies, EDF is subject to the scrutiny of the French financial market regulator, (*Autorité des Marchés Financiers – AMF*). The Statutory Auditors certify the EDF accounts at December 31, and also conduct a limited review on June 30. Affiliate accounts are also certified by their own local external Statutory Auditors. In that it is majority-controlled by the French State, EDF is also subject to special controls of its finances, management and internal control and purchasing by external public authorities: the French public accounting institution (*Cour des Comptes*), the State controllers, the Inspectorate

of Public Finances, the Commission for Economic Affairs of the French National Assembly and Senate and the Markets Commission.

EDF is also regularly rated by financial, environmental and social responsibility rating agencies.

Owing to the nature of its business activities, EDF is also subject to control by the French energy regulatory body (*Commission de Régulation de l'Énergie – CRE*) as well as being accountable to the French government department responsible for nuclear safety (*Direction Générale de la Sécurité Nucléaire et de la Radio-protection – DGSNR*).

The findings of all these different external review bodies feed into the Group's internal control process.

2.2 Internal control procedures relating to the implementation and optimization of the Group's operations

2.2.1 Corporate risk management

Consistent with the reporting schedule for the Group's half-year financial statements, the mapping of the Group's major risks is updated and consolidated each half-year by the Corporate Risk Management Division, based on information supplied by each entity. This half-yearly update of the risk map must be approved by the Executive Committee and presented to the Audit Committee as well as to the Statutory Auditors. It ensures that management and employee bodies have a regularly-updated picture of the Group's major risks and their level of control.

Each risk identified must be the subject of a clear action plan.

Responsibility for the Group's major risks is assigned to an executive appointed by the Executive Committee.

The risk mapping procedures form the basis of a number of other procedures across the Group: audit program, control of commitments and shareholdings...

The 'Risk factor' chapter of the AMF reference document was based on the Group's risk mapping which constitutes the up-to-date reference framework in matters of major risk.

2.2.2 Sector policy on risk control

2.2.2.1 CONTROL OF ENERGY MARKET RISK

The Chairman's decision of December 9, 2005 formalizes the policy on energy market risk which standardizes the management of these risks across the Group and stipulates the necessary procedures for its implementation and monitoring. This policy is fully applicable in the entities and subsidiaries of which the Group has the operational control. For the other subsidiaries, the EDF directors are charged with promoting its adoption.

This document specifies more particularly:

- The governance and assessment procedures, clearly separating the responsibilities with regard to the management and control of risk and allowing for the tracking of Group exposure;
- The risk control procedures involving Group management whenever risk limits are exceeded. Note that particularly rigorous risk control procedures are in operation at EDF Trading, given the specificity of the business activities and the fast reaction times required;

- The independence of the arrangements for controlling energy market risk, with a functional reporting line into the Corporate Risk Management Division.

The Executive Committee approves the mandates for risk management in the entities annually at the time of the budget. In addition, the Audit Committee comments on the Group's energy market risk policy.

2.2.2.2 FINANCIAL RISK CONTROL

The Group's development has led to the implementation of a dedicated entity, the Financial Risk Control Department, responsible for managing risks at Group level. These include foreign exchange and interest rates, cash flow and counterparty risk. This entity:

- Defines Group financial risk management policy and principles and the monitoring of their correct application, notably through the regular calculation of the risk indicators and the tracking of risk limits;
- Undertakes control exercises – methodology and organization – within the entities and subsidiaries controlled by the Group;
- Has operational control of EDF's dealing room responsible for the Group's treasury management. For these activities, a system of indicators and risk limits, verified daily, is in place to track and control financial risk exposure. The Group Treasury Director, the Head of the dealing room and the Head of Financial Risk Control are responsible for this and are in charge of responding the moment a limit is exceeded. An ad hoc committee does spot checks on limit compliance and decides on any specific limit changes. Regular internal audits ensure the effective implementation of control procedures.

An annual report on the implementation of financial risk management procedures is made to the Audit Committee.

Part of the Corporate Finance and Treasury Division within the Finance Division, this division has close operational links with the Corporate Risk Management Division in order to guarantee its independence.

2.2.3 Specific controls

2.2.3.1 PROCEDURE FOR APPROVING COMMITMENTS

In 2005, the Commitments and Shareholdings Committee (CEP) took over, with a broader scope, the remit of the Group Investment Committee. Chaired by the Chief Financial Officer, the CEP examines all the Group's commitments, particularly investment projects and long-term fuel contracts. It approves every investment involving sums in excess of €20 million. Since the end of March 2003, Committee meetings are systematically preceded by a meeting bringing together the experts at corporate level (Group Risk Control, Legal and Finance Divisions...) in order to verify the exhaustiveness and the depth of the risk analysis for projects submitted. Their work is based on a standardized risk analysis methodology for development projects which takes into account the full potential impact of a project and, particularly, evaluates a number of stress scenarios.

2.2.3.2 MANAGEMENT AND CONTROL OF INFORMATION SYSTEMS (IS)

The setting up of the IS Strategy Committee, chaired by the Chief Financial Officer, was postponed until 2006. Group strategy for the whole IS area will then be presented. During 2005, the most urgent decisions in the area of IS were

taken by the Senior Executive Management in the France Coordination Committee (seven subjects addressed).

The 'IS Group Committee' which met five times in 2005, is collectively responsible for preparing key decisions which involve the IS activities. It is chaired by the Head of Information Systems who both manages the Department and reports to the Executive Committee for the delivery of its objectives. This Committee is also responsible for the monitoring of the IS Security policy, defined on September 19, 2005, and for consolidating risks in this area.

2.2.3.3 ADMINISTRATION AND SUPERVISION OF SUBSIDIARIES/AFFILIATES

Every subsidiary or affiliate is attached to a Senior Executive, who is a member of the Executive Committee, or his or her delegated representative. He or she assumes responsibility for managing the corporate strategy for this company as well as that of the Board directors he or she designates and to whom is addressed a letter outlining their remit and the objectives. The Delegation of Board Directors and Companies, in place since 2002, monitors particularly closely:

- The updating of the mapping of company reporting lines, in light of decisions taken by the Executive Committee;
- The tracking of 'target composition profiles' which anticipates the assembly of the necessary collective and individual skills, as well as the profiles needed to represent EDF satisfactorily on the Board of affiliates, subsidiaries and shareholdings, in light of the strategy defined by the EDF Board directors to whom they are attached;
- Compliance with the process for the designation of Board directors, requiring prior man-

agement nomination (conformity with the target composition, control of the number of mandates, reporting line approval of the proposed administrator...);

- The professionalism of new directors (information via the internet site for the director community, professional training seminars and workshops).

2.2.4 Other control policies

EDF has also defined:

- A Group environmental policy signed by the Chairman on June 10, 2005;
- A Group insurance policy, approved by the Executive Committee in March 2003. This policy was presented to the Board of Directors on July 1, 2004 further to a report which had been submitted to the directors on October 23, 2003 relating to 'storm' risk cover for the transmission network. The Board took note of the report on EDF Group's situation with regard to identifiable insurable risks and on the cover in place on that date. In addition, it approved the action program for 2004-2005 and asked that the results of this be presented during the first half of 2006;
- A health and safety policy, signed by the Chairman in October 2003.

Control procedures relating to the reliability of financial information

2.3.1 EDF Group financial statements

2.3.1.1 GROUP ACCOUNTING STANDARDS AND PRINCIPLES

The accounting standards used by the EDF Group conform with international accounting standards (IFRS) including, since January 1, 2005, the impact of standards IAS 32 and 39 relating to financial instruments and IFRS 4 relating to insurance contracts.

The rules and accounting methods are described in the Group manual on accounting principles and summarized in the appendix to the financial statements.

2.3.1.2 PROCEDURE FOR DRAWING UP AND CONTROLLING CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are published every half-year. The annual and half-year financial statements are submitted to the Audit Committee then to the Board of Directors. The annual financial statements are approved by the General Shareholders' Meeting.

In line with the objective of reducing the time taken to publish financial information from a closed financial period, the 2005 financial statements were published three weeks ahead of the equivalent date in 2004.

The consolidated financial statements are drawn up by the Consolidation Department, based on data entered locally by each entity (parent company units and affiliates), in line with Group standards, according to a common accounting chart.

Consistency is supported by the use of tools to establish the consolidation and identification of exchanges within the Group.

Accounting quality is ensured by a detailed analysis of the accounts and their variations at each quarterly consolidation period. This analysis is enhanced by close cooperation with the management control division at different levels of Group accounting.

2.3.2 EDF SA parent company accounts

2.3.2.1 PRINCIPLES AND ACCOUNTING STANDARDS

The EDF SA parent company accounts comply with French regulation. Options compatible with international standards (IFRS) are given priority wherever possible.

2.3.2.2 PROCEDURE FOR DRAWING UP AND CONTROLLING FINANCIAL STATEMENTS

The quality of the Divisional financial statements is guaranteed by a contractual relationship with the Accounting Consolidation Division. This contractual relationship involves, at each management level, annual certification at the close of a financial year, giving a true and fair view of the previous accounting period and highlighting improvements to be made in the next accounting period. In addition, several audit missions entering into the scope of the accounting function are included in the Group's audit program (for example, in 2005, capex management, obligatory purchase management, prevention, detection and handling of instances of fraud).

In addition to the parent company accounts, in compliance with French law¹, EDF presents to the energy regulatory body (CRE), after examination by the Statutory Auditors, unbundled accounts for each line of business: generation, electricity transmission and other activities. These accounts are prepared in compliance with the principles on unbundled accounts and with the recommendations made by the CRE. The transmission activity was spun off into a separate subsidiary on September 1, 2005, retroactive to January 1, 2005. This activity is now part of RTE EDF Transport and thus excluded from EDF SAs unbundled scope.

2.3.3 Internal control on the quality of the parent Group's accounting

Accounting and finance, which historically had internal control procedures, are now integrated in the new internal control policy defined at Group level at the end of 2005.

Within EDF SA, the control procedures for drawing up the accounts, already outlined in the report on internal control for 2004, have been implemented, in line with the reference control framework for accounting quality in each process and defined each year by the Accounting Consolidation Division.

2.3.3.1 INTERNAL CONTROL MEASURES TAKEN IN 2005

Ahead of the opening of the capital and the stock market listing, internal accounting and financial control was increasingly focused on risk and strategic areas.

- The control of rules on financial security was strengthened with regard to delegations of power, authorization, and the cumulation

of tasks. In addition, EDF Gaz de France Distribution implemented a financial security kit specific to its activity.

- The customer area (tracking of customer accounts, outstanding disputes and the monitoring of working capital requirement) has been audited in order to prepare for the transfer of these accounts to the Customer Division.
- The customer billing area (energy and distribution) was the subject of checks to establish the correct evaluation of turnover.

The process of integrating financial information systems continued, particularly at EDF SA, with the preparations to deploy the SAP program within the Island Energy Systems, and at EDF Gaz de France Distribution in 2006 and 2007. Work on a comprehensive review of process has started in order to guarantee financial security. Measures dedicated to ensure greater confidentiality of financial information across the Group have been ongoing.

2.3.3.2 2006 ACTION PLAN

Work to be undertaken will mainly focus on the quality of published information (quality of analysis and commentary associated with the establishment of the accounting produced locally in order to smooth and accelerate the establishment of the financial statements at Group level).

The updating of the financial security reference framework by the Accounting Consolidation Division to integrate the change in the Company's legal status and the global roll-out of the SAP tool will be finished in 2006.

The integration of the financial security rules into the SAP roll-out will continue in 2006.

In addition, the Accounting Consolidation Division will continue to improve internal control procedures in finance and accounting via:

1. Law 2000-108 of February 10, 2000, amended by law 2004-803 of August 9, 2004.

- Support for the new Group internal control policy adopted at the end of November 2005,
- Ongoing improvements in dialogue with the entities (coordination of a network, exchange of best practice...);
- The strengthening of the control reference framework in the sales process linked to financial security.

2.4 Control procedures relating to compliance with laws and regulations

2.4.1 Regulation relating to industrial operations

In the industrial operations, there are many more control procedures than those outlined above (see 2.1.2.2 "Environmental quality assurance"):

In the nuclear operations, two authorities are particularly worthy of note:

- The Inspector General for Nuclear Safety (*Inspecteur Général pour la Sécurité Nucléaire* – IGNS) who, on behalf of the Chairman, makes sure that all aspects of safety and radio-protection in the nuclear facilities are fully taken into account and publishes an external annual report;
- The Nuclear Inspection, an entity directly attached to the Head of the Nuclear Operations Division, whose job is to verify the level of safety in the different entities of the Nuclear Operations Division.

In the other areas (for example the control of pressure devices and the inspection of dams), each entity is responsible for defining and implementing adequate control procedures.

2.4.2 Stock market regulation

Since its stock market listing, EDF has prepared procedures in order to prevent any breach of stock market regulations.

Thus, a procedure outlining the respective roles within the company in terms of the establishment, validation and publication of financial information to be communicated has been defined.

In particular, a Financial Information Committee has been established, whose main missions are to ensure the validation and consistency of the different sources of EDF's financial communication as well as to examine and approve the content of all financial information channels. This committee comprises representatives from the Finance, Communications and Legal Divisions. It is chaired by the Chief Financial Officer.

In addition, a stock market compliance charter has been drawn up to serve as a reminder on the insider dealing rules and to anticipate the periods during which executives and employees may not trade the company shares. The corresponding list is being drawn up.

2.4.3 Other regulations

Control procedures also exist for compliance with regulations on working conditions, labor law and social benefits.

The implementation of management systems, particularly with regard to environmental considerations (see 2.1.2.2) and health and safety, has allowed for tighter control of compliance with regulations and the anticipation of regulatory developments.

3. The dynamics of change

For several years, changes in the organization and modus operandi have allowed the Group to clarify and strengthen the effectiveness of internal control procedures. Thus the implementation of a management and risk control process, the confirmation of the ethics policy, the drive to standardize and accelerate the establishment of the consolidated financial statements (notably in anticipating the new accounting standards) and, more recently, the implementation of a new Group organization are all part of this dynamic aimed at continuous improvement.

The EDF Group sees the Financial Security Law as an opportunity to build on this dynamic by involving the Group's executive management. The recent implementation of a new internal control policy, aimed at making executives responsible for their own internal control

arrangements and which re-focuses the Audit Division on the control of this control and on the auditing of cross-functional priorities, critical to Group management, is all designed to work towards the same overall objective.

This report, based on those for 2003 and 2004, has been produced by a working group, coordinated by the Audit Division, with contributions from experts in the Legal, Corporate Risk Management, Corporate Finance, Treasury and Accountancy Divisions and from the offices of the General Secretary to the Board of Directors and the CEO's office. Contributions were also sought from the Ethics and Compliance teams, the Information Systems Division, the Board Director and Companies teams, the Environment and Sustainable Development teams and the Management and Organization Division.

This report has been reviewed by, successively, the Chief Operating Officers and the Audit Committee (February 17, 2006) and approved by the Board of Directors (February 22, 2006). It was also discussed with the Statutory Auditors.

Paris, February 22, 2006
EDF Chairman & CEO
Pierre Gadonneix



Statutory auditors' report

prepared in accordance with article L. 225-235 of the French Commercial Code, on the report prepared by the President of the Board of Directors on the internal control procedures relating to the preparation and processing of financial and accounting information

To the shareholders,

In our capacity as statutory auditors of Electricité de France S.A., and in accordance with article L. 225 235 of the French Commercial Code, we hereby report to you on the report prepared by the President of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2005.

It is for the President to give an account, in his report, notably of the conditions in which the duties of Board of Directors are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information and assertions set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the President's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of the procedures we performed, we have no matters to report in connection with the information given on the company's internal control procedures relating to the preparation and processing of financial and accounting information, contained in the President's report, prepared in accordance with article L. 225-37 of the French Commercial Code.

Paris-La Défense and Neuilly-sur-Seine, March 9, 2006

The Statutory Auditors

KPMG Audit

Département de KPMG S.A. Deloitte & Associés

Jean-Luc Decornoy

Michel Piette

Amadou Raimi

Tristan Guerlain

This is a free translation into English of the independent auditors' report on the report prepared by the President of the Board of Directors of EDF on internal control procedures relating to the preparation and processing of financial and accounting information, signed and issued in the French language. It is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.



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