



**EDF GROUP
2007
REPORT**

**◆ BY THE CHAIRMAN
OF THE EDF BOARD OF DIRECTORS
ON CORPORATE GOVERNANCE AND
INTERNAL CONTROL PROCEDURES**





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INTRODUCTION

In application of article L 225-37 of the Code of Commerce, this report covers the conditions of governance (preparation and organization of Board of Directors' meetings, missions and functioning of the Board of Directors' committees, §1) of EDF, as well as the internal control procedures implemented within the EDF Group (§2). For the purposes of this report "the EDF Group" comprises:

- EDF,
- Its subsidiaries in the regulated sector: RTE, and ERDF (the latter responsible for managing the electricity distribution network since January 1, 2008, backdated to January 1, 2007 for the purposes of the financial statements) for which the legal and regulatory framework (French law of August 9, 2004, amended by notably the French law of December 7, 2006) provides for a specific management independence limiting the control of their activities: "the regulated subsidiaries".
- Its other subsidiaries, direct or indirect, that are majority controlled, in France or internationally: "the controlled subsidiaries".
- Its affiliates which are jointly controlled on a financial level, without exclusive operating control (EnBW and Edison, Dalkia International, etc.): "the jointly-controlled subsidiaries".
- Affiliates in which the Group has direct or indirect minority holdings: "the Shareholdings".

N.B.: The consolidation scope for the Group's consolidated financial statements is detailed in the notes to the consolidated financial statements.

The practice and terms for exercising control may differ depending on the specific area of activity or the types of entity outlined above, and will be specified as necessary within this report.

With respect to the section describing internal control (§2), the structure of this report is based on the COSO¹ reference system and its contents are in line with the internal control recommendations from the French financial markets authority (Autorité des Marchés Financiers – AMF²). The description of the organization of internal control thus comprises five chapters which describe the elements relating to the control environment (§2.1), the risk management and control policy (§2.2), the communication and information dissemination (§2.4), and the activities relating to the control of group internal control (§2.5) and group control activities (§2.3), divided into four separate sections which correspond to the four internal control ob-

jectives specified in the French financial markets authority reference framework:

- Internal control procedures relating to the implementation and optimization of operations (§2.3.1),
- Internal control procedures relating to the reliability of financial information (§2.3.2),
- Internal control procedures relating to compliance with laws and regulations (§2.3.3),
- Internal control procedures relating to the implementation of instructions and orientations given by the Group's executive management (§2.3.4).

The last section provides information relating to the dynamics of change (§3).

This report has been produced by a working group coordinated by the Corporate Audit Division, with contributions from experts in Legal Affairs, Corporate Risk Management, Corporate Finance, Finance & Treasury and Accounting, and from the offices of the Corporate Secretary to the Board of Directors and the Chairman and CEO's office. Contributions were also sought from the Ethics and Compliance teams, the Information Systems Division, the Human Resources Division, the Delegation of Board Directors and Companies, the Sustainable Development Division and the Investor Relations Division.

1. COmmittee of Sponsoring Organizations of the Treadway Commission.
2. Published January 22, 2007.



1. CORPORATE GOVERNANCE

1.1 PREPARATION AND ORGANIZATION OF BOARD OF DIRECTORS' MEETINGS

1.1.1 PRESENTATION AND POWERS OF THE BOARD OF DIRECTORS

As of the Shareholders' Meeting of February 14, 2006, pursuant to the law relating to the democratization of the public sector of July 26, 1983 and the provisions of the amended decree-law of October 30, 1935, the French State holding less than 90% of EDF's share capital, the Board of Directors comprises 18 members, of which one third are employee representatives, and two thirds are appointed by the Shareholders' Meeting having been proposed by the Board of Directors, subject to the State representatives appointed by decree. The French State having appointed six representatives by decree, the Shareholders' Meeting of February 14, 2006 thus appointed six directors: Pierre Gadonneix, Frank Dangeard, Daniel Foundoulis, Claude Moreau, Henri Proglio and Louis Schweitzer

The list of mandates exercised by the corporate officers figures in section 1.20.7.1 of the EDF management report.

In addition, the following attend Board Meetings without the right to vote: the Head of the French State Economic and Financial Control Commission³ and the Secretary of the Corporate Works Council. The Board of Directors determines the orientations of the company's activities and oversees their implementation. It deliberates on all the strategic, economic, financial or technological orientations concerning the Group as well as matters expressly entrusted to it by law or which it has reserved for itself.

Pursuant to the new internal regulation adopted on January 23, 2007, the involvement of the Board of Directors is notably required on the following matters:

- Organic or external growth operations or disposals which represent financial exposure for the company in excess of €200 million. This threshold is reduced to €50 million for acquisitions which

are not in line with the Group's strategic objectives,

- Real estate transactions exceeding €200 million,
- Financial transactions, subject each year to the Board's exceptional deliberation. Thus, in 2007, the Board set the following thresholds: long-term loans of more than €2.5 billion and sureties, endorsements or guarantees exceeding €500 million. Additionally, the Chairman advises the Board of sureties, endorsements or guarantees whose unit value is above €100 million, agreed in the name of the company or by a business controlled by the company,
- Contracts or total contracts resulting from the same consultation (excluding nuclear fuel purchases) involving sums, including as necessary subsequent endorsements, equal to or exceeding €100 million; long-term contracts for the purchase or sale of energy, CO₂ emission credits and quotas, by the company or by an exclusively controlled subsidiary, for annual volumes or amounts in excess of:
 - 10 TWh for electricity,
 - 20 TWh for gas (long-term contracts for the purchase or sale of gas above 5TWh and below 20 TWh are also subject to detailed reporting to the Board of Directors' meeting following their signature),
 - €250 million for coal and carbon dioxide.

In 2007, the Board of Directors thus examined, in addition to numerous matters concerning the Group's normal activities, the year's major events such as:

- The creation of the distribution subsidiary, a legal obligation pursuant to the French law of August 9, 2004 amended by the law of December 7, 2006, transposing the European directive 2003/54 CE requiring the legal separation of the distribution activities. The new subsidiary, called Electricité Réseau Distribution France (ERDF) has been operational since January 1, 2008,
- The order for the nuclear steam supply system for the EPR reactor under construction at the Flamanville site,
- The strategic orientations for international nuclear development,
- The partnership with Constellation Energy Group in nuclear generation in the United States. This partnership involves the joint development, realization, ownership and operation of EPR-type nuclear

plants in the United States,

- The disposal of the Mexican generation assets,
- The ongoing strengthening and renewal of the fossil-fired generation fleet in France,
- The updated Group strategic reference framework.

1.1.2 APPOINTMENT AND POWERS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF OFFICERS

The Chairman of the Board of Directors assumes the function of the Chief Executive Officer and is appointed by decree on proposal by the Board of Directors.

Following the Shareholders' Meeting of February 14, 2006, the Board of Directors proposed to the French Government the appointment of Pierre Gadonneix for the office of Chairman and Chief Executive Officer. This appointment was ratified by decree on February 15, 2006.

The Chairman and Chief Executive Officer has full powers to commit the company, subject to those attributed to the Board of Directors (see §1.1.1).

Following recommendation by the Chairman and Chief Executive Officer and the majority of members present or represented, the Board of Directors may appoint up to five Chief Officers. Their powers and the duration of their terms of office are conferred on them by the Board of Directors in agreement with the Chairman and Chief Executive Officer. At the end of 2007, the Chief Officers were:

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

1.1.3 EVALUATION OF THE FUNCTIONING OF THE BOARD OF DIRECTORS

The Board of Directors met 11 times during 2007 and 20 committee meetings were held to prepare for these meetings (see §1.2).

The attendance rate for directors at Board meetings has been relatively stable since 2003 (averaging 84.32%), with a slight increase in 2007 (81.82%) on the 2006 level for temporary reasons. Consistent with the guidelines on high standards of corporate governance (for example, the Viénot and Bouton reports or the AFEP-MEDEF report of October 2003) which recommend that the functioning of the Board of Directors be evaluated, the Board's internal regulation states that the Ethics Committee "should undertake an annual evaluation of the functioning of the Board of Directors

and report back on areas requiring further consideration".

Furthermore, in keeping with the recommendations in the Bouton report, EDF decided to entrust this evaluation to an external company every three years. Following a consultation process, the Ethics Committee meeting of October 17, 2007, thus appointed an external company to evaluate the functioning of the Board during 2007. Board directors will notably be asked to comment on the organization and functioning of the Board, its areas of responsibility and working methods, and the organization and functioning of the committees. The results will be reviewed by the Ethics Committee and presented to the Board of Directors at the end of the 2008 first quarter.

3. Pursuant to the decree of May 26, 1955, this Commission exercises French State economic and financial control. It may exercise control procedures with a wide remit.

1.2 MISSIONS AND FUNCTIONING OF THE BOARD OF DIRECTORS' COMMITTEES

In order to conduct its duties, the Board of Directors is supported by a number of committees, tasked with reviewing and preparing certain matters prior to their submission to the full Board. At the end of 2007, these committees were: the Audit Committee, the Committee for Monitoring Nuclear Commitments (Comité de suivi des engagements nucléaires - CSEN), the Strategy Committee, the Ethics Committee and the Appointments and Remuneration Committee.

1.2.1 AUDIT COMMITTEE

The Audit Committee, comprised of five members, is chaired by Mr. Dangeard, a Board director appointed by the Shareholders' Meeting and a respected figure from outside the EDF Group. The other members are Messrs. Bézard and d'Escatha, directors representing the French State, Messrs. Chorin and Villota, directors elected by the employees. The committee reviews reports from the Statutory Auditors, the executive management, the Finance Division, the Senior Vice President, Corporate Audit and the Senior Vice President, Corporate Risk Management. Prior to their submission to the Board, the committee reviews and comments on the company's financial situation, the Medium Term Plan and the budget, and the draft financial statements established by the Finance Division (EDF parent company and consolidated financial statements). Every half year this committee also reviews the Group's consolidated risk mapping, its risk control procedures, the audit program and the main findings and corrective measures implemented following the audits of the previous half-year period.

During 2007, the Audit Committee reviewed the financial and legal issues relating to the distribution subsidiary as well as matters such as insurance or the centralization of the EDF Group's long-term financing.

The average attendance rate was 96% for the Audit Committee for the five meetings held during 2007, of which one was an ad hoc meeting convened during the absence of the Committee's Chairman.

1.2.2 COMMITTEE FOR MONITORING NUCLEAR COMMITMENTS

The Committee for monitoring nuclear commitments is comprised of six Board directors, including the five members of the Audit Committee and a

director with recognized expertise in the nuclear field. It is chaired by Mr. Bézard, a director representing the French State. Its other members are Mr. Dangeard, a director appointed by the Shareholders' Meeting and a respected figure from outside the EDF Group, Messrs. Abadie and d'Escatha, directors representing the French State and Messrs. Chorin and Villota, directors elected by the employees.

The Committee's role is to monitor the development of nuclear provisions, to comment on governance issues relating to dedicated assets, on the rules for matching assets and liabilities and on the strategic allocation, and to verify that management of the dedicated assets constituted by EDF complies with the adopted rules. It makes the comments and recommendations it considers necessary to the Board of Directors. This Committee met three times in 2007, with an average attendance rate of 88.9%.

1.2.3 STRATEGY COMMITTEE

The Strategy Committee, comprised of seven members, is chaired by Mr. Proglio, a director appointed by the Shareholders' Meeting and a respected figure from outside the EDF Group. The other members are Messrs. Abadie, Bézard, and Errera, directors representing the French State, Mrs. Daguerre, Messrs. Grillat and Pesteil, directors elected by employees. The Committee comments to the Board of Directors on the company's major strategic orientations. It thus notably reviewed, in 2007, the upstream and downstream strategies in the nuclear fuel cycle, the trend in the supply-demand balance in France over the 2007-2020 period, the international development of nuclear, as well as the updating of the Group's strategic reference framework. The Strategy Committee met four times in 2007, including one ad hoc meeting in the absence of a quorum, with an average attendance rate of 64.3%.

1.2.4 ETHICS COMMITTEE

The Ethics Committee, comprised of six members, is chaired by Mr. Aurengo, a Board director and a respected figure from outside the EDF Group representing the French State. The other members are Messrs. Foundoulis and Moreau, directors appointed by the Shareholders' Meeting, Messrs. Chorin, Pesteil and Rignac, directors elected by the employees. The Committee ensures that ethical considerations are taken into account in the work of the Board of Directors and in the management of the company. It reviews the annual report excluding the financial statements (activity and sustainable development report), the activity reports

from the Heads of Ethics and Compliance, as well as the reports from the Mediator and the Senior Vice President, Nuclear Safety and Radioprotection. Furthermore, the Ethics Committee conducts an annual evaluation of the functioning of the Board of Directors and the application of its internal regulation, and suggests areas for further consideration.

The attendance rate for the Ethics Committee averaged 93.3% in 2007 for five meetings. This committee notably worked on updating the internal regulation approved by the Board of Directors on January 23, 2007, continued its review of the policy on partnership with subcontractors in nuclear operations and reviewed the management of nuclear waste. It also studied the implementation of the distributor's code of conduct, the communications policy as well as EDF's new ethical reference framework.

1.2.5 APPOINTMENTS AND REMUNERATION COMMITTEE

The Appointments and Remuneration Committee comprised of three members, is chaired by Mr. Schweitzer, a director appointed by the Shareholders' Meeting and a respected figure from outside the EDF Group. The two other members are Messrs. Dangeard, a director appointed by the Shareholders' Meeting and also a respected figure from outside the EDF Group and Mr. Bézard, director representing the French State. The Committee transmits proposals to the Board of Directors regarding the appointment of directors by the Shareholders' Meeting, comments on the compensation of the Chairman and Chief Executive Officer to the Minister in charge, and reviews the remuneration of the Chief Officers.

It comments to the Board of Directors on the compensation terms of the top executives (fixed and variable portion, calculation method and indexation), as well as on the amount and conditions of Board directors' fees. It ensures the existence of succession charts for Executive Committee positions (see § 2.1.6.1).

Information relating to the remuneration of corporate officers can be found in section 1.20.7.2 of the EDF management report.

In 2007, this committee met three times with an attendance rate of 100%.

1.3 INFORMATION AND TRAINING FOR DIRECTORS

At each Board of Directors' meeting, the Chairman and Chief Executive Officer brings to the attention of Board members the main facts and significant

events arising in the company since the previous Board meeting.

The Corporate Secretary to the Board of Directors also communicates information to Board directors, which they may supplement by meeting with the Group's main directors on matters arising on the Board's agenda.

In addition, the Corporate Secretary to the Board of Directors organizes information meetings on complex matters or those of major strategic importance or on issues requested by directors. Thus, matters addressed in 2007 included upstream-downstream optimization and trading during a meeting with the EDF and EDF Trading Paris teams, and EDF's commitment within the framework of the French law of June 28, 2006 relating to the sustainable management of radioactive matter and waste. Members of the Ethics Committee also visited the Penly nuclear plant to support their work on the subcontracting policy in nuclear.

One Board of Directors' meeting was also held in London at EDF Energy's premises, thus enabling the directors to benefit from a presentation of the main operating and strategic challenges faced by this EDF subsidiary.



2. EDF GROUP INTERNAL CONTROL

The aim of this document is not an exhaustive presentation of all the control methods existing within the Group; rather it focuses on the control procedures concerning activities or risks deemed to be significant, as well as on the main long-term procedures in effect in 2007, with a focus on key initiatives developed during that year.

2.1 CONTROL ENVIRONMENT

2.1.1 INTERNAL CONTROL POLICY

A new Internal Audit and Control Policy, signed by the Chairman on March 7, 2006, was implemented across the companies in the Group during 2007, having been adapted according to structures. The main levers implemented within the framework of this policy are outlined below (see §2.1.6.4 and §2.5). With regard to the main jointly-controlled principal affiliates outside France (namely EnBW and Edison), a synthesis was submitted to the Executive Committee (see §2.1.6.1) in March 2007, covering the internal control legislation in force locally, as well as the related procedures implemented within these companies. A decision taken by the Chairman and Chief Executive Officer of EDF, taken in coordination with the directors of these companies, requires that they prepare to comply with the requirements of European directives 2006/43 and 2006/46 applicable in 2008, as well as communicate each year the information relating to the description of the internal control procedures implemented within these companies. This information was communicated via the governance bodies of the companies involved. The same principles are applied with regard to RTE and ERDF.

Concerning the rest of the Group, this new policy establishes the reference framework in matters of internal control and internal audit which is applicable within EDF Group companies. It aims to make management more responsible for its own internal control, in line with its delegation of management authority and with the main risks which have been identified. Several levels of control have been defined:

- Self-regulation and reporting-line control exercised at the level of the activities,

- The first level of internal control exercised within the structure of the management entity responsible for the activities (at unit or controlled subsidiary level reporting to a branch or division of the parent company),
- The second level of internal control exercised within the structure of the regrouped entity (branch, division or controlled subsidiary reporting directly to the Group's corporate management),
- Overall control ensured by the Corporate Audit Division: coordination of internal control, control of internal control procedures of the entities reporting to the Executive Committee.

Each of these levels of control is established in line with the corresponding level of delegation of management authority and with the procedures for analyzing major risks, each level being responsible for controlling its own activities and for verifying the control procedures for the activities it has delegated. Anomalies detected by one management level, together with the procedures to ensure they are rectified, are reported to the level above.

Each Head of a regrouped operating or support function entity has appointed an "Internal Control Coordinator" and the coordination of this network is ensured by the Corporate Audit Division (professional standards of those involved, regular meetings, establishment of control and self-diagnostic reference frameworks, background documents shared on the intranet, etc.).

An internal control reference guide has been established and is proposed to each entity to help it implement its own internal control procedures. This guide, based on the COSO chapters, characterizes the risk areas concerned, identifies the main aims of internal control to explore and proposes best practice to be implemented. It will be updated annually in the light of shared experience.

Each of the 34 regrouped operating entities produced an annual report on internal control at the end of 2007 outlining, notably, its internal control procedures, a self-appraisal of these procedures, the commitment of the executive as to his or her aims and an account of the measures envisaged to achieve these aims. This process will be conducted annually. Going forward, each year, a third of the

entities concerned will have their internal control procedures and self-appraisals audited by the Group's Corporate Audit Division.

In 2007, the functional entities established internal control objectives relating to the application of major policies in their area of responsibility. These objectives were included in the internal control reference guide, approved by the TOP 4 in October 2007 (see §2.1.6.1) and will be integrated by the operating entities in their own internal control procedures.

Additionally, a number of specific measures were introduced and implemented in 2007 to comply with the recommendations in the French financial markets authority (Autorité des Marchés Financiers – AMF) reference framework in the financial and legal areas, and in the monitoring of instructions and orientations given by corporate management; these measures are outlined in detail in chapter 2.3 (control activities).

2.1.2 ETHICS POLICY AND ENVIRONMENTAL QUALITY

2.1.2.1 Ethics Policy

The ethics policy was relaunched in 2007 in a decision taken by the Chairman and Chief Executive Officer on March 15.

A new ethical reference framework was established for EDF bringing together, within a single document, the Group's five corporate values (respect for individuals, environmental responsibility, striving for excellence, a commitment to the community and the necessity of integrity) and their development in the form of principles governing collective action and individual conduct.

The definition of the corporate values and the content of the ethical commitments have been updated and adjusted in line with changes in the company's business environment. The document was circulated within EDF during the 2007 fourth quarter and individual copies will be given to each employee by their line managers. The existing ethics procedures have been bolstered by the appointment of an ethics representative in each entity, responsible for helping managers promote the corporate values and ensure their respect.

The corporate values serve as a reference framework for the ethical procedures in the subsidiaries and affiliates, for codes of conduct developed in the businesses and certain areas, as well as for fundamental processes such as recruitment (recruitment reference framework), training (employee awareness), relations with suppliers and subcontractors (supplier charter, social agreement on sub-

contracting) and individual and collective performance reviews.

In 2007, the main non-French subsidiaries and affiliates, whether controlled or not, such as EDF Energy, EnBW and Edison continued to adopt their own ethics policies in line with that of EDF as did the subsidiaries and affiliates in Asia (NTPC in Laos) and Central Europe (Hungary, Poland).

The ethical alert procedure, established since 2004 within the EDF scope, recognizes every employee's right, and that of every external partner, to question the company by consulting the Ethics Advisor for every breach of the ethical values. The 43 alerts received in 2007 covered, notably, the respect of the individual (21) and integrity (5) and justified individual corrective measures which may involve disciplinary procedures.

2.1.2.2 Environmental Quality Process

The EDF Group has had ISO 14001 certification since April 9, 2002. The certified "Group" scope attached to the certificate comprises the EDF entities, its French subsidiaries and affiliates, including the regulated subsidiaries and some non-French subsidiaries and affiliates, including EDF Energy. The EnBW and Edison affiliates are also ISO 14001 certified (outside the Group certification scope). The certification was renewed for the first time in 2005 and a second renewal will be sought in 2008. The EDF Group Environmental Management System is organized in such a way as to meet the ten commitments formulated by the Chairman in the environmental policy signed in June 2005.

The processes implemented within the framework of this certification contribute to strengthening control over the EDF Group's environmental risks.

2.1.3 DELEGATIONS OF POWER AND TECHNICAL AUTHORIZATIONS

EDF's Board of Directors has granted the Chairman and Chief Executive Officer and the Chief Officers delegations of power some of which they, in turn, delegate to their immediate associates. Such delegation of power provides the basis for further delegation to the main operating executives. Since June 2003, the delegations of power have enabled increased control over procurement contracts, with only the Head of Purchasing able to sign off on purchasing contracts subject to the powers of the Board of Directors in this matter (see §1.1.1).

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

Each facility manager, subject to prior evaluation of the appropriate skills, issues the technical authorizations allowing individuals to work in the facilities (power plants, electricity transmission lines, etc.) These requirements apply to all workers, be they employees of EDF or of other external providers.

During 2007, the Legal Affairs Division formulated a number of recommendations regarding the existing delegations; the signature process relating to these new delegations was thus initiated in 2007.

2.1.4 THE HUMAN RESOURCE MANAGEMENT POLICY (HR)

In order to ensure the success of its industrial project within the current context of fully open electricity and gas markets, and the relaunch of investment, the Group continued to bolster and renew its skills pool; recruitment, vocational training and mobility hence remain Human Resource priorities. Other key HR objectives are the modernization of employee benefits, the reform of the company's pension scheme, offering attractive remuneration terms to all employees and improving the working conditions of employees and subcontractors.

Furthermore, in 2007, ongoing employee dialogue was sustained in France, and at European level with the European Works Council and, globally, with the Committee for Dialogue on Corporate Social Responsibility.

The principle measures pursued by HR in 2007 were as follows:

- An EDF commitment to diversity, through the signature of the 2nd agreement on professional gender equality involving, for example, the promotion of apprenticeship career paths for young people at all levels of qualification and in favor of young, disabled people,
- A strengthening of EDF's ethical policy, with the introduction of a toll-free "life in the workplace" telephone number for employees. An observatory on the quality of life in the workplace started work in 2007 with an audit of the working conditions within EDF, as well as on the capitalization of practice and experience in this area,
- The implementation of a new recruitment policy aimed at incorporating young talented people into the workplace to meet the new needs produced by the Group's development and to reflect the diversity of the company and its customers and to bring scarce or new high-level skills,
- The reform of the special pension scheme, launched by the French government, which led to a phase of significant collective bargaining at the level of the electricity and gas industry workers

branch, particularly with regard to the measures relating to the development of compensation,

- The implementation of Employee Representative Bodies, in line with legal requirements,
- The adoption of a bonus share issue, linked to performance over the 2006-2008 period, to be offered to all EDF employees and those within certain Group companies.

Additionally, the deployment by the HR and Communications divisions of the Group's Internal Control policy continued in 2007 with the review of the half-year processes. This enabled a situation report to be conducted on the deployment of the HR and Communications policies within the branches.

2.1.5 ORGANIZATION AND MANAGEMENT OF INFORMATION SYSTEMS (IS)

There were few significant organizational changes in 2007. The project management for information systems is fulfilled by each of the company's branches and divisions for the scope within their remit. Project implementation responsibilities are divided between these branches and divisions and the IT and Telecommunications Division which plays a role as cross-functional operator for EDF and the regulated subsidiaries.

Overall coherence is managed by the Group Information Systems Division which coordinates the IS line through common policies, the governance of IS being ensured at two levels in the organization:

- Strategic decisions and arbitrages are submitted, depending on their nature and the scope concerned, to one of EDF's decision-making Committees (see §2.1.6.1),
- Other important decisions are taken by a committee of information system executives representing the branches and divisions.

Two large-scale projects were successfully undertaken in 2007: the preparation for full market opening on July 1, 2007 and the establishment of the distribution subsidiary on January 1, 2008. These projects mobilized all areas of IS, the project management being fulfilled by the distribution and sales and marketing IS teams and the cross-functional information systems teams (Finance and HR in particular), with the project management teams and the Group Information Systems Division ensuring overall coordination. Finally, the relationship between EDF and the ERDF distribution subsidiary will be defined by an agreement protocol to be finalized within the framework of the governance of this subsidiary to be established in early 2008. In addition, the work of the "EDF IS 2010" strategic plan continued in 2007 under the direct responsibility of corporate management.

2.1.6 INTERNAL CONTROL FUNCTIONAL PLAYERS

2.1.6.1 Corporate Management Internal control bodies

The internal control bodies are organized to fulfill two major priorities: improve functioning as an integrated Group and involve the operating personnel in the decision-making process.

As of April 1, 2006, the TOP 4, which comprises the Chairman and Chief Executive Officer and the three Chief Officers, is the Group's senior decision-making body. The Executive Committee (Comex), a body for strategic discussion and consultation on all cross-functional and cross-divisional matters, comprises the members of the TOP 4, the Senior Executive Vice Presidents, the Corporate Secretary, and the Chief Executive Officers of EDF Energy, EnBW and Edison.

A limited number of specific decision-making committees support the work of the Executive Committee: the Coordination Committee France, the Commitments and Shareholdings Committee (Comité des Engagements et Participations – CEP), of which an ad hoc form may handle fuels alone (CEP-Fuel matters), the Senior Executive Management Committee, the Nuclear Safety Advisory Board and the Steering Upstream – Downstream – Trading Committee etc. In addition, ad hoc committees or boards are assembled to handle strategic issues of a temporary nature. Specific arrangements for the governance of the regulated sector will be implemented in early 2008.

2.1.6.2 The Finance Division

The Finance Division ensures the monitoring and control of financial risk. It maintains a watching brief on market developments and financial techniques and analyzes the financial risks associated with projects. The Commitments and Shareholdings Committee is chaired by the Chief Financial Officer (see 2.3.1.2.1)

Within Group Controlling:

Management Control is responsible for:

- Steering the forecasting processes of the Group's⁴ management cycle (budgets and medium-term plans based on the industrial project), summarizing the main results and arbitrating between conflicting claims at branch, division and Group level. It acts as an alert mechanism, prior to a decision being taken, of the consequences of the planned projects or the performance levels proposed and provides analytical support,
- Helping operating management to monitor performance: tracking of budget execution (involving reforecasting four times a year) and operational results is effected through regular broad-based per-

formance reviews across all branches and divisions and the majority-controlled subsidiaries,

- Acting as Group management controller, notably by participating in investment monitoring and analysis to ensure economic and financial optimization.

Management control is embedded at the level of each management entity. The Controllers are members of the Management Committee of the entities to which they belong. Heads of Financial Management in the branches and divisions are appointed and evaluated by the Chief Financial Officer.

Accounting is responsible for:

- Specifying the Group's accounting rules and methods which guarantee the standardization of accounting treatment and the correct input from the upstream processes,
- The annual updating, for EDF, of the internal control reference frameworks, assessing the accounting quality implemented by process and organizing feedback on implementation by the entities of the control procedures stipulated in the accounting and financial area (see § 2.3.2.3).

Additionally, within the scope of the directly-controlled subsidiaries, the internal control accounting policies are the responsibility of each of the Finance Departments.

Within the Corporate Finance, Finance & Treasury Division, Financial Risk Control is responsible for managing interest rate, currency, cash flow and counterparty risk across the Group (see §2.3.1.1.2). Furthermore, within the framework of the Internal Control policy, Financial Risk Control contributes to managing the operating risks of Corporate Finance, Finance & Treasury Division activities.

2.1.6.3 Corporate Risk Management Division

For many years the EDF Group has implemented a policy for managing its operating, financial and organizational risk.

Faced with an evolving context, EDF decided, as of 2003, to establish an overall process for managing and controlling its risks, strengthening the existing provisions, notably in creating the Corporate Risk Management Division. The Corporate Risk Management Division is responsible for:

- Establishing and updating the consolidated risk mapping for the EDF scope and that of the controlled and jointly-controlled subsidiaries and affiliates (with the exception of Dalkia International), based on reporting from the latter (see §2.2),

4. The scope of the Group's management cycle is that of the consolidated financial statements and is detailed in the notes to the consolidated financial statement.

- Alerting the Chairman and Chief Executive Officer and the TOP 4 as to emerging risks or those which have not been adequately identified,
- Consolidating and updating the risk control policy, either directly within the EDF scope and that of the controlled subsidiaries, or through the governance bodies for the regulated or jointly controlled subsidiaries and affiliates (see §2.2) in, notably, ensuring the comprehensiveness and consistency of the various sector risk control policies (see §2.3.1.1),
- Ensuring the deployment of the energy market risk policy within the scope of EDF and that of the controlled subsidiaries and, more generally, ensuring the control of these energy market risks either directly, within the EDF scope and that of its controlled subsidiaries, or through the governance bodies of the regulated or jointly-controlled subsidiaries and affiliates (see §2.3.1.1.1),
- Controlling the comprehensiveness and relevance of the risk analysis conducted on projects involving long-term investment and commitments and submitted to the TOP 4-level bodies for approval,
- Updating the policy on crisis management for the scope of EDF and the controlled subsidiaries, and defining the cooperation measures with the regulated subsidiaries during periods of crisis (see §2.2),
- Ensuring the control of all suppliers and sensitive contracts in liaison with the Purchasing Division and the business branches concerned within the EDF scope.

2.1.6.4 Group Audit Function

The Group's audit function comprises all the internal control resources involved in internal audit at Group, parent company and subsidiary and affiliate level. It is organized around "business line" audit teams deployed within the structures of the main regrouped entities (generation, sales and marketing, etc) within EDF, "dedicated" autonomous audit teams within the main subsidiaries and affiliates (EDF Energy and EDF-Trading, EnBW, Edison) and the regulated subsidiaries. The Corporate Audit Division is responsible for controlling certain internal audit procedures (EDF, EDF Energy, EDF-Trading), as well as transverse audits or those of "corporate" importance for the Group, while respecting regulatory and governance constraints⁵. Responsibility for overseeing this function falls to the Chairman, who delegates this task to the Head of Corporate Audit.

The Group's Corporate Audit Division, which intervenes on the whole available 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 which was updated

within the framework of the Internal Control policy of March 7, 2006. This charter reiterates the independence of the audit function and its direct reporting line into the Chairman and Chief Executive Officer, the missions and commitments of internal audit, the duties and the powers of the auditors and of the entities audited,

- The Head of Corporate Audit reports directly to the Chairman and Chief Executive Officer,
- All the auditors in the Corporate Audit Division are trained to use the same methodology, consistent with international standards. They are recruited from EDF's different businesses, as well as from external audit offices. Each auditor is evaluated at the end of each mission and audit experience is considered as a positive career asset. A protocol agreement has been signed to this effect between the Corporate Audit Division and the Senior Executive Development Division,
- The number of auditors is in line with the industry average: 0.45 auditors for 1,000 employees⁶,
- The key processes essential to the proper functioning of the Corporate Audit Division over the chain of activities (from the drawing up of the audit program to the monitoring of the implementation of recommendations) are detailed in the form of quality plans which are regularly reviewed. An independent evaluation was conducted at the beginning of 2005 and the process should be repeated in 2008; this will cover both the functioning of the operating processes and the quality of the audits conducted by the Corporate Audit Division, and how comprehensively and appropriately the internal control objectives outlined by the French financial markets authority (Autorité des Marchés Financiers – AMF) are reflected in the Group's new internal control policy.

Standards of functioning:

- The Corporate Audit Division is now focused on its new core function, based on the deployment of the internal control policy and the coordination of the internal control function, together with the realization of both transverse and corporate-level audits,
- The half-year audit program is decided by the Chairman and Chief Executive Officer then submitted to the Audit Committee. In order to consider the new positioning of the Corporate Audit Division, it is established taking into account:
 - The Group's internal control policy, involving as of January 2008 missions to audit the internal control procedures within the accessible entities,
 - The Group risks identified in the risk mapping,
 - The monitoring of the implementation of decisions taken by executive management and the systematic auditing of major projects,
 - Requests from corporate management, excluding the "snap" audits requested during the execution of the program,

– Audits of the second line controlled subsidiaries, provided as a service to the branches and divisions responsible (for example International and Gas Branch),

– Joint audits with EnBW within the scope of this management structure, as well as with Veolia Environnement for the Dalkia International scope, and audits conducted within the scope of EDF Energy and EDF-Trading,

- All audits give rise to recommendations which, after ratification by the audited entities and their management, form the basis for action plans on their part, which are submitted for approval to the Corporate Audit Division. During the year following the audit, the Corporate Audit Division monitors the progress on the implementation of these rectification plans, the audit considered to have reached a satisfactory conclusion only when these measures have been fully implemented. An unsatisfactory conclusion to an audit or one where reservations are expressed triggers a management alert,

- 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, commentary from the Corporate Audit Division for the attention of TOP 4 members,

- A half-year summary report is established by the Corporate Audit Division. It resumes the main audit findings and the corresponding corrective management action, as well as the results of the audit conclusions during the period. It also identifies possible recurring or generic problems appearing over the course of several audits conducted during the period which are worthy of the particular attention of the TOP 4. This report is presented first to the Chairman and then to the Audit Committee.

Furthermore, in July 2007, the Head of Corporate Audit was tasked by the Chairman and Chief Executive Officer with verifying the required separation between regulated and deregulated activities during the period prior to the implementation of the ERDF subsidiary.

2.1.6.5 The Legal Affairs Division

In order to remain as close as possible to the decision-making bodies, whether at TOP 4, branch, division or regional level, the organizational structure of the Legal Affairs Division is based on that of EDF. The Legal Affairs Division is consulted whenever contracts have to be drawn up and whenever the legal risks relating to corporate projects have to be analyzed. It also ensures the centralized monitoring of major litigation. All of its activities enable it to fulfill an alert function and to play a role in avoiding litigation.

Further to a decision taken by the Chairman and Chief Executive Officer in May 2007, the Legal Af-

fairs Division is managing the implementation of a contract database aimed at centralizing all the Group's major contractual commitments. The operating deployment phase began in late 2007.

2.1.7 EXTERNAL CONTROLS

Like all listed companies, EDF is subject to the scrutiny of the French financial markets regulator (Autorité des Marchés Financiers – AMF). In that it is majority controlled by the French State, EDF is also subject to control by 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.

Pursuant to French law, the Statutory Auditors certify the annual financial statements (parent company and consolidated), sign off on the Group consolidated half-year financial statements and comment on the annual report from the Chairman of the Board of Directors with regard to the internal control procedures relating to the establishment and processing of accounting and financial information.

Owing to the nature of its business activities, EDF is also subject to control by the French Energy Regulation Commission (Commission de Régulation de l'Énergie - CRE) and by the French government department responsible for nuclear safety (Direction Générale de la Sécurité Nucléaire et de la Radioprotection – DGSNR).

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

2.2 RISK MANAGEMENT AND CONTROL POLICY

The objectives of the risk management and control policy are to:

- Enable the identification and ranking of risk in all areas in order to ensure their increasingly effective control, under the responsibility of operating management,
- Ensure that top executives and governance bodies within EDF have an aggregated and regularly-updated picture of the major risks and their level of control,
- Contribute to securing the Group's strategic and financial trajectory,

5. According to case by case agreements via the governance bodies of the non-controlled and regulated subsidiaries and affiliates 6. Source French Institute of Audit and Internal Control (Institut Français de l'Audit et du Contrôle Interne – IFACI): result of the study on internal audit practice in France in 2005.

- Meet the expectations of external stakeholders and inform them of the Group's risks and the procedures for managing these risks.

The risk management scope comprises the activities of EDF and those of the controlled subsidiaries. Thus, it does not include the regulated and jointly-controlled subsidiaries and affiliates which are responsible for controlling the risks within their respective scopes.

The risk control scope is that of the Group, with the exception of the Shareholdings. This control is exercised directly for the EDF scope and that of its controlled subsidiaries, or through the governance bodies of the regulated or jointly-controlled subsidiaries and affiliates.

As a general rule, the operating and functional entities are responsible for managing the risks which fall within their scope of activity. Risk control is ensured entirely independently of the risk management functions (supplemented by specific control concerning, in particular, financial and energy market risks – see § 2.3.1.1). This notably ensures a consistent approach to the identification, evaluation and control of risks. According to these principles, each half year, consistent with the reporting schedule for the Group's half-year consolidated financial statements, EDF draws up the consolidated risk map of its major risks within the EDF scope and that of its controlled and jointly-controlled subsidiaries and affiliates (with the exception of Dalkia International). This consolidated risk map is based on mapping exercises established by each operating or functional entity using a common methodology (typology, identification, evaluation and risk controlling principles, etc.). Each risk identified is the subject of a clear action plan. Responsibility for the major risks falls to an executive appointed by the TOP 4.

The consolidated risk map is submitted, each half-year, for approval to the TOP 4 and presented to the Audit Committee of the EDF Board of Directors. It is also regularly reviewed with the top executives of the main contributing branches and divisions and with members of risk control.

The overall risk mapping procedures form the basis of a number of other procedures: the establishment of the audit program, the Insurance policy and its implementation, the financial documentation (notably the "Risk Factors" chapter of the AMF reference document), the analysis of risks involved in projects reviewed by EDF's decision-making bodies (TOP 4, Commitments and Shareholdings Committee, CEP-Fuel matters, the Steering Upstream – Downstream – Trading Committee, etc.). The risk control process contributes, in particular, to securing the process for investments and long-term commitments in monitoring the respect of the methodology principles used for

the risk analysis of projects submitted to the Commitments and Shareholdings Committee.

In addition, EDF has a crisis management policy, the latest version of which was signed off by the Chairman and Chief Executive Officer in June 2005, which applies to the EDF scope and that of the controlled subsidiaries. It consists, notably, of:

- Ensuring the existence of appropriate crisis management procedures, with regard to the risks encountered in each EDF division involved in managing the crisis and in the controlled subsidiaries,
- Defining the procedures for cooperating with the regulated subsidiaries during crisis periods,
- Verifying the overall consistency.

A program of crisis management enables the effectiveness of these procedures to be regularly stress-tested and to capitalize on the experience gained. Finally, the crisis management organization is regularly readjusted to reflect any significant change in internal organization or the external environment as well as in the light of feedback on any major crisis undergone.

2.3 GROUP CONTROL ACTIVITIES

2.3.1 INTERNAL CONTROL PROCEDURES RELATING TO THE IMPLEMENTATION AND OPTIMIZATION OF OPERATIONS

2.3.1.1 Sector policies on risk control

2.3.1.1.1. Control of Energy Market Risks

The Chairman and Chief Executive Officer's decision of December 9, 2005, formalizing the policy on energy market risks, standardizes the management of these risks within the EDF scope and that of the controlled subsidiaries and stipulates the necessary procedures for its implementation and the control of its application. For the regulated and jointly-controlled subsidiaries and affiliates, the energy market risks policy and the control procedure are reviewed within the framework of the governance bodies of these companies (Board of Directors, Audit Committee).

This policy document specifically outlines:

- The governance and assessment procedures, clearly separating the responsibilities with regard to the management and control of risks and enabling the tracking of exposure within the scope defined above,
- The risk control procedures involving EDF 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 time required,

- Energy market risks controlling, with a two-tier organizational structure, the entities ensuring operating control and the Group Energy Market Risk Department of the Corporate Risk Management Division ensuring a second level of control.

EDF's Audit Committee comments on the energy market risks policy and its development. The TOP 4 approves annually the mandates for risk management in the entities when they are submitted to it along with the budget.

2.3.1.1.2 Financial Risk Control

EDF has established a Financial Risk Control Department, responsible for managing interest rate, currency, cash flow and counterparty risk for the controlled subsidiaries. This control is exercised through:

- The verification of the proper application of the financial risk management principles, notably through the regular calculation of the risk indicators and the tracking of risk limits,
- The execution of control missions – methodology and organization – within the EDF entities and the controlled subsidiaries,
- The operating control of EDF's trading room which is responsible for 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 Head of Group Treasury, the Head of the trading room and the Head of Financial Risk Control are involved in this and are expected to respond the moment a limit is exceeded. An ad hoc committee does spot checks on limit compliance and decides on any changes to specific limits.

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

Attached to the Corporate Finance, Finance & Treasury Division within the Finance Division, this Department has close operational links with the Corporate Risk Management Division in order to guarantee its independence.

2.3.1.2 Specific controls

2.3.1.2.1 Procedure for approving commitments

The Commitments and Shareholdings Committee (Comité des Engagements et Participations - CEP), chaired by the Chief Financial Officer, reviews all of the Group's commitments, excluding those of the regulated and jointly-controlled subsidiaries and affiliates, including investment projects, disposal projects and long-term "Fuel" contracts. It approves every investment involving sums in excess of €20 million. Since late March 2003, Committee meetings have been systematically preceded by a meeting involving experts at corporate level (Corporate Risk Management, Legal Affairs, Finance, etc.) in

order to verify the exhaustiveness and the depth of the risk analysis on the projects submitted. This work is based on a methodology reference framework for the analysis of the risks involved in development projects which takes into account the full impact of a project and, particularly, the evaluation of a number of stress scenarios.

2.3.1.2.2 Control of Information Systems (IS)

- Organization of the internal control of Information Systems:

The internal control procedure of IS is an integral part of the Group's internal control policy (proposed control objectives to be deployed by the operating entities) and covers the implementation of IS policies. These policies address, in particular, the security of information systems, the management of IS projects, the management of IS risk and the respect of the French Data protection legislation.

- Measures with regard to IS security:

The orientation and organization of IS security is defined in two reference documents: the EDF Group Information System Security policy and the EDF IS security policy reference framework. The application of these policies as well as the level of security are monitored quarterly by a security committee, chaired by the Information Systems Division, which regroups the Heads of Information System Security in all the EDF entities. The security committee reports annually to the committee of the information systems top executives. Action has been taken to strengthen the control of risks linked to a major collapse involving one of the main computer centers. Business continuity plans have been defined and tested for the applications most critical to the company's functioning.

- Other measures in the IS area:

A new Data Protection policy has been defined and implemented within the EDF scope in line with the appointment, in late 2006, of a Head of Data Protection.

The Group IS Division and the Corporate Audit Division have jointly launched a diagnostic to test the robustness of the internal control procedure relating to EDF's Information Systems. This diagnostic aims to improve the Group's control over IS risks; its conclusions are expected at the end of the 2008 first quarter.

2.3.1.2.3 Administration and supervision of subsidiaries/affiliates

Each subsidiary or affiliate (with the exception of the regulated subsidiaries) reports to a top executive who is a member of the Executive Committee or to his or her delegated representative. This individual is responsible for proposing the Board members who represent EDF within the governance

bodies of these companies, to whom a letter is addressed outlining their remit and objectives. These assignments are updated each year by the Senior Executive Management Committee.

The Delegation of Board Directors and Companies, in place since 2002, closely monitors:

- The updating of the mapping of company reporting lines, in light of decisions taken by the TOP 4,
- The tracking of “target composition profiles” which foresee the assembly of the necessary collective skills, as well as the profiles necessary to represent EDF effectively on the Boards of Subsidiary and Affiliate companies, in light of the strategy defined by the top executives to whom they report,
- Compliance with the appointment process for Board directors, required prior to the nomination proposal (conformity with the target profile, control of the number of mandates, reporting line approval of the proposed Board director, etc.),
- The professional standards of new Board directors (initial training by the Corporate University, information via the internet site for the director community, on-going corporate training via seminars and directors’ workshops).

2.3.1.3 Other control policies

EDF has also defined:

- A health and safety policy, signed by the Chairman in October 2003,
- An insurance policy submitted to the Board of Directors on July 1, 2004, further to a report submitted to the Board directors on October 23, 2003, relating to “storm” risk cover for the distribution network. The Board took note of the report on EDF’s situation and that of the controlled subsidiaries with regard to identified insurable risks and on the cover in place. It approved an action program intended to improve awareness of the Group’s insurable risks, to develop the Group’s insurance dimension, to improve and optimize existing cover and to institute new cover. With respect to the latter, on February 22, 2006, the Board approved (following comments from the Audit Committee of February 17) the implementation of a new “nuclear damage”⁷ program, intended to cover significant accidental damage which could impact EDF’s nuclear fleet. A progress report on the implementation of the work program of July 1, 2004 was presented to the Audit Committee meetings of May 5, 2006 and April 2, 2007, which approved the future development lines. The Committee was also provided with an updated overview of the Group’s insurable risks and cover. Furthermore, the Audit Committee, which is regularly informed of developments in

this area, was informed on August 28, 2006, of the conclusion of negotiations relating to the “Nuclear damage” program and on the implementation of “Full Site Cover” insurance for the EPR pilot at Flamanville.

2.3.2 CONTROL PROCEDURES RELATING TO THE RELIABILITY OF FINANCIAL INFORMATION

2.3.2.1 EDF Group financial statements

2.3.2.1.1 Group accounting standards and principles

The accounting standards used by the EDF Group⁸ conform with international accounting standards (IAS, IFRS and interpretations) approved by the European Union. The rules and accounting methods are described in the Group manual on accounting principles and summarized in the notes to the financial statements.

2.3.2.1.2 Procedure for establishing and controlling the consolidated financial statements

The consolidated financial statements are drawn up by the Consolidation Department based on data entered locally by each entity (entities of the parent company and of subsidiaries and affiliates) and restated in line with Group standards according to a unique chart of accounts.

The annual financial statements are presented to the Audit Committee then closed by the Board of Directors and approved by the Shareholders’ Meeting. The half-year consolidated summary financial statements are presented to the Audit Committee and the Board of Directors.

The closure of each half-year and annual accounting period gives rise to the establishment of a detailed plan of all the deliverables expected from each player involved in the publication of the financial statements and their analysis in the management report and the reference document. Meeting with the parent company branches and divisions and the subsidiaries and affiliates allow for preparation for each half-year or annual account closing, by planning for any changes in treatment and ensuring the reported financial and accounting information is reliable. Performance indicators are used to monitor respect of the deadlines and the quality of the information assembled. A retroactive analysis of the difficulties encountered during the production phase enables a steady improvement in the production process and the analysis of the consolidated financial statements.

The use of a financial language shared by Accounting and Management Control contributes to the consistency of the Group’s monitoring. This common language is one of the ways of ensuring continuity between:

- Actual figures coming from accounting and the figures established within the framework of the forecasting phases,
- External financial communication and internal monitoring.

This common language promotes dialogue and cooperation between these two functions at all levels of the organization and contributes to securing the exchange of information between the players as well as the quality of the information produced. Performance monitoring and the management dialogue are based on data produced under Group accounting standards, such as those deployed in the reporting of the consolidated financial statements.

2.3.2.1.3 Internal control on the quality of accounting within the Group

Within the scope of the directly-controlled subsidiaries, the internal control of accounting policies are the responsibility of each Finance Department. Action to coordinate these policies is planned for 2008

2.3.2.2 EDF parent company financial statements

2.3.2.2.1 Principles and accounting standards

The electricity distribution activity in mainland France, historically owned by EDF, has been spun off into a separate subsidiary, with this unbundling backdated to January 1, 2007. This activity is now regrouped within the distribution subsidiary (Electricité Réseau de Distribution France - ERDF) and is thus not included in the scope of the EDF parent company financial statements.

The EDF parent company financial statements are established in accordance with French law. Accounting options compatible with international standards are prioritized whenever possible.

Thanks to a network of coordinators within the branches, the accounting translation of the Group's new activities as well as the impact of the transposition of new accounting standards or regulations are ensured.

2.3.2.2.2 Procedure for establishing and controlling the financial statements

The quality of divisional accounting 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, which provides a picture of the accounting quality and highlights improvements to be made in the subsequent financial year. In addition, several audit missions entering into the scope of accounting and management control are included in the Group's audit program (thus, in 2007, missions relating to

the "justification of investment expense – Capex", the "budget/Medium Term Plan/reforecast process", the "robustness of the payments process", the "governance of purchasing" and the "implementation of the counterparty risk policy" were all notably realized).

In addition to the parent company financial statements, pursuant to French law⁹ EDF submits to the Energy Regulation Commission (CRE), after review by the Statutory Auditors, unbundled accounts for each activity: generation, distribution and other activities. These financial statements are established in line with the principles on unbundled accounting and recommendations made by the Energy Regulation Commission. Principles for unbundled accounts based on new criteria (supply to customers having exercised their eligibility – benefiting from new sales and marketing offers, supply to customers not having exercised their eligibility – maintained on the regulated tariff and gas supply) are in the process of approval with the Energy Regulation Commission.

2.3.2.3 Internal control on the quality of accounting within the EDF parent company

In 2007, the Accounting Consolidation Division formalized the internal control policy for accounting. This policy reiterates the objectives for the reliability and compliance of the reported accounting information, and for the preservation of the assets and prevention and detection of fraud. It concerns the monitoring of the accounting organization, the upstream process involving information entry into the accounting database and the production process for accounting information, account closings and financial communication.

The internal control procedure for accounting has, since 2007, been an integral part of the Group's overall internal control framework. Indeed, the Group's internal control reference guide has been enriched with control items to be implemented by all the entities concerning the cross-functional processes which are upstream of accounting (sales, procurement, payroll, fixed assets, inventories, treasury, income tax and the production of accounts), as well as control items to be implemented by the entities producing decentralized financial statements. This internal control reference guide is supported by a reference framework for the control of accounting quality used within the parent

7. Implemented April 1, 2006

8. The scope of the Group's consolidated financial statements is detailed in the appendix to the financial statements.

9. French law 2000-108 of February 10, 2000, modified by law 2004-803 of August 9, 2004 and law 2006-1537 of December 7, 2006.

company, enabling, via broad-based cross-functional processes, the measurement, using performance indicators, of the quality of the accounting information produced. It specifies, in particular, the criteria to be tested, the recommended sampling methods and the reporting to be provided. These measurement methods help, within the accounting area, to justify the self-appraisal realized by the entities since 2007. .

The control procedures for accounting production aim to verify, in particular:

- The precision and comprehensiveness of the accounting information,
- The correct valuation of assets and liabilities, notably by the appropriate level of provisions for depreciation and for risks,
- The regular justification of accounting,
- The respect of the separation of financial years,
- The respect of legal obligations,
- The securing of the processes,
- The realization of inventories,
- The comprehensive taking into account of centralization operations.

The recommendations of the Guide relating to the application of internal control of reported accounting and financial information, defined by the French financial markets authority (Autorité des Marchés Financiers – AMF) at the beginning of 2007, have been taken into account within the Group's internal control reference guide and in the internal control procedures of the central structures for establishing the parent company and consolidated financial statements and in the functional structures contributing to reported financial information. The internal control procedures will continue to be strengthened on this basis in the future. The annual self-appraisal of all EDF structures and the subsequent audits of internal control will also integrate this new reference framework.

Furthermore, in order to support the reasonable assurance of the quality of the reported financial statements, a process to identify the accounting at risk based on a number of different criteria (amounts and sensitivity) was undertaken in 2007. The verification of the proper adaptation of the internal control framework for the financial statements identified has already begun and will be continued in 2008.

The updating of the financial security reference framework taking into account, in particular, the general roll-out of the SAP tool was completed in 2007.

2.3.2.3.1 Internal control of accounting initiatives carried out in 2007

In order to prepare for full market opening on July 1, 2007, action to secure customer accounting was pursued in 2007.

After the inventory of assets realized in 2002/2003, and in order to prepare for the unbundling of the distributor, work was carried out on the useful lifespans and the estimated valuations on which the renewal provision calculation is based (see notes to the consolidated financial statements). This work together with action to ensure the reliability of the flows concerning fixed assets will be continued at the level of the subsidiary.

With the increase in industrial investment in the electricity generation fleet and in support of changes in standards and organization between 2007 and 2012, action will be taken to bolster the reliability of the investment process and the recording of fixed assets within the generation activity. This will be pursued in coming years.

2.3.2.3.2 Action plan for 2008 internal control of accounting

The verification of the adequacy of the control procedure within EDF will be pursued in 2008 within the framework of a joint approach involving accounting, management control and internal audit. It will then be extended to the subsidiaries which are directly controlled and integrated in the consolidated financial statements. These measures will enable the identification of best practice and allow them to be shared in order to enrich the Group's internal control reference guide.

Based on the financial security reference guide and within the framework of the strengthening of the internal control procedures on the accounting processes, measures to control various fraud scenarios will be developed with the branches and functional divisions concerned according to the activities. A change in the organization of accounting production within EDF is foreseen as of 2008. The internal control activity will support this change in order to guarantee or even increase the quality of the reported accounting and financial information.

2.3.3 CONTROL PROCEDURES RELATING TO COMPLIANCE WITH LAWS AND REGULATIONS

The Legal Affairs Division has traditionally been responsible for keeping track of legislative and regulatory changes and raising awareness of those likely to have an impact for the Group within the branches and divisions concerned.

Pursuant to a decision of June 1, 2007, the Legal Affairs and Corporate Audit Divisions have adopted an action plan aimed at formalizing the role of the Legal Affairs Division concerning the definition of control items prescribed in the different EDF entities in order that their own internal control plan should take these issues into account. These control items aim to ensure that these entities:

- Indicate to the Legal Affairs Division the areas of

regulation which particularly concern them so that it can ensure its monitoring mission in an optimum manner,

- Systematically involve the Legal Affairs Division as early as possible in their strategic and with major legal risks cases, ensure that the delegations of power accorded within them correctly reflect their organization, identify their needs in terms of legal awareness, in the areas which concern them, including the cross-functional requirements to be identified by the Legal Affairs Division,
- Ensure that individuals holding delegations of power have been trained by the Legal Affairs Division in order to be able to guarantee respect, within their entity, of the laws and regulations which are considered to be "fundamental".

2.3.3.1 Regulation relating to the industrial operations

Numerous control procedures exist in the industrial, and especially nuclear, operations: two authorities are particularly worthy of note:

- The Senior Vice President, Nuclear Safety (Inspecteur Général pour la Sécurité Nucléaire - IGSN) who, on behalf of the Chairman, makes sure that all aspects of safety and radioprotection in the nuclear facilities are fully taken into account and publishes an external annual report,
- The Nuclear Inspection, a service reporting directly to the Head of the Nuclear Operations Division (DPN), whose job is to verify the level of safety in the different entities of the Nuclear Operations Division.

Note that these areas were the subject of a corporate audit in 2007.

The law of June 28, 2006 and its application decree dated February 23, 2007, relating to the securing of the financing of the nuclear charges requires the Group to specify in a report the procedures and framework enabling the identification, evaluation, management and control of risks associated with the evaluation of the nuclear charge and the management of the assets to cover this. The first version of the report to meet this legal requirement was finalized in June 2007; this report includes a specific section on internal control and will be revised at least every three years and updated annually.

In other areas (such as the monitoring of pressure vessels and of dams), each entity is responsible for defining and implementing the appropriate control procedures.

2.3.3.2 Other regulations

Control procedures are also implemented for the application of regulations on working conditions, labor law and employee benefits.

The implementation of management systems, particularly with regard to environmental considerations (see §2.1.2.2) and Health and Safety, has enabled tighter control of compliance with regulations and the anticipation of regulatory changes.

2.3.4 THE CONTROL PROCEDURES OF THE APPLICATION OF TOP 4 INSTRUCTIONS AND ORIENTATIONS

Within the framework of the deployment of the new Internal Control policy, a diagnostic of internal control by the Group's corporate management was conducted by the Corporate Audit Division in 2006, focusing particularly on the proper application of decisions taken by the Group's corporate management over the last 18 months.

Since 2007, a formalized decision has specified the procedure for establishing, circulating and monitoring the decisions taken by the Chairman and Chief Executive Officer and the Chief Officers for the committees they chair. The control of their application is respectively the responsibility of the Head of the Chairman and Chief Executive Officer's office and the secretaries of the corresponding committees, and may be delegated to the Corporate Audit Division via, particularly, the audits in the annual Program. The Corporate Audit Division includes a progress report on the implementation of these decisions in its half-year report.

2.4 COMMUNICATION AND INFORMATION DISSEMINATION

The key points are as follows:

- Financial communication:
Since the IPO in 2005, EDF has had procedures to prevent stock market transgressions. Hence a procedure has been defined to organize the respective roles within the company with regard to the establishment, approval and dissemination of financial communication. In particular, a Disclosure Committee has been created, tasked principally with ensuring the validation and consistency of EDF's different financial communication sources as well as the review and validation of the contents of all financial communication channels. This committee includes representatives from the Finance, Communication and Legal Affairs Divisions and is chaired by the Chief Financial Officer. Furthermore, a financial market compliance charter has been drafted, whose aim is to reiterate the insider trading rules and to foresee periods during which directors and employees party to insider information may not trade in the company's shares,
- The code of conduct:
Respect of the codes of conduct for the regulated subsidiaries is verified annually by the Energy

Regulation Commission (CRE), which publishes the results in its annual report,

- Awareness of top executives:

2007 saw the consolidation of the measures implemented during the previous year. Thus, the executive Intranet, available to EDF top executives was extended to the senior executives. It enables the communication and sharing of information useful to these individuals (decisions taken by the Chairman and Chief Executive Officer, Group reference frameworks, folders on current issues, etc.). Similarly, regular seminars are organized for top executives in order to familiarize them with important issues and major developments, the themes addressed in 2007 being the functioning of the energy markets, price formation and the EDF Group business model, together with the reform of the Employee Representative Bodies.

2.5 ACTIVITIES RELATING TO THE CONTROL OF GROUP INTERNAL CONTROL

There are three types of control activities undertaken by the Corporate Audit Division:

- Control audits of control procedures (using around 20% of resources), and other different categories of corporate audits (see §2.1.6.4) which take into account the risks, potential significant shortfalls or external recommendations (see §2.1.7),
- Controlling of the implementation of recommendations arising from these audits through a formalized audit conclusion process, involving the management reporting line and internal control coordinators of each entity concerned (see §2.1.6.4), the latter being responsible for ensuring the control of control procedures inside each of the entities within their scope,
- Taking into account feedback, via:
 - Half-year summaries from the Corporate Audit Division which highlight the salient points but also, as need be, the categories of shortfalls recurring in several audits conducted during the period,
 - Annual reviews conducted between the Corporate Audit Division and each management executive during which an analysis of internal control procedures is shared, but which also involve situation reports on action plans initiated following previous audits, as well as future audit programs, enabling the link between audits, risks and internal control measures to be reinforced,
 - Regular bimonthly meetings of the Group's internal control function network (around 45 individuals), facilitating, in particular, benchmarking and the sharing of best practice,
 - Regular meetings between the Heads of Audit in

the principal non-French subsidiaries and affiliates (notably EDF Energy, EnBW and Edison) in order to discuss best practice and benchmarks, as well as common work to help the executive managements of these companies strengthen their internal control procedures.

Finally, a reference framework established by the Group's Corporate Audit Division defines the rules and responsibilities of the teams in the audit function, the procedures for establishing their audit programs and for raising the professional standards of auditors.

→ 3. THE DYNAMICS OF CHANGE

For several years now, various changes in the organization and modes of functioning of the Group have enabled it to clarify and strengthen the internal control procedures. Hence, the implementation of a risk control and management process, the affirmation of the ethics policy, the drive to standardize and accelerate the establishment of the consolidated financial statements, the implementation of a new internal control policy which is continuously evolving to achieve the four key objectives recommended by the French financial markets authority (Autorité des Marchés Financiers – AMF) (see introduction) are all part of the momentum of ongoing improvement. New projects will also be undertaken in 2008, for example the control of Fraud risk or the diagnostic of the effec-

tiveness of the Information System Internal Control procedure.

This report has been produced by a working group coordinated by the Corporate Audit Division, whose members were detailed in the introduction, and has been reviewed by, successively, the Disclosure Committee (February 8, 2008), the Chief Officers, the Audit Committee (February 15, 2008) and the Board of Directors (February 19, 2008).

Paris, February 19, 2008
Chairman and Chief Executive Officer of EDF
Pierre GADONNEIX



4. STATUTORY AUDITORS' REPORT

prepared in accordance with Article L.225-235 of French Commercial Code (Code de commerce), on the report prepared by the President of the Board of Directors of Electricité de France S.A., on the internal control procedures relating to the preparation and processing of accounting and financial information

YEAR ENDED DECEMBER 31, 2007

To the Shareholders,

In our capacity as statutory auditors of Electricité de France S.A., and in accordance with Article L. 225 235 of French Commercial Code (Code de commerce), we hereby report on the report prepared by the President of the Board of Directors of your company in accordance with Article L. 225-37 of French Commercial Code (Code de commerce) for the year ended December 31, 2007.

It is the President's responsibility to describe in his report the preparation and organization of the Board of Directors' work and the internal procedures implemented by the company. It is our responsibility to report to you on the information contained in the President of the Board of Directors' report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to assess the fairness of the information provided in the President of the Board of Directors' report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the President of the Board of Directors' report and existing documentation are based;
- obtaining an understanding of the work involved in the preparation of this information and existing documentation;

- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the President of the Board of Directors' report. On the basis of this work, we have nothing to report on the information in respect of the company's internal control procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the President of the Board of Directors in accordance with Article L.225-37 of French Commercial Code (Code de commerce).

Paris La Défense
and Neuilly-sur-Seine,
February 19, 2008

THE STATUTORY AUDITORS

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Department of KPMG S.A.

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