Financial statements

2004

Consolidated financial statements

at 31 December 2004

Consolidated financial statements
at 31 December 2004

Consolidated income statements

(in millions of euros)

	Notes	2004	2003
Sales	6	46,928	44,919
Purchases and other external expenses	7	(23,476)	(22,554)
Personnel expenses	8	(9,596)	(9,509)
Taxes other than income taxes		(2,853)	(2,703)
Other operating income and expenses	9	1,124	873
Operating profit before depreciation and provisions (EBITDA)		12,127	11,026
Net impact of the protocol concerning dismantling of facilities at the Marcoule site	3.4	(190)	–
Net depreciation charges		(4,716)	(4,449)
Net (increase) decrease in provisions	10	(1,573)	256
Operating profit (EBIT)		5,648	6,833
Interest expenses	11	(1,319)	(1,431)
Foreign exchange result	12	(59)	24
Other financial income and expenses	13	(807)	(2,106)
Income before taxes of consolidated companies		3,463	3,320
Income taxes	14	(1,494)	(1,567)
Amortisation and provision of goodwill	15	(710)	(844)
Share in income of companies accounted for under the equity method	19	68	26
Group net income		1 327	935
Minority interests		14	(78)
EDF net income		1,341	857
Earnings per share in euro		0.82	n.a.

Consolidated balance sheets

Assets

(in millions of euros)

	Notes	31.12.2004	31.12.2003
Goodwill	15	5,024	5,659
Intangible assets	16	1,181	859
Property, plant and equipment	17	97,407	99,012
Investments	18	7,594	7,315
Investments in companies accounted for under the equity method	19	2,187	2,146
Fixed assets		113,393	114,991
Deferred tax assets	14	200	216
Inventories, including work-in-process	20	6,660	6,924
Trade receivables	21	15,869	14,394
Other receivables	22	6,135	4,780
Short-term financial assets	23	2,961	3,072
Cash and cash equivalents	24	3,157	2,523
Current assets		34,982	31,909
Total assets		148,375	146,900

Equity and Liabilities

(in millions of euros)

	Notes	31.12.2004	31.12.2003
Capital		8,129	8,129
Consolidated reserves and income		9,438	10,795
Equity (EDF's share)		17,567	18,924
Minority interests		893	915
Special concession accounts	25	20,146	19,743
Provisions for end of nuclear fuel cycle	26	14,312	14,658
Provisions for decommissioning and last cores	27	12,608	12,101
Provisions for employee benefits	28	2,403	2,185
Provisions for renewal of plants under concession	29	14,640	13,939
Other provisions for risks and expenses	30	4,396	3,512
Deferred tax liabilities	14	5,624	5,853
Loans and other financial liabilities	31	25,786	29,604
Trade payables and other current liabilities payable		9,118	8,164
Other liabilities	32	20,882	17,302
Total equity and liabilities		148,375	146,900

Consolidated cash flow statements

(in millions of euros)

	Notes	2004	2003
Operating activities:			
Income before tax from consolidated companies		3,463	3,320
Accumulated depreciation and provisions		7,930	6,379
Financial income and expenses		482	1,530
Dividends received from companies accounted for under the equity method		90	79
Capital gains/losses		(260)	(311)
Other income and expenses without effect on cash *		90	26
Change in working capital		318	17
Net cash flow from operations		12,113	11,040
Net financial expenses disbursed		(1,096)	(1,007)
Income taxes paid		(2,047)	(3,337)
Tax and interest paid following the decision of the European Commission	3.1	(1,224)	–
Net cash flow from operating activities		7,746	6,696
Investing activities:			
Change in the scope of consolidation		(97)	44
Purchases of property, plant and equipment and intangible assets		(4,710)	(4,963)
Purchases of investments		(1,116)	(1,413)
Net proceeds from sale of fixed assets		1,453	1,778
Changes in financial assets		807	(601)
Net cash flow from investing activities		(3,663)	(5,155)
Financing activities:			
Issuance of borrowings		3,865	8,236
Repayment of borrowings		(7,230)	(9,287)
Dividends paid by parent company		(321)	(208)
Dividends paid to minority interests		(46)	(63)
Capital increase in cash		43	33
Increase in special concession accounts		174	157
Investment subsidies		31	33
Other		3	(5)
Net cash flow from financing activities		(3,481)	(1,104)
Net increase in cash and cash equivalents		602	437
Cash and cash equivalents - opening balance		2,523	2,238
Effect of currency fluctuations		21	(176)
Effect of other reclassifications		11	24
Cash and cash equivalents - closing balance		3,157	2,523

* In 2004, net impact of protocol concerning dismantling of facilities at the Marcoule site.

Variation in consolidated equity and minority interests

(in millions of euros)

	Capital	Consolidated reserves	Net income	Translation adjustment	Total equity	Minority interests
Balance at 31 December 2002	8,129	6,847	481	(1,574)	13,883	986
Change in accounting methods		5,737	(250)	(84)	5,403	(43)
Balance at 31 December 2002 (pro forma)	8,129	12,584	231	(1,658)	19,286	943
Allocation of income		231	(231)		–	–
Net income for the year			857		857	78
Dividends paid		(208)			(208)	(61)
Translation adjustments				(207)	(207)	(75)
Other changes		(804) (1)			(804)	30
Balance at 31 December 2003	8,129	11,803	857	(1,865)	18,924	915
Allocation of income		857	(857)		–	–
Net income for the year			1,341		1,341	(14)
Dividends paid		(321)			(321)	(46)
Translation adjustments				79	79	42
Other changes		(2,456) (2)			(2,456)	(4)
Balance at 31 December 2004	8,129	9,883	1,341	(1,786) (3)	17,567	893

(1) The change in “Other changes” mainly results from the impact of the European Commission’s decision (€(890) million), and the change in estimate of provisions for onerous contracts (€72 million).

(2) The fall in consolidated reserves (€2,456 million) is due to recognition of non-recurring payments and contributions to preserve benefit entitlements for €(2,392) million net of tax impact, and provisions for long-term benefits for €(64) million (see note 2.3.2).

(3) Translation adjustments mainly concern South America: €(1,766) million.

Notes

1. Accounting principles and methods

1.1 Group accounting policies

The EDF Group's consolidated financial statements are prepared in accordance with French accounting regulations, under the accounting rules and methods described below (paragraphs 1.3 to 1.23).

The Group is preparing for compulsory application of IFRS (International Financial Reporting Standards) by listed European companies from 2005.

This has led to the introduction of several accounting policy changes in 2002 and 2003, as described in note 1.3 to the consolidated financial statements for the year ended 31 December 2003. In implementing these accounting changes, the Group applies all of the preferential methods allowed by the French accounting regulations governing consolidated financial statements, except as regards post-employment benefit recognition.

In view of changes in French accounting regulations, the Group has established provisions to cover all long-term benefit obligations for current employees in 2004. The corresponding impact on equity at 1 January 2004 was €64 million, with a €8 million impact on net income for the year.

Post-employment benefit obligations for employees of EDF and its subsidiaries covered by the special regime for electricity and gas industries (IEG) are discussed in note 28.

To date, the main differences between Group policies and international accounting standards in force at 31 December 2004 relate to the accounting treatment of employee benefits (IAS 19) and financial instruments (IAS 32 and 39).
Concerning concessions, as no international accounting standards specifically address the issue, EDF continues to apply the policies used to date. French law 2004-803 of 9 August, 2004 has no impact on the 2004 financial statements, but will lead to accounting policy changes from 1 January 2005 as described in paragraph 2.4. The Group is still awaiting publication of relevant interpretations by the IFRIC (International Financial Reporting Interpretations Committee).
Application of present or revised standards on these subjects would be likely to have a significant impact on the accounts in 2005.

1.2 Management estimates

The preparation of its financial statements requires EDF to make its best estimates and to rely on assumptions that affect the book value of assets and liabilities, information on contingent assets and liabilities and the book value of income and expenses recorded for the period. Future actuals are liable to differ from these estimates.

1.3 Consolidation methods

Companies in which EDF has exclusive control are fully consolidated. Exclusive control means the power to govern the enterprise's financial and operating policies either directly or indirectly so as to obtain benefits from its activities. Exclusive control is presumed when EDF directly or indirectly holds more than 40% of the voting rights, provided that no third party holds more of the voting rights either directly or indirectly.

Companies that EDF controls jointly are proportionally consolidated. Joint control means sharing control over a company jointly operated by a limited number of partners or shareholders, such that the operating and financial policies result from agreement between them.

Companies over which EDF exercises significant influence are accounted for under the equity method. EDF is considered to exercise significant influence when it holds at least 20% of the voting rights of the consolidated company. Significant influence is demonstrated by participation in the financial and operating policies of the company without controlling it.

However, even if a company meets the above criteria, it may be excluded from the scope of consolidation if it is insignificant for the consolidation as a whole. A special follow-up process exists for such companies.

The results of companies acquired (disposed of) during the year are recognised in the Group's consolidated income statement from (until) the date on which control is transferred.

Any significant transactions between consolidated companies and unrealised internal profits are eliminated.

1.4 Translation of foreign companies' financial statements

The financial statements of foreign companies are converted into euros at the closing rate. Income statements and cash flows are translated at the average rate for the period. Resulting differences are directly included in equity under the heading "Translation adjustments".

Currency translation differences affecting a monetary item that is an integral part of the Group's net investment in a consolidated foreign company are included in consolidated equity until the disposal or liquidation of the net investment, at which date they are recognised as income or expenses in the income statement, in the same way as other translation adjustments concerning the company.

1.5 Sales

Sales essentially comprise income from the sale of energy and services, which mainly include energy transmission and distribution services.

The Group accounts for sales when:
– a contract exists;
– delivery has taken place (or the service provided);
– a quantifiable price has been established or can be determined;
– and the receivables are likely to be recovered.

Delivery takes place when the risks and benefits associated with ownership are transferred to the buyer. Energy delivered but not yet measured nor billed is calculated based on consumption statistics and selling price estimates.

Sales of goods and revenues on services not completed at the balance sheet date are valued by reference to the stage of completion at the balance sheet date.

Energy trading operations are recognised net of purchases, in accordance with standard industry practice.

1.6 Deferred taxation

Deferred taxes are recorded under the liability method of tax allocation in respect of temporary differences between the book value of assets and liabilities and their value for tax purposes.
If the tax rate changes, deferred taxes are adjusted to the new rate and the adjustment is charged to the income statement.
Deferred tax assets are recorded in respect of losses carried forward. By a prudent approach, provisions are booked unless earnings forecasts indicate that these assets are likely to be utilised in the near future.

1.7 Goodwill

Goodwill corresponds to the difference between the acquisition cost and the Group's share in the fair value of the identifiable assets and liabilities of the company acquired. Goodwill is recognised as an asset and amortised by the straight-line method over its estimated useful life, which is usually no more than 20 years. However a longer amortisation period may be used if justified by a concession or operating contract. Amortisation schedules for consolidated goodwill are reviewed each year.

The fair values of assets and liabilities and the figure determined for goodwill become final at the end of the financial year following the year of acquisition.

Goodwill on acquisition of wholly or jointly controlled entities is disclosed separately in the balance sheet. Amortisation and provisions on this goodwill are also reported on a separate line in the income statement.

Goodwill on acquisition of entities accounted for under the equity method is included in the balance sheet heading "Investments in companies accounted for under the equity method". The corresponding amortisation is booked under the income statement heading "Share in income of companies accounted for under the equity method".

When an entity is disposed of, the relevant amount of unamortised consolidated goodwill is included in the net proceeds of disposal.

Goodwill is recorded and monitored in the local currency of the company acquired.

At each closing date, the Group assesses whether there is any indication that goodwill could have been impaired, using the principles described in note 1.10.

1.8 Intangible assets

Intangible assets mainly consist of software, concession rights, licences, trademarks and similar rights, operating rights and development costs.

Research costs are recognised as expenses in the financial period incurred.

Development costs are recognised as an intangible asset if the Group can demonstrate:
– the technical feasibility of making the intangible asset ready for commissioning or sale;
– its intention to complete the intangible asset and use or sell it;
– its ability to use or sell the intangible asset;
– how the intangible asset will generate likely future economic benefits;
– the availability of the appropriate resources (technical, financial or other) to complete development and use or sell the intangible asset;
– its ability to provide a reliable estimate of expenses attributable to the intangible asset during its development.

Intangible assets are amortised on a straight-line basis over their useful lives.

1.9 Property, plant and equipment

Property, plant and equipment are recorded at acquisition or production cost or, in the case of EDF SA, at their revalued amount where applicable, less accumulated depreciation and provisions.

The cost of facilities developed in-house includes all direct labour and materials costs, and all other direct production costs attributable to the construction cost of the asset.

In addition assets have been recorded against provisions for decommissioning obligations and last core costs for nuclear power stations. At the date of commissioning, these assets are measured and recorded in the same way as the corresponding provision (see note 1.20).

Property, plant and equipment are depreciated on a straight-line basis.

Pre-operating expenses and borrowing costs incurred to finance installations are recognised as expenses.

The Group's property, plant and equipment comprises both assets owned by the Group and assets operated under concession.

1.9.1 PROPERTY, PLANT AND EQUIPMENT OWNED BY THE GROUP

The following are included in the balance sheet value of nuclear power stations:
– the discounted cost of decommissioning the facilities,
– the discounted cost of last core nuclear fuel, including depreciation of residual reactor fuel that will not be fully irradiated when production shuts down, the cost of nuclear fuel reprocessing and the cost of removing and storing radioactive waste.

Strategic safety spare parts for nuclear facilities are treated as property, plant and equipment, and depreciated prorata with the useful life of the facilities or of the nuclear series to which they are assigned.

A provision for depreciation of assets is booked in respect of certain non-nuclear plants temporarily closed down, when it is unlikely that these plants will ever be brought back into service.

The costs of the statutory ten-year inspections of nuclear and non-nuclear power stations are a component of the cost of these facilities, which is amortised over 10 years, i.e. the time elapsing between two inspections.

French transmission grid assets operated under concession belong to EDF and are recorded as assets owned by the Group.

1.9.2 PROPERTY, PLANT AND EQUIPMENT OPERATED UNDER CONCESSION

In France, EDF is subject to three different legal regimes, respectively concerning:
– hydraulic power stations operated under State

concession;
– French transmission grid assets also operated under State concession;
– Public distribution facilities operated under concession rights licensed by local authorities (municipalities or syndicated municipalities).

These assets are recorded as "property, plant and equipment operated under concession", except for French transmission grid assets operated under concession, which by law belong to EDF and are included in "property, plant and equipment owned by the Group".

Assets that come under hydraulic and public distribution concession rights are recorded in the balance sheet at acquisition cost when financed by EDF, or at their estimated value at the transfer date when supplied free of charge by the licensor. A related liability is recognised under the heading "Special concession accounts" in respect of the assets to be returned upon expiry of the concession, financed by the licensors.

The hydraulic facilities operated under concession are depreciated by the straight-line method, with the depreciation charge booked in the income statement.

Assets operated under public distribution concessions are depreciated by the straight-line method over the useful life of the installations, with no impact on the income statement. A corresponding amount of depreciation is charged to "Special concession accounts".

The following items are also booked in connection with assets operated under public distribution concessions, in view of the interpretations issued in 1997:
– amortisation of the amount financed by EDF ("amortisation of EDF financing") is calculated over the term of each concession;
– a provision is booked to cover renewal of the facilities before and after the concession rights expire. This provision is in addition to amortisation of EDF financing and is calculated based on the replacement value of the assets concerned (see note 1.20).
The amortisation and provisions are recorded in the income statement for the period.

The balance sheet thus reflects the rights of public distribution licensors to the assets at all times.

1.9.3 FINANCE LEASES

Finance-leased assets are capitalised when the lease agreements effectively transfer virtually all the risks and benefits incident to ownership of these assets to the Group. The criteria used to classify these contracts are mainly based on the following:
– the ratio of the leased assets' actual useful life to their economic life,
– total future payments as a ratio of the fair value of the financed asset,
– whether ownership is transferred at the end of the lease,
– whether the purchase option is attractive,
– the features specific to the leased asset.

Finance-leased assets are depreciated over their useful life, or over the term of the corresponding lease agreement when this is shorter.

If the Group performs a sale and leaseback operation resulting in a finance lease agreement, this is recognised in accordance with the principles described above. If the transfer price is higher than the asset's book value, the surplus is deferred and recognized as income progressively over the term of the lease.

1.9.4 OPERATING LEASES

Lease agreements that do not qualify as finance leases are recognised as operating leases, and only the lease payments are recorded in the income statement.

1.9.5 USEFUL LIVES

The main useful lives of property, plant and equipment are the following:
– Hydroelectric dams .... 75 years
– Electromechanical equipment
used in hydroelectric power stations .... 50 years
– Non-nuclear power stations .... 30-40 years
– Nuclear power stations .... 40 years*
– Transmission and distribution
installations (lines, substations) .... 30-45 years

* More restrictive regulations may apply in some countries.

1.10 Long-term asset impairment

At the year-end and at each interim reporting date, the Group assesses whether there is any indication that an asset could have been significantly impaired. If so, an impairment test is carried out as follows:

– the Group measures any long-term asset impairment by comparing the carrying value of these assets, classified into groups where necessary, and their recoverable amount, usually calculated using the future discounted cash flow method;
– the discount rates used are based on the weighted average cost of capital for each asset or group of assets concerned, determined by economic and geographical area and by business segment, where appropriate. The discount rate used for EDF's regulated businesses corresponds to the 6.5% return before tax fixed by the French regulator, i.e. 4.2% after tax;
– future cash flows are based on medium-term plan projections.

The impairment test is based on business plans and assumptions approved by the Group.

As these assessments are highly sensitive to macro-economic and segment assumptions, the impairment tests used are updated regularly.

1.11 Investments

1.11.1 NON-CONSOLIDATED INVESTMENTS AND OTHER INVESTMENTS

Non-consolidated investments are recorded at acquisition cost.

Shares held in deconsolidated companies are carried at their value in consolidation at the deconsolidation date.

When the book value of investments is higher than their value in use as determined by reference to equity adjusted to take into account information known since the previous year-end (e.g. financial information, share price), a provision is generally established to cover the difference.

1.11.2 INVESTMENT SECURITIES

The Group has set up two investment portfolios:
– the first comprises dedicated financial assets intended to finance the end of nuclear fuel cycle operations, for which provisions have been accrued (see notes 18.3, 26 and 27). These assets are managed separately from the Group's other financial assets and investments in view of their specific objective;
– the second comprises securities acquired mainly by EDF and EnBW to generate a satisfactory return on investment in the medium to long-term, without participating in the management of the companies concerned.

Since these assets are held long-term, they are included in other investment securities.

The investment portfolios (shares and bonds) are recorded at acquisition cost. At year-end, the carrying amount of these portfolios is assessed individually, mainly by taking account of the growth prospects of the companies and their share prices. If the carrying amount is lower than the book value, the unrealised capital loss is fully provisioned without being netted against potential gains.

In application of the French national accounting Council (*Conseil National de la Comptabilité – CNC*) statement of 8 February 2005 concerning financial statements for 2004, these dedicated funds do not have to be consolidated, since they were not set up for the purpose of direct or indirect transactions on EDF issued financial instruments, nor for acquisition of strategic investments, nor to use debt financing or undertake commitments for liabilities other than those resulting from normal operations contributing to achievement of the business objective.

1.12 Inventories and work-in-process

Inventories are recognised at the lower of acquisition cost or net realisable value.

Cost includes direct material and labour costs and overheads incurred.

1.12.1 NUCLEAR FUEL AND MATERIALS

The stated value of nuclear fuel and materials and work-in-process is determined based on direct processing costs including materials, labour and subcontracted services (e.g. fluoration, enrichment, etc.). Interest expenses incurred in financing nuclear fuels are charged to expenses.

Nuclear materials, whatever their form during the processing cycle, whose useful lives are longer than one year, and nuclear fuel, whether being used in the reactors or stored, are recorded in inventories.

These items are valued using the weighted average cost method, applied to each component (natural uranium, fluoration, enrichment, production).

The Group does not value the uranium obtained from reprocessed burnt fuel, due to uncertainty over its future use.

Nuclear fuel consumption is determined for each component based on forecasts of quantities used per kWh produced. These quantities are valued at average weighted cost as at the end of the previous month, including the cost of the most recent supplies. Inventories are periodically corrected in view of forecast burnt quantities based on neutronic measurements.

1.12.2 CONSUMABLES, MATERIALS AND SPARE PARTS

Inventories are valued at weighted average cost using direct and indirect purchasing costs.

No provision is established for spare parts supplied under a maintenance programme nor for standard parts, as these are held for use during the lifetime of the plant.

1.13 Trade and other receivables

Trade receivables are recognised at face value.

A provision is recorded when their carrying amount, based on the probability of recovery, assessed statistically or on a case-by-case basis depending on the type of receivable, is less than their book value.
The risk associated with doubtful receivables is evaluated individually.
Trade receivables include revenue based on an estimate of power already delivered but not yet measured and not yet billed. A provision is booked to cover the remaining costs to be incurred and the potential risk of subsequent non-recovery.

1.14 Short-term financial assets

Short-term financial assets mainly include investment securities and cash investments maturing in more than three months.
Marketable securities are initially recorded as assets at acquisition cost, and restated at their value in use at year-end. Listed securities are stated at their year-end quotation. A provision is recorded to fully cover any unrealised losses, without netting against unrealised gains.

1.15 Cash and cash equivalents

Cash and cash equivalents comprise very liquid assets and very short-term investments usually maturing within three months or less of the acquisition date.

1.16 Investment subsidies

Investment subsidies granted to Group companies are included in “Other liabilities” and recognised in the income statement over the same period as the assets they were intended to finance.

1.17 Bond redemption premiums, share premiums and issuance expenses

Bond redemption premiums, share premiums and issuance expenses are amortised on a straight-line basis over the duration of the related bond (or each phase of the debenture to maturity in the case of serial debentures).

1.18 Translation of foreign currency transactions

Foreign currency cash balances not covered by hedging contracts are translated at the year-end at the closing rate.
The corresponding exchange rate differences are recognised in the income statement.

1.19 Special concession accounts

In France, the portion of facilities operated under concession financed by the licensors, the portion financed by third parties on behalf of the licensors, the net impact of revaluations, the amount of provisions for renewal relating to facilities written-off and replaced, and the amortisation of EDF financing to recover its contribution are all recorded under the balance sheet heading "Special concession accounts".

The interests in public distribution facilities operated under concession and EDF's financing are amortised at the same rate as the corresponding facilities, without affecting the income statement.

1.20 Provisions for risks and expenses

The Group recognises provisions for risks and expenses if the following three conditions have been met:
– the Group has a present obligation (legal or constructive) towards a third party that arises from a past event prior to the closing date;
– it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
– the obligation amount can be estimated reliably.

Provisions are determined based on the Group's estimate of the expected cost necessary to settle the obligation. Estimates are based on management data from the information system, assumptions adopted by the Group, and if necessary experience of similar transactions, or in some cases based on independent expert reports or contractor quotes. The various assumptions are reviewed for each closing of the accounts.

The proceeds from expected asset disposals are not taken into account in determining provisions.

If it is anticipated that all or part of the expenses covered by a provision will be reimbursed, the reimbursement is recognised if and only if the Group is virtually certain of receiving it.

If an entity is jointly and severally liable with the Group for an obligation, only the portion of the obligation to be performed by the Group, if it satisfies the criteria given above, is covered by a provision. If it becomes probable that the portion of the obligation to be performed by a third party will not be settled by that third party and that the Group will have to bear an outflow of resources in its place, an additional provision is booked accordingly.

It may very rarely happen that a provision cannot be booked due to lack of a reliable estimate. In such cases, the obligation is mentioned in the notes as a contingent liability, unless there is little likelihood of an outflow of resources.

The provisions for risks and expenses mainly cover the following:

– future losses relating to multi-annual agreements for the purchase and sale of energy:
  • losses on energy purchase agreements are measured by comparing the acquisition cost under the contractual terms with the forecast market price for electricity;
  • losses on energy sale agreements are measured by comparing the estimated income under the contractual terms with the cost of generating the energy to be supplied.

– costs of renewal of distribution facilities under concession in France:
  this provision, which is intended to safeguard the renewal of installations, is equal to the difference between amortisation of the relevant replacement value and the amortisation of EDF financing, which helps finance the replacement of property operated under concession, so as to ensure continuous operation. This provision is split into a provision booked for the renewal of property nearing the end of its useful life before the end of the concession, and a provision booked for the future cost of renewal of other assets.
  This treatment is likely to change from 2005 as a result of law 2004-803 of 9 August 2004 (see note 2.4).
  The replacement value is revalued annually at 31 December based on industry-specific indicators derived from official publications. The resulting impact is spread over the residual life of the assets concerned.

– end of cycle expenses for nuclear fuels:
  a provision for reprocessing burnt fuels and for the disposal and storage of the resulting radioactive waste is booked for all fuels currently in use (burnt portion) or already used.

– costs of decommissioning power stations and the costs of fuel in the reactor when the reactor is shut down (last cores provision).

Provisions for end of nuclear fuel cycle, for expenses related to the decommissioning of power stations and last core, and for future losses relating to multi-annual energy purchase and sale agreements are estimated by applying a forecast long-term inflation index to the projected disbursements, then discounted at rates that reflect the best estimate of a long-term rate of return on bond markets.

The rate of inflation and the discount rate are based on the economic parameters of the country where the economic entity is located.
For France, the Group decided on a discount rate of 5% in 2002, and on a long-term inflation rate of 2%, which represents an effective rate of 3%. This rate was determined based on long series data for a sample of bonds, and takes into account the fact that some expenses covered by provisions will be disbursed over periods significantly longer than the duration of instruments generally traded on the financial markets.

The discount effect generated at each closing to reflect the passage of time is included in interest expenses.

The impact of changes in estimates for long-term provisions with associated balance sheet assets, whether due to schedule changes, discount rate changes, new expense estimates or technological developments, is allocated to the relevant assets, with any excess allocated to the underlying asset (power station). Each one of these parameters, taken singly or together, could have a considerable impact on the estimates over time.

1.21 Provisions and obligations for employee benefits

EDF Group employees are entitled to benefits both during and after their employment, depending on local regulations and certain specific rules such as the statutory regulations for companies governed by the special pension system for the electricity and gas sector (IEG) in France.

1.21.1 POST-EMPLOYMENT BENEFIT OBLIGATIONS

When they retire, Group employees benefit from pensions determined under local rules. They may also be entitled to benefits directly paid by the companies, and additional benefits prescribed by the relevant regulations.

The obligations of the principal foreign subsidiaries are recorded at fair value upon first consolidation.

The obligations of EDF SA and the French subsidiaries governed by the Electricity and Gas sector (IEG) regime, and the related pension financing reform, are described in notes 2.3 and 28.

1.21.2 OTHER LONG-TERM BENEFIT OBLIGATIONS

These benefits concern employees currently in service, and are earned according to local regulations, particularly the statutory regulations for the electricity and gas sector for EDF SA and French subsidiaries covered by the IEG regime. Details are provided in note 28.2.

1.21.3 CALCULATION AND RECOGNITION OF EMPLOYEE BENEFITS

At 31 December 2004, EDF continued to apply the option allowed by French accounting regulations, recording no provisions for benefits to be paid after the period of employment for employees concerned by the IEG regime. Only foreign subsidiaries' obligations are covered by a provision.

However, as of 1 January 2004, all long-term benefits payable to employees currently in service are covered by a provision, in compliance with French accounting regulation Comittee (*Comité de la réglementation comptable – CRC*) regulation 99-02 (amended 2004) on consolidated financial statements.

The actuarial value of all commitments is calculated by the projected unit credit method, which determines the present value of entitlements earned by employees at year-end to pensions, post-employment benefits and long-term benefits, taking into consideration each country's specific economic conditions and expected wage increases.

In calculating pensions and other post-retirement benefit obligations, this method takes the following factors into consideration:
– career-end salary levels, with reference to employee seniority, projected salary levels at the time of retirement based on the expected effects of career advancement, and estimated trends in pension levels;
– retirement age, determined on the basis of relevant factors (such as years of service and number of children);
– forecast numbers of pensioners, determined based on employee turnover rates and mortality data available in each country;
– reversion pensions, taking into account both the life expectancy of the employee and his/her spouse and

the marriage rate observed for the population of employees in the electricity and gas sector;
– a nominal discount rate of 5% at 1 January 2004 and 4.5% at 31 December 2004.

As the regulation allows, when a provision is recorded for pension and other post-employment benefit commitments, any actuarial gains or losses in excess of 10% (the "corridor") of the commitments or fund assets, whichever is the higher, are recognised in the income statement progressively over the average residual working life of the company's employees.

In accordance with the applicable accounting regulations, the provision for other long-term benefits is calculated under a simplified method. Although actuarial estimation under the projected unit credit method is necessary, any actuarial variances and the past service cost are directly included in the provision, without application of the "corridor" rule.

For all commitments recognised, entitlements earned during the year are charged to personnel expenses and discounting costs are included in the financial income.

1.22 Financial instruments

1.22.1 SHORT-TERM DERIVATIVES

Short-term instruments (short-term swaps, options and forward exchange contracts) are valued as follows:
– the corresponding off-balance sheet commitments are recorded at the nominal value of the contracts;
– margin payments are immediately recognised in the income statement;
– premiums paid or received are recognised at settlement;
– gains or losses generated by these instruments are recognised at settlement;
– short-term derivatives negotiated on organised markets or highly liquid over-the-counter markets comparable to organised markets and included in the portfolios at year-end are stated at year-end market value. This value is compared for each transaction to the historical value of premiums. As the Group does not allocate individual gains and losses on micro-hedges to the associated transactions, the unrealised foreign exchange gains or losses are included in financial income and expenses.

Initial deposits to secure transactions are included in investments.

1.22.2 LONG-TERM INSTRUMENTS

One of the main objectives of exchange rate and interest rate risk management is to minimise their impact on equity and net income. For exchange rate risks, debts are as far as possible entered into in the entity's local currency. If an acquisition is made in a different currency, an active hedging policy (assets and liabilities) is pursued wherever possible (micro-hedging).

Long-term instruments (swaps) are taken into account in computing the foreign exchange result and the interest expenses on a debt.
The foreign exchange result on speculative currency swaps is recognised in the income statement. Upfront payments required under the contracts are spread over the term of the swaps. Payments made or received in the event of early settlement are immediately reported in the income statement.

All of these instruments are recorded in off-balance sheet commitments at the notional value of the capital committed.

1.22.3 ENERGY TRADING

The Group conducts an international trading business on the energy markets, notably via its subsidiary EDF Trading, to capitalise on sales of its installed power capacity in the European market and optimise its purchases.

Considering the specific characteristics of this business, all Group positions, including physical deliveries and derivatives, are stated at market value. Unrealised gains and losses are recognised only when transactions take place on liquid markets. In all other cases, unrealised gains are not recognised and unrealised losses are fully covered by a provision.

Energy-trading sales revenues are presented net of purchases.

1.23 Insurance

EDF is covered by public liability insurance through a Group insurance scheme that covers the parent company and all exclusively-controlled subsidiaries, with the principal exception of Electricité de Strasbourg.

For the special nuclear operators' public liability, the two companies concerned (EDF and EnBW) are insured in accordance with the relevant legal requirements, through the markets (insurers, national nuclear insurance pools, reinsurers, ELINI (European Liability Insurance for the Nuclear Industry) mutual insurance.

EDF transfers part of its storm damage risk regarding its Distribution networks (covering damage to owned plant or plant under concession) to CDC-IXIS.
To insure against material damage (damage to owned plant or plant under concession excluding aerial networks and nuclear facilities), EDF joined the OIL international mutual insurance plan for electricity and gas producers on 31 January 2004, and has taken out additional policies for complementary coverage though the international insurance and reinsurance markets. This scheme, now complete for EDF and EDF Energy, is being extended to all exclusively-controlled subsidiaries.

2. French law of 9 August 2004 on the Public Electricity and Gas Services and Electricity and Gas Companies

French law 2004-803 of 9 August 2004 on the Public Electricity and Gas Services and Electricity and Gas Companies was published on 11 August 2004 in the French *Journal Officiel*.
Apart from the change in the legal form of Electricité de France (EDF) and Gaz de France, from state-owned utilities to public limited companies (*sociétés anonymes*), this law introduces four main series of measures concerning public service and the joint distribution operator, transposition of EU directives on electricity and gas (principally the transfer of the transmission network operator business to a subsidiary), reform for the special electricity and gas sector pensions scheme financing, and separation of the public distribution network from the public transmission network.

At 31 December 2004, all implementation decrees required for application of this law had been issued or were in the final stages of the procedure.

2.1 Incorporation of EDF SA

In accordance with the law of 9 August 2004, EDF, which was a state-owned utility (EPIC), became a public limited company (SA) on 19 November 2004 following the publication of decree 2004-1224 of 17 November 2004. EDF is no longer bound by the *principe de spécialité* restricting the company in France to the electricity supply business, and can now broaden its range of products and services in response to its competitors. The SA's articles of association are attached to the decree.

EDF's share capital, owned entirely by the French State, is fixed at eight billion, one hundred and twenty-nine million euros (€8,129,000,000), consisting of one billion six hundred and twenty-five million eight hundred thousand shares (1,625,800,000 shares) each with par value of five euros and fully paid-up. Article 24 of the law requires the French State to hold at least 70% of the capital of EDF at all times.

As of 19 November 2004, the company is the owner of all assets, rights and obligations previously associated with the public entity EDF set up by law 46-628 of 8 April 1946.

The French law of 9 August 2004 includes additional stipulations regarding the opening balance sheet for the public limited company (SA) and the accounting treatment of the measures concerning pensions and concessions:
- the SA's balance sheet at 31 December 2004 is established based on the state-owned utility EDF's balance sheet at 31 December 2003 and its income statement for 2004;
- exceptional charges and income resulting from articles 19 (see note 2.3) and 36 (see note 2.4) will be charged to equity.

2.2 Transfer of the electricity transmission network operation business to a subsidiary

Since the French law 2000-18 of 10 February 2000 on the modernisation and development of the public electricity service, the public electricity transmission network operation has been managed independently of EDF's other businesses.
The network operator's duties are to:
– operate and maintain the public electricity transmission network;
– expand the network to enable connection to producers, public distribution networks and consumers, and interconnection with other networks;
– ensure balanced flows of electricity over the network at all times;
– ensure network security, safety and efficiency in respect of technical constraints.

EU directive 2003/54/CE of 26 June 2003 concerning common rules for the internal European electricity market took this notion of independent management further, obliging member states and all businesses concerned to ensure that public electricity transmission network operators are independent in the eyes of the law.
This means that companies operating transmission networks must be separate legal entities from electricity producers and suppliers.

The law of 9 August 2004 incorporated this obligation into French law, requiring EDF's transmission operation business, as currently carried out by the *Réseau du transport de l'électricité* (RTE), to be transferred to a subsidiary.

The law stipulates that a company, wholly-owned by EDF, the French State or other state-owned companies or bodies, is the public electricity transmission network operator. The law also defines the independent management and operation of this company, to be governed by the rules applicable to public limited companies (*sociétés anonymes*) unless the legislation stipulates otherwise. It requires EDF to transfer the relevant public transmission network facilities, together with all assets of any kind related to the transmission business, to this entity at net book value. The new company's initial balance sheet will be based on the most recent unbundled accounts for EDF's transmission activity.

In application of the law of 9 August 2004, a decree is to be published fixing the articles of association of the new company, with effect from the date of the transfer of assets by EDF. As of that same date, the company will replace EDF as the public electricity transmission network operator.

2.3 Financing reform for the special electricity and gas sector (IEG) pension system

The financing reform for the special electricity and gas sector (IEG) pension system has three objectives:
– to ensure the durability of the special pension system;
– to financially affiliate the IEG systems to the standard French system for basic and additional pensions;
– to guarantee that the new system is financially neutral for all parties concerned.

The main measures introduced by the reform are as follows (articles 16 to 23 of the law of 9 August 2004):

2.3.1 FOUNDATION OF THE NATIONAL ELECTRICITY AND GAS INDUSTRIES PENSION ORGANISATION

As of 1 January 2005, the system for benefits relating to pensions, invalidity, death, industrial accidents and work-related illnesses in the electricity and gas sector is managed by the *Caisse nationale des industries électriques et gazières* (CNIEG), a private jointly-run social security organisation supervised by the social security, budget and energy ministers. Its articles of association were fixed by decree 2004-1354 of 10 December 2004. All employees, active or retired, and employers in the French electricity and gas industries are automatically affiliated as of 1 January 2005.

The pension entitlements of employees in these industries remain unaffected. The only modification concerns the financing methods for special IEG benefits.

2.3.2 AFFILIATION TO THE STANDARD PENSION SYSTEM

The CNIEG has entered into financial agreements with the bodies managing France's standard national pension system, CNAV (*Caisse nationale d'assurance vieillesse*), AGIRC (*Association générale des institutions de retraite des cadres*), and ARRCO (*Association des régimes de retraites complémentaires*). These agreements affiliate the CNIEG financially to those standard systems, in respect of the principle of financial neutrality for all contributors. The terms and conditions for payment by the CNIEG of pension plan contributions to these funds, and in return payment of the corresponding benefits by the funds to the CNIEG, are those that would have applied if employees affiliated to the CNIEG were covered by the basic or additional pension schemes concerned.

In accordance with the principles of financial neutrality, these agreements also fix the amounts and payment terms of non-recurring fixed full-discharge payments to cover permanent charges and cash outflows based on evaluation of the respective demographic, financial and economic positions both of these funds and the IEG system at the reform date, and the level and structure of their members' respective salaries.

The non-recurring contribution owed to the CNAV amounts to €7,649 million for the whole sector. The amount concerning EDF personnel, part of which will be paid in 2005, is €6,053 million, including €2,724 million for unregulated activities. The balance of €3,329 million concerns the regulated activities, and will be paid over 20 years from 2005, financed by a tariff levy on natural gas and electricity transmission and distribution services (see note 2.3.4).

The non-recurring contribution to be made to the additional pension funds AGIRC and ARRCO is to cover their reserves and management fund and amounts to €799 million. EDF's share, i.e. €632 million, will be paid 90% in 2005 and the balance in 2006.

The agreements signed with the additional pension funds AGIRC and ARRCO include a contribution to preserve benefit entitlements, to be fixed in 2010, in view of developments in actual payroll expenses in the electricity and gas sector over the period 2005-2010. This could lead the CNIEG to make a further contribution, up to a maximum of €918 million (€327 million for EDF in respect of the unregulated portion).

These agreements were approved by decisions of 4 and 7 February 2005, signed by the French social security, budget and energy ministers.

2.3.3 ALLOCATION OF SPECIFIC BENEFITS UNDER THE SPECIFIC ELECTRICITY AND GAS PENSION SYSTEM

The specific benefits payable under the IEG pension system are the benefits earned under that system that are not covered by the general national pension system.

The law of 9 August 2004 and its decrees of application allocate specific benefits already earned at 31 December 2004 ("past specific benefits") between the various IEG entities, and within each entity, distinguishes entitlements earned by employees assigned respectively to natural gas and electricity transmission and distribution services ("regulated past specific benefits") from entitlements earned by employees assigned to other activities ("unregulated past specific benefits").

Based on total estimated 2004 payroll expenses for all IEG companies, EDF is deemed to represent a 79.14% share of the sector, to be adjusted according to the final 2004 payroll expense figures. Of the past specific benefits related to EDF, 55% concern regulated activities (7.5% for electricity transmission and 47.5% for electricity distribution activities) and 45% concern unregulated activities.

The respective shares of EDF subsidiaries covered by the special IEG system, principally Électricité de Strasbourg and Tiru, are 0.68% and 0.08%. 92% of past specific benefits related to Électricité de Strasbourg concern regulated activities, while 80% of past specific benefits related to Tiru concern unregulated activities.

2.3.4 INTRODUCTION OF THE CTA LEVY ON NATURAL GAS AND ELECTRICITY TRANSMISSION AND DISTRIBUTION SERVICES

The law of 9 August 2004 introduces a levy on natural gas and electricity transmission and distribution services (*Contribution tarifaire d'acheminement – CTA*) in favour of the CNIEG, to finance regulated past specific benefits. This levy will also finance the regulated portion of the exceptional contribution defined in the agreement with the CNAV and, if necessary, the exceptional contribution to preserve benefit entitlements stipulated in the agreements with the additional pension funds.

The rates of this levy are fixed periodically by the energy, budget and social security ministers after consulting the French energy regulator (*Commission de régulation de l'énergie – CRE*).

Its application will be price neutral for final customers.

2.3.5 FINANCING OF UNREGULATED SPECIFIC BENEFITS

Unregulated past specific benefits are financed by IEG companies to an extent defined by decree. Pension commitments described in notes 1.21 and 28.1.2 include all unregulated past specific benefits allocated to EDF.

Unregulated and regulated specific benefits earned under the system introduced from 1 January 2005 will be totally financed by IEG companies in proportion to their respective share of the IEG sector as measured by payroll expenses.

2.3.6 STATE GUARANTEE

The State guarantee will be granted in favour of the CNIEG for all past specific benefits.

2.3.7 ACCOUNTING IMPACTS

The new pension financing system takes effect at 1 January 2005. These agreements provide a basis for determining the amount of payments and provisions to be recognised in EDF's accounts via an adjustment to equity, both for specific benefits earned at 31 December 2004 and for the exceptional contributions concerning activities other than transmission and distribution.

All decrees implementing the reform (allocating obligations between companies, defining past specific benefits and the scope of the new levy on electricity supply, etc.) have been published or are being finalised, and the financial agreements with pension organisations have been signed. The reform is therefore fully applicable.

Since the reform was effectively complete at 31 December 2004, the exceptional payments due to the CNIEG have been included in liabilities or provisions, with a corresponding adjustment to equity at 31 December 2004.
The impact on equity of recognition of these exceptional contributions at 31 December 2004 is a €2, 392 million decrease, net of taxes.
At 31 December 2004, EDF continued to apply the option allowed by French accounting regulations, and thus books no provisions for pensions and other post-employment benefit obligations. Details of the obligations concerned are provided in note 28, "Provisions and obligations for employee benefits".

2.4 Measures affecting the electricity transmission and distribution networks

The law of 9 August 2004 stipulates the respective scopes of the public transmission and distribution networks.

Article 36 defines the reclassification:
– facilities classified at 1 January 2005 as part of the French transmission grid assets that are attributed to the public distribution networks will be classified as part of the distribution networks at that date, and transferred for no consideration to the relevant local authorities, at net book value.
EDF remains the owner of the substations.
– notwithstanding any clauses to the contrary in the public electricity distribution concession contracts, EDF no longer has any financial obligation to the licensor regarding replacement of facilities once the concession has expired. The provisions for future renewal charges established prior to 1 January 2005 and covering renewal of facilities due after the terms of concessions will be used, insofar as necessary, to cover replacement obligations for facilities previously classified as part of the French transmission grid assets and now transferred to the public distribution network, where renewal is due before expiry of the concessions.

These measures will take effect from 1 January 2005. Without prejudice to any developments during 2005 in accounting standards on treatment of concessions, their impact compared to the current accounting treatment will be as follows:
– Cancellation of the financial obligation corresponding to renewal of facilities after expiry of the concession will entail a return to the standard definition of provisions for these expenses, based on the difference between replacement value and historical value.

Under the concession agreements, EDF retains an obligation after 1 January 2005 to amortise the licensor's financing. This is currently taken into account in the provision for renewal. To determine the amounts involved, the following will be recorded in connection with assets operated under concession:
- industrial amortisation based on the asset's useful life, allocated between amortisation of the financing by the licensor and EDF respectively.
- a provision for renewal (equal to the difference between the replacement value and the historical value of the assets).

The principal effect of this new method will be the reclassification of the share of amortisation in respect of the licensor's financing (€4.5 billion). It was included in the provision for renewal until 31 December 2004, and will now be booked in the special concession accounts on the liabilities side of the balance sheet.
– The transfer of transmission grid assets to the public distribution networks will have the following impacts:
- owned facilities will be reclassified as assets operated under concession, at net book value

(€712 million);
- subsidies and tax regulated reserves are reclassified under interest in concessionary plant facilities (€9 million);
- the provision for future expenses established at 31 December 2004 will be used for renewal of facilities previously classified as transmission grid assets and now transferred to public distribution networks.

These measures will result in a net-of-tax impact of €12 million on equity.

3. Significant events of 2004

3.1 Decision of the European Commission

Following the European Commission's decision of 16 December 2003 notified to France on 17 December 2003, EDF recognised a tax liability of €1,217 million in 2003: €889 million recorded against equity in respect of income tax not paid in 1997 upon reclassification of interest in concessionary duties in the French transmission grid assets (RAG) as equity, and €328 million of financial expenses representing the corresponding interest.

A total of €1,224 million, including €7 million in interest accrued over 2004, was paid to the French State in February 2004.

EDF has applied for cancellation of the European Commission's decision, through an appeal lodged with the European Court of First Instance on 27 April 2004.

3.2 Contribution to the public electricity service in France

In France, ministerial decisions of 28 February 2004 set the contribution to the Public Electricity Service (*Contribution au Service Public de l'Électricité – CSPE*) at €4.50 per MWh, and simultaneously reduced electricity supply prices by €1.20 per MWh, with retroactive effect to 1 January 2004.

3.3 Further deregulation of the French electricity market

The French law of 10 February 2000 on the electricity service transposed the conditions for market deregulation resulting from EU directives into French national law. Under this law, since 1 July 2004 all business customers (2.3 million customers) have been "eligible" and may exercise their right to freely negotiate their power supplier's contract. This measure increases the deregulated section of the French electricity market from 37% to 70%.

3.4 Creation by the French government of a dedicated fund to cover dismantling of facilities at the Marcoule site

In November 2004, the French Government decided to set up a dedicated fund to cover the cost of dismantling nuclear facilities located at the Marcoule site. The French atomic energy Commission (*Commissariat à l'Énergie Atomique – CEA*), COGEMA and EDF signed a protocol in late December 2004 transferring management and financing of the final shutdown and dismantling operations, as well as recovery and reconditioning of waste from Marcoule's UP1 reprocessing plant. In return for agreeing to supervise these operations at the Marcoule UP1 plant, CEA receives a full-discharge €1,141 million contribution from EDF to cover EDF's entire share of the cost of outstanding operations concerning the plant at 1 December 2004. The impact on EBIT is €(190) million net after reversal of the existing provisions.

3.5 Sale of EDF SA's shares in Total

In the second half of 2004, all shares owned in Total were sold for €2,558 million. The gain on this operation amounts to €698 million before taxes.

3.6 South America

The Group continued to suffer the combined effects of continuing difficulties in the macro-economic situation, legal and regulatory context. This situation itself hindered debt renegotiation for the various subsidiaries.
This led the Group to adjust the values of its South American assets downward and record additional depreciation of €760 million for Brazil and €200 million for Argentina.

4. Changes in the scope of consolidation

4.1 Changes in the scope of consolidation in 2004

There were no significant changes in the scope of consolidation during 2004. The operations undertaken mainly concerned changes in percentage ownership.
For EnBW, these changes concerned:
– EDF's participation in the capital increase undertaken as part of the refinancing process implemented in June 2004, which led to an increase in its stake in EnBW from 45.81% to 48.43% at year-end;
– the ongoing divestment of non-strategic businesses, principally the sale of the APCOA subgroup and HidroCantabrico, Sip, Melvo, Ditra and EnRW;
– partial withdrawal from ESAG and acquisition of control in Gaso through the formation of the holding company Enso.
The impact of these changes in the scope of consolidation on Group sales is €(337) million.
For EDF Energy, following a review of shareholder agreements, Metronet, which was previously proportionally consolidated, is accounted for under the equity method as of 30 June 2004.
Finel sold its 75% investment in ISE to the Edison Group. ISE was deconsolidated as of 1 December 2004.

4.2 Changes in the scope of consolidation at 31 December 2003

4.2.1 ACQUISITIONS AND FIRST CONSOLIDATIONS

Acquisitions and first consolidations in 2003 were as follows:
– Hispaelec: this Spanish-based company is a trading subsidiary largely supplied by EDF Trading, and to a lesser extent by the spot market. It is wholly owned by EDF International and was first consolidated at 1 January 2003;
– EDF Energia Italia: this is an Italian-based energy sales company. It is 100% owned by EDF International and was first consolidated at 1 January 2003;
– KWL (ED Group): 77% acquired by EnBW, KWL is fully consolidated in EnBW's financial statements

since 1 January 2003. The company's business is hydraulic generation, distribution and purchase and resale of energy in Switzerland; the impact on sales for 2003 was €103 million;
– NWS, Salamander and TAE: remaining minority interest bought by EnBW;
– Cidem and Cydel: two waste processing (incineration) companies wholly owned by TIRU, and fully consolidated in TIRU's financial statements as of 1 January 2003;
– EDF trading: EDF bought out the 12% held by SA Louis Dreyfus & Cie, and has thus held 100% of the voting rights since 29 August 2003;
– Valle Hermoso: this Mexican-based company is 100%-owned by EDF International. It was first consolidated at 1 January 2003 and operates the Rio Bravo 4 power station;
– Zielona Gora: this Polish energy production and distribution company, 69.5%-owned by Kogeneracja, has been fully consolidated since 1 September 2003. It is involved in the production and distribution of energy. EDF's percentage interest is 24.6%;
– Controladora Del Golfo: this company was set up as a holding company for Mexican entities. It is 100%-owned by EDF International and has been consolidated since 1 January 2003.

4.2.2 DISPOSALS

– Graninge: EDF liquidated its 36.32% stake in the company on 4 November 2003. Between 1 January and 31 October 2003, Graninge sales totalled €124 million;
– EnBW Group: in the third quarter of 2003, the Salamander group's shoe business and part of the Gegenbauerbosse group were sold.

5. Information by business segment and geographical area

Segment reporting corresponds to the Group's internal organisation, reflecting the various risks and rates of return to which EDF is exposed.

Segment reporting is primarily by geographical area according to location of assets, with the "country" risk taking priority over the "business" risk in view of the Group's international development strategy and differences in economic, regulatory and technical environments between the various areas.

Segment reporting is determined before inter-segment consolidation adjustments and inter-segment eliminations.

Inter-segment transactions take place at market prices.

5.1 Segment reporting by geographical area

The breakdown used by the EDF Group for geographical areas is as follows:

- **"France"**, which refers to EDF SA;
- **"Europe"**, which groups together subsidiaries in continental and western Europe, the Mediterranean and Africa;
- **"Rest of the World"**, which covers subsidiaries in the Americas and Asia;
- **"EDF Trading"**;
- **"Other"**, which covers the subsidiaries of the Energy, Development and Dalkia divisions, as well as other non-specialist subsidiaries worldwide.

At 31 December 2004

(in millions of euros)

	France	Europe	Rest of the World	EDF Trading	Other	Eliminations	Total
Sales							
External sales	29,457	12,751	2,115	408	2,197		46,928
Inter-segment sales	156	102	-	-	237	(494)	–
Total Sales	29,613	12,853	2,115	408	2,434	(494)	46,928
Operating profit (EBIT)	4,054	1,639	(662)	295	322		5,648
Balance sheet							
Property, plant and equipment and intangible assets	75,604	18,051	2,075	56	2,802		98,588
Investments in companies accounted for under the equity method	–	1,642	84	–	461		2,187
Other segment assets (1)	17,841	7,049	1,154	4,368	1,907		32,319
Other non-allocated assets							15 281
Total Assets	93,445	26,742	3,313	4,424	5,170		148,375
Segment liabilities (2)	80,480	8,887	1,083	4,065	2,160		96,675
Other non-allocated liabilities							51,700
Total Liabilities	80,480	8,887	1,083	4,065	2,160		148,375
Other information							
Investments in intangible assets and property, plant and equipment	2,745	1,410	317	14	196		4,682
Depreciation charges	(3,310)	(996)	(227)	(7)	(176)		(4,716)

(1) Other segment assets include goodwill, inventories, trade receivables and other receivables excluding current tax receivables.

(2) Segment liabilities include special concession accounts, provisions for the end of nuclear fuel cycle, provisions for decomissioning and last cores, provisions for employee benefits, provisions for renewal of plants under concession, other provisions for risks and expenses (excluding provisions for risks associated with investments and provisions for tax risks), trade payables and other liabilities (excluding current tax liabilities).

At 31 December 2003

(in millions of euros)

	France	Europe	Rest of the World	EDF Trading	Other	Eliminations	Total
Sales							
External sales	28,397	12,305	1,926	295	1,996		44,919
Inter-segment sales	224	92	–	–	210	(526)	–
Total Sales	**28,621**	**12,397**	**1,926**	**295**	**2,206**	**(526)**	**44,919**
Operating profit (EBIT)	**5,433**	**1,136**	**(273)**	**207**	**330**		**6,833**
Balance sheet							
Property, plant and equipment and intangible assets	76,121	18,005	2,975	49	2,721		99,871
Investments in companies accounted for under the equity method	-	1,508	101	-	537		2,146
Other segment assets (1)	17,674	7,655	1,217	3,123	1,851		31,520
Other non-allocated assets							13,363
Total Assets	**93,795**	**27,168**	**4,293**	**3,172**	**5,109**		**146,900**
Segment liabilities (2)	75,017	8,421	974	3,054	2,152		89,618
Other non-allocated liabilities							57,282
Total Liabilities	**75,017**	**8,421**	**974**	**3,054**	**2,152**		**146,900**
Other information							
Investments in intangible assets and property, plant and equipment	2,833	1,464	433	7	244		4,981
Depreciation charges	(3,227)	(941)	(145)	(7)	(129)		(4,449)

(1) Other segment assets include goodwill, inventories, trade receivables and other receivables excluding current tax receivables.

(2) Segment liabilities include special concession accounts, provisions for the end of nuclear fuel cycle, provisions for decomissioning and last cores, provisions for employee benefits, provisions for renewal of plants under concession, other provisions for risks and expenses (excluding provisions for risks associated with investments and provisions for tax risks), trade payables and other liabilities (excluding current tax liabilities).

5.2 Other reporting by geographical area

- Income from external sales by geographical area based on client location:

(in millions of euros)

	France	Europe	Rest of the World	EDF Trading	Total
2003	27,497	14,926	2,201	295	44,919
2004	28,695	15,411	2,414	408	46,928

5.3 Reporting by business segment

The Group's businesses are divided into the following segments:

- **Generation / Supply:** this segment covers all expertise and assets required to generate energy and sell it to industry, local authorities, businesses and domestic consumers;
- **Distribution:** this consists of managing the low and medium-voltage public distribution network;
- **Transmission:** this involves operating, maintaining and expanding the high-voltage and very-high-voltage electricity transmission network;
- **Other:** this category consists of energy services (district heating, thermal services, etc.) for industry and local authorities, as well as new segments mainly aimed at boosting electricity generation through cogeneration and renewable energy sources (e.g. wind turbines, solar panels, etc.).

(in millions of euros)

	Generation-Supply	Distribution[2]	Transmission[2]	Other	Eliminations	Total
As at 31 December 2003						
External sales	38,071	2,058	797	3,993		44,919
France	*26,471*	*864*	*704*	*358*		*28,397*
Rest of the World	*11,600*	*1,194*	*93*	*3,635*		*16,522*
Inter-segment sales[1]	1,426	10,904	3,419	595	(16,344)	–
Total Sales	39,497	12,962	4,216	4,588	(16,344)	44,919
Segment assets	59,173	48,496	12,342	11,968	(1,036)	130,943
Non-allocated assets						15,957
Investments for the period (tangible & intangible)	1,273	2,540	519	649		4,981
As at 31 December 2004						
External sales	39,966	2,352	844	3,766		46,928
France	*27,409*	*1,011*	*705*	*332*		*29,457*
Rest of the World	*12,557*	*1,341*	*139*	*3,434*		*17,471*
Inter-segment sales[1]	1,274	11,108	3,423	727	(16,532)	–
Total Sales	41,240	13,460	4,267	4,493	(16,532)	46,928
Segment assets	60,655	50,787	11,495	7,948	(323)	130,562
Non-allocated assets						*17,813*
Investments for the period (tangible & intangible)	1,046	2,524	521	591		4,682

(1) For France, the distribution and transmission costs integrated into tariffs are presented as inter-segment sales.
(2) In 2004, this includes transfers of assets by the Transmission activity to the Distribution activity (€843 million) and vice versa (€70 million) within EDF, following definition of the scope of the French public transmission grid and the public distribution network by law 2004-803 of 9 August 2004.

6. Sales

Sales are comprised of:

(in millions of euros)

	2004	2003
Sales of energy and energy-related services	42,985	40,841
Other sales of goods and services	3,535	3,783
EDF Trading	408	295
Sales	46,928	44,919

Consolidated sales increased by 4.5% compared to 2003.
Based on constant exchange rates and scope of consolidation, the increase would be 6.5%.

7. Purchases and other external expenses

Purchases and external expenses comprise:

(in millions of euros)

	2004	2003
Fuel purchases used - power generation	(4,451)	(4,059)
Energy purchases	(8,473)	(8,040)
Services	(9,199)	(8,712)
Other purchases	(3,178)	(3,631)
Change in inventories and capitalised production	1,825	1,888
Purchases and other external expenses	(23,476)	(22,554)

This corresponds to a 7% change between 2004 and 2003 based on identical exchange rates and scope of consolidation.

8. Average workforce

	2004			2003		
	IEG status	Other	Total	IEG status	Other	Total
Management	24,915	4,418	29,333	24,497	4,369	28,866
Supervisors and technicians	82,854	43,966	126,820	84,283	50,544	134,827
Total	107,769	48,383	156,152	108,780	54,914	163,694

For proportionally consolidated companies, personnel are included pro rata with the Group's percentage interest and represent the equivalent of 19,958 full-time employees.

The change between 2003 and 2004 is mainly due to restructuring operations and changes in the scope of consolidation concerning EnBW.

9. Other operating income and expenses

Other operating income and expenses comprise:

(in millions of euros)

	2004	2003
Operating subsidies	1,571	1,462
Other income and expenses	(519)	(605)
Gains on disposal of property, plant and equipment	81	57
Other non-recurring income and expenses	(9)	(41)
Other operating income and expenses	1,124	873

Operating subsidies mainly comprise compensation to be received in respect of public service costs in France.

Following the notification issued on 8 March 2004 by the French energy regulator (*Commission de Régulation de l'Énergie – CRE*), and the publication in March and December 2004 of decisions setting the contribution to the public electricity service (CSPE) for 2004, an additional subsidy of €157 million and a €36 million reduction in charges were recorded by EDF in respect of the Public Service fund for electricity generation (*Fonds du Service Public de la Production d'Électricité* – FSPPE) levy for 2002. In 2004, notification was given of a €55 million reduction in subsidies in respect of 2003.

10. Net (increase) decrease in provisions

Details of increases and decreases in provisions are as follows:

(in millions of euros)

	2004	2003
(Increase) decrease in provisions for risks and expenses	(475)	988
(Increase) decrease in provisions for depreciation of fixed assets	(911)	(713)
(Increase) decrease in provisions for depreciation of current assets	(187)	(19)
Net (Increase) decrease in provisions	(1,573)	256

In 2003, the net decrease in provisions for risks and expenses included the effects of the physical inventory of assets (€523 million), the effect of the new price scenario on contracts for energy purchases (€293 million) and the impact on provisions for losses on energy sale contracts of extended useful lives for power stations (€222 million).
In 2004, the net increase to provisions for risks and expenses included a provision for expenses relating to social security bodies (€203 million).
Following impairment tests, provisions for depreciation of fixed and current assets of €534 million were recorded in respect of Light in 2003, and €981 million for various subsidiaries in 2004.
Developments in the economic and regulatory situation of Brazil, in particular, led to downward adjustment of the assumptions underlying Light's medium-term plan, principally as the tariff increase allowed by the regulator in November 2004 was much lower than expected. This led to recognition of €760 million in additional depreciation on assets, including €696 million for property, plant and equipment (see note 17.2).

11. Interest expenses

Interest expenses are comprised of:

(in millions of euros)

	2004	2003
Income (expenses) on long-term financial liabilities and assets (1)	(1,303)	(1,473)
Income (expenses) on finance-leased asset receivables	(41)	(35)
Income (expenses) on short-term financial liabilities and assets	25	77
Interest expenses	(1,319)	(1,431)

(1) Including at 31 December 2004: EDF SA: €(555) million, EDF Energy: €(242) million, Brazil: €(150) million, EnBW: €(148) million.

12. Foreign exchange result

The foreign exchange result is comprised of:

(in millions of euros)

	2004	2003
Realised foreign exchange result	25	(10)
Unrealised foreign exchange result	(84)	34
Foreign exchange result	(59)	24

13. Other financial income and expenses

Other financial income and expenses are comprised of:

(in millions of euros)

	2004	2003
Revenue from investments	104	110
Net income on disposal of investments	122	164
Net income on deconsolidation	116	116
Expenses from discounting long-term provisions	(1,501)	(1,462)
(Increase) decrease in provisions for investments	82	91
(Increase) decrease in provisions for other investments	(11)	(10)
(Increase) decrease in provisions for short-term financial assets	(3)	20
(Increase) decrease in provisions for financial risks and expenses	(510)	(910)
Other	794	(225)
Other financial income and expenses	(807)	(2,106)

In 2003, a provision of €855 million was booked for financial risks in respect of the put options granted to other Italenergia Bis shareholders (see note 35.1.3). This provision was increased by €395 million in 2004 in view of various developments affecting the value of Edison shares.

Other financial income and expenses in the second half-year of 2003 also included €(328) million of interest due as a result of the European Commission's decision.

In the second half-year of 2004, EDF sold its investment in Total for €2,558 million. This transaction generated a gain of €698 million before taxes, which was recorded under the heading "Other".

14. Income taxes

14.1 Breakdown of tax liability

(in millions of euros)

	2004	2003
Taxes payable	(1,269)	(1,821)
Deferred taxes	(225)	254
Total	(1,494)	(1,567)

The current tax expense concerns EDF for €(817) million and subsidiaries for €(452) million.

14.2 Reconciliation of the theoretical and effective tax expense

14.2.1 RECONCILIATION OF THE THEORETICAL AND EFFECTIVE TAX RATE

(in millions of euros)

	2004	2003
Income from consolidated companies before tax (before amortisation of goodwill)	3,463	3,320
Theoretical tax expense (at the rate of 35.43%)	(1,227)	(1,176)
Differences in tax rate	157	83
Permanent differences	135	(250)
Taxes without basis	(103)	(132)
Net depreciation of deferred tax assets	(428)	(66)
Other	(28)	(26)
Actual tax expense	(1,494)	(1,567)
Effective tax rate	43.14%	47.19%

The main factors explaining the difference between the prevailing official rate and the effective rate are:
– adjustment for the decrease in EDF's tax rate, due to the French tax rate being reduced from 35.43% to 34.43%;
– use of the gain on sale of Total shares to offset long-term capital losses;
– non-deductibility of the Italenergia Bis provision;
– provisions on deferred tax assets, principally relating to the Light Group and the Mexican subsidiaries.

14.2.2 CHANGE IN DEFERRED TAX

(in millions of euros)	Deferred tax assets	Provisions on deferred tax assets	Net deferred tax assets	Deferred tax liabilities	Net deferred tax
Situation at 31 December 2003	1,407	(1,191)	216	(5,853)	(5,637)
Change in tax basis	178	(356)	(178)	(47)	(225)
Changes in scope of consolidation	2	–	2	15	17
Translation adjustments	(10)	14	3	(28)	(25)
Other impacts on reserves	136	20	157	289	446
Situation at 31 December 2004	1,713	(1,513)	200	(5,624)	(5,424)

Other impacts on reserves correspond to deferred taxes resulting from recognition of payments and contributions in application of the pension financing reform.

14.3 Breakdown of deferred tax assets and liabilities by nature

(in millions of euros)	31.12.2004	31.12.2003
Deferred tax assets:		
Differences between depreciation recorded for accounting and tax purposes	26	101
Non-deductible provisions	1,102	875
Other deductible temporary differences	717	712
Revaluations, revaluation surplus and elimination of intercompany profit	502	268
Tax losses and unused tax credits	1,599	1,422
Netting of deferred tax assets and liabilities	(2,233)	(1,971)
Subtotal deferred tax assets - gross value	1,713	1,407
Provision on deferred tax assets	(1,513)	(1,191)
Total deferred tax assets - net value	200	216
Deferred tax liabilities:		
Differences between depreciation recorded for accounting and tax purposes	(5,598)	(5,235)
Other taxable temporary differences	(474)	(616)
Revaluations, revaluation surplus and elimination of intercompany profit	(1,783)	(1,937)
Netting of deferred tax assets and liabilities	2,231	1,935
Total deferred tax liabilities	(5,624)	(5,853)
Total net deferred tax	(5,424)	(5,637)

14.4 Losses carried forward and tax credits

At 31 December 2004, unrecorded tax loss carryforwards and deferred tax assets represent a potential tax saving of €1,513 million.
Due to their uncertain nature, these potential assets will be recognised as and when they are utilised.

14.5 Tax booked against equity

At 31 December 2004, the total income tax recorded against equity amounts to €1,346 million, compared to €(4,061) million at 31 December 2003. €1,291 million of this total relates to the recognition at 31 December 2004 of payments and contributions as a result of the pension financing reform, €35 million concerns long-term benefits for current employees and €20 million concerns foreign exchange gains and losses on currency swaps designated as hedges of international assets.

The total current income tax recorded against equity at 31 December 2003, amounting to €(4,061) million, breaks down as follows:
– €(3,016) million result from changes in accounting methods,
– €(890) million relate to the European Commission's decision,
– €(155) million relate to the reclassification as equity of exchange losses on currency swaps undertaken to hedge international assets.

15. Goodwill

Goodwill on controlled companies comprises the following:

(in millions of euros)	31.12.2004	31.12.2003
Gross value - opening balance	7,421	7,691
Accumulated depreciation, amortisation and provisions - opening balance	(1,762)	(943)
Net book value - opening balance	5,659	6,748
Acquisitions	173	291
Disposals	(30)	(35)
Depreciation allowances	(710)	(844)
Translation rate adjustments	(8)	(223)
Other movements	(60)	(278)
Net book value - closing balance	5,024	5,659
Accumulated depreciation, amortisation and provisions - closing balance	(2,468)	(1,762)
Gross value - closing balance	7,492	7,421

Net consolidated goodwill concerns the European subsidiaries (€4,145 million), other subsidiaries (€846 million) and the Asian subsidiaries (€33 million).
As result of the impairment tests carried out or updated at 31 December 2004, additional goodwill amortisation of €368 million was booked in respect of:
– the Argentinian subsidiary Edenor: €148 million;
– various European subsidiaries: €220 million.

16. Intangible assets

(in millions of euros)

	31.12.2003	Acquisitions	Disposals	Currency translation differences on subsidiaries	Changes in the scope of consolidation	Other movements	31.12.2004
Gross values	1,584	294	(28)	3	(44)	159	1,968
Accumulated depreciation	(725)	(62)	–	–	–	–	(787)
Net values	859	232	(28)	3	(44)	159	1,181

17. Property, plant and equipment

The net value of property, plant and equipment is distributed as follows:

(in millions of euros)

	31.12.2004	31.12.2003
Property, plant and equipment owned by the Group	56,577	56,710
Property, plant and equipment operated under concessions	37,527	37,709
Fixed assets in progress	2,961	3,826
Leased property, plant and equipment assets	342	767
Total property, plant and equipment	97,407	99,012

17.1 Variation in property, plant and equipment owned by the Group

(in millions of euros)

	Land & Buildings	Nuclear power stations	Thermal power stations & hydraulic power stations	Networks	Other installations, plant, machinery & equipment	Total
Gross values at 31.12.2003	14,977	43,131	10,186	34,806	10,222	113,322
Increases	239	273	401	1,271	1,145	3,329
Decreases	(410)	(106)	(25)	(222)	(562)	(1,325)
Translation adjustments	79	–	68	(17)	(4)	126
Changes in the scope of consolidation	55	(38)	(56)	(92)	(445)	(576)
Other movements	(348)	–	932	289	(139)	734
Gross values at 31.12.2004	14,592	43,260	11,506	36,035	10,217	115,610
Depreciation & provisions at 31.12.2003	(6,632)	(26,207)	(6,409)	(11,551)	(5,813)	(56,612)
Net depreciation charges	(374)	(722)	(329)	(994)	(722)	(3,141)
Net provisions for depreciation	(11)	–	(45)	(6)	(99)	(161)
Disposals	244	104	24	143	545	1,060
Translation adjustments	(28)	–	(57)	5	(16)	(96)
Changes in the scope of consolidation	(14)	22	22	13	127	170
Other movements	102	(80)	(256)	(99)	80	(253)
Depreciation & provisions at 31.12.2004	(6,713)	(26,883)	(7,050)	(12,489)	(5,898)	(59,033)
Net values at 31.12.2003	8,345	16,924	3,777	23,255	4,409	56,710
Net values at 31.12.2004	7,879	16,377	4,456	23,546	4,319	56,577

At 31 December 2004, the Group booked a depreciation expense of €161 million on certain items of property, plant and equipment owned by the Group (see note 10).

17.2 Variation in property, plant and equipment operated under concession

(in millions of euros)

	Land & Buildings	Thermal & hydraulic power stations	Networks	Other installations, plant, machinery & equipment & other	Total
Gross values at 31.12.2003	2,663	8,168	48,082	2,196	61,109
Increases [1]	10	12	2,289	116	2,427
Decreases	(22)	–	(266)	(75)	(363)
Translation adjustments	3	2	10	(81)	(66)
Changes in the scope of consolidation	(16)	(11)	–	(6)	(33)
Other movements	(7)	1	(13)	5	(14)
Gross values at 31.12.2004	2,631	8,172	50,102	2,155	63,060
Depreciation & provisions at 31.12.2003	(1,576)	(4,353)	(16,568)	(903)	(23,400)
Net depreciation charges	(25)	(112)	(55)	(68)	(260)
Net provisions for depreciation	–	–	(696)	(141)	(837)
Disposals	21	–	222	75	318
Translation adjustments	–	(1)	(6)	27	20
Changes in the scope of consolidation	9	8	1	3	21
Other movements [2]	(9)	(17)	(1,266)	(103)	(1,395)
Depreciation & provisions at 31.12.2004	(1,580)	(4,475)	(18,368)	(1,110)	(25,533)
Net values at 31.12.2003	1,087	3,815	31,514	1,293	37,709
Net values at 31.12.2004	1,051	3,697	31,734	1,045	37,527

(1) Increases also include assets contributed for no consideration.

(2) Other movements mainly concern depreciation of assets operated under concession, booked against depreciation in the special concession accounts.

Property, plant and equipment operated under concession includes facilities under concession in the following countries: France, Argentina, Brazil, Ivory Coast, China and Switzerland.

€773 million of the deprecation booked following impairment tests (see note 10) concern property, plant and equipment operated under concession, including €696 million in respect of Light.

18. Investments

18.1 Changes in investments

Changes in investment portfolios are as follows:

(in millions of euros)

	Non-consolidated investments	Other investments	Investment securities	Other financial assets	Total long-term investments	Provisions	Net long-term investments
31.12.2003	1,646	149	4,887	1,586	8,268	(953)	7,315
Acquisitions	117	34	515	470	1,136	(108)	1,028
Disposals	(170)	(3)	(262)	(610)	(1,045)	177	(868)
Changes in scope of consolidation	14	–	114	5	133	(8)	125
Translation adjustements	6	1	–	(4)	3	–	3
Other changes	(6)	4	(10)	(14)	(26)	17	(9)
31.12.2004	1,607	185	5,244	1,433	8,469	(875)	7,594

18.2 Non-consolidated investments

(in millions of euros)

	31.12.2004	31.12.2003
Areva	123	123
Italenergia bis	590	590
Other investments	894	933
Non-consolidated investments - gross	1,607	1,646
Provisions on non-consolidated investments	(303)	(306)
Non-consolidated investments - net	1,304	1,340

18.3 Estimated value of investment securities

(in millions of euros)

	31.12.2004			31.12.2003		
	Gross value	Net value	Estimated value	Gross value	Net value	Estimated value
EDF SA	2,992	2,744	2,980	2,657	2,340	2,423
EnBW	2,149	2,125	2,206	2,123	2,065	2,139
Other	103	77	75	107	87	85
Total	5,244	4,946	5,261	4,887	4,492	4,647

For EDF SA, the investment portfolio mainly consists of dedicated assets (see note 1.11), comprising:

– investments currently held and managed directly by EDF SA: an investment by EDF in Arcelor and fixed-income securities (bonds or negotiable debt instruments),
– specialised collective investment funds on most of the leading international markets, managed by independent French or foreign asset management companies selected on the basis of solicited proposals or through a call for bids. They cover various segments of the bond or equity markets with EDF aiming to achieve the broadest diversification possible: European, US, Japanese equities and worldwide bonds. Each fund's performance is assessed by reference to a benchmark market indicator that may vary according to the stock exchange selected.

A long-term management strategy is applied for these dedicated assets, which comprise diversified investments in bond, monetary and equity instruments, in accordance with the strategic allocation defined by the company's Board of Directors. This allocation is regularly reviewed under the supervision of the audit committee.

For EnBW, most of the investment portfolio consists of dedicated assets controlled by EnBW.

Details of dedicated assets controlled by EDF SA and EnBW are as follows:

(in millions of euros)

	31.12.2004		31.12.2003	
	Net book value	Market value	Net book value	Market value
Dedicated equity funds	1,078	1,113	1,001	1,021
Dedicated bond funds	1,741	1,775	1,632	1,648
Other dedicated funds	1,406	1,582	1,114	1,199
Total dedicated investment funds	4,225	4,470	3,747	3,868

EDF SA' s dedicated investment fund portfolio breaks down as follows:

(in millions of euros)

	At 31 December 2004		At 31 December 2003	
	Net book value	Net asset value	Net book value	Net asset value
North American equities				
MSDW AD USA	103	102	103	103
DRCM AD USA	51	51	51	51
Baring AD USA	75	75	64	64
Axalliance AD USA	121	121	108	108
JPMF AD USA	55	59	41	41
European equities				
MLAD Europe	68	68	61	61
CDC AD Europe	72	72	66	66
GPW AD Europe	50	50	47	47
Capital AD Europe	87	87	75	75
Japanese equities				
CG AD Japan	27	27	19	19
Fleming AD Japan	33	33	25	25
CSAM AD Japan	24	24	20	20
Worldwide bonds				
AGF Pimco AD Global Bonds	77	80	76	76
Natio Fonds AD Global Bonds	64	64	61	61
CSAM AD Interbonds	64	66	62	62
Total dedicated funds	971	979	879	879
Other financial investments (direct or through investment funds)	1,406	1,582	1,114	1,199
Total "dedicated assets"	2,377	2,561	1,993	2,078

In application of article L.214-23 of the French monetary and financial code, an investor owning shares in an investment fund is only liable for the fund's debts up to a maximum equal to total plan assets, in proportion to his share of plan assets. Since these are index-linked funds subject to the French maximum investment ratio rules for non-specialised funds, the principal instruments held by these dedicated funds do not represent a significant proportion of the capital of the investee companies.

These dedicated funds do not enter into financial futures transactions, particularly transactions involving a leverage effect.

18.4 Other long-term investments

(in millions of euros)	31.12.2004	31.12.2003
Financial receivables	508	632
Other	925	954
Gross value	**1,433**	**1,586**
less than one year	191	346
from two to five years	645	605
more than five years	597	636
Provision and write-downs	**(271)**	**(252)**
less than one year	(34)	(21)
from two to five years	(39)	(36)
more than five years	(198)	(195)
Net value	**1,162**	**1,334**
less than one year	157	325
from two to five years	606	569
more than five years	399	440

19. Investments in companies accounted for under the equity method

The following investments are concerned at 31 December 2004:

(in millions of euros)	Principal activity (1)	% voting rights held	% owned	Share of net equity at 31.12.2004	Share of net income at 31.12.2004	Share of net equity at 31.12.2003	Share of net income at 31.12.2003
Dalkia Holding	S	34.0	34.0	448	(60)	524	5
Estag	G	25.0	20.0	323	(42)	365	(8)
Finel-Ise	G	40.0	40.0	286	76	210	40
SSE	D	49.0	49.0	188	14	172	11
Atel	G	21.2	14.5	187	27	164	23
Stadtwerke Düsseldorf	D	29.9	29.9	132	6	125	(81)
Shandong SZPC	G	19.6	19.6	84	3	101	13
Motor Colombus	G	20.0	22.4	50	(10)	56	(8)
Metronet	D	20.0	20.0	40	9	–	–
Budapesti Elektromos Müvek	D	27.3	27.3	56	2	56	(1)
Other equity accounted investments	–	–	–	393	43	373	32
Investments in companies accounted for under the equity method		**–**	**–**	**2,187**	**68**	**2,146**	**26**

(1) S = services , G = generation , D = distribution

The share of net income at 31 December 2004 includes a total of €161 million corresponding to amortisation of goodwill on consolidation of companies accounted for under the equity method (€146 million at 31 December 2003), including exceptional depreciation of €70 million in respect of Dalkia Holding and €43 million in respect of Estag.

20. Inventories, including work-in-process

The carrying value of inventories, broken down by nature, is as follows:

(in millions of euros)

	Nuclear fuel	Other fuel	Other raw materials	Work-in-process for production of goods and services	Other inventories	Total inventories
Gross value	5,668	426	975	164	85	7,318
Provisions	(234)	–	(147)	(13)	–	(394)
Net value at 31.12.2003	5,434	426	828	151	85	6,924
Gross value	5,431	428	1,020	160	109	7,148
Provisions	(258)	(6)	(200)	(24)	–	(488)
Net value at 31.12.2004	5,173	422	820	136	109	6,660

21. Trade receivables

Details of net trade receivables are as follows:

(in millions of euros)

	31.12.2004	31.12.2003
Trade receivables - gross value	16,542	14,904
Provisions	(673)	(510)
Trade receivables - net value	15,869	14,394

The majority of trade receivables falls due within less than one year.

22. Other receivables

Details of other receivables are as follows:

(in millions of euros)

	Personnel-post-employment and other long-term benefits	Current accounts receivables	Prepaid expenses	Other receivables	Total
At 31.12.2003:					
Gross value	106	252	737	3,798	4,893
Provisions	–	(19)	–	(94)	(113)
Net value at 31.12.2003	106	233	737	3,704	4,780
At 31.12.2004 :					
Gross value	125	311	785	5,020	6,241
Provisions	–	(20)	–	(86)	(106)
Net value at 31.12.2004	125	291	785	4,934	6,135

Employee benefits correspond exclusively to EDF Energy's pension fund (see note 28.3).

"Other receivables" mainly comprise amounts due to the French Government and public authorities. The increase in other receivables at 31 December 2004 results from the current tax receivable booked by EDF in association with the contributions and other expenses recognised at 31 December 2004 following application of the electricity and gas industry pension financing reform.

The majority of other receivables, apart from assets relating to post-employment benefits, are due within one year.

23. Short-term financial assets

Short-term financial assets are broken down as follows:

(in millions of euros)

	31.12.2004	31.12.2003
Marketable securities	2,238	2,755
Other short-term financial assets (maturity > 3 months)	723	317
Short-term financial assets	2,961	3,072

During the second half-year of 2004, EDF sold all the shares in Total which had been included in marketable securities, for €1,860 million.

24. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and investments in money market instruments. Cash and cash equivalents stated in the cash flow statements include the following amounts recorded in the balance sheet:

(in millions of euros)

	31.12.2004	31.12.2003
Cash	1,404	1,870
Marketable securities	1,448	417
Financial current accounts	153	151
Other short-term financial assets (maturity < 3 months)	152	85
Cash and cash equivalents	3,157	2,523

25. Special concession accounts

(in millions of euros)

	31.12.2004	31.12.2003
Public authorities' interest in plants operated under concession	18,333	18,004
Amortisation of EDF financing	1,813	1,739
Special concession accounts	20,146	19,743

26. Provisions for end of nuclear fuel cycle

The variation in provisions for end of nuclear fuel cycle is broken down as follows at 31 December 2004:

(in millions of euros)

	31.12.2003	Increases	Decreases		Other changes	31.12.2004
			Utilisations	Reversals		
Provisions for reprocessing of nuclear fuel	10,899	1,157	(1,641)	(21)	14	10,408
Provisions for disposal and storage of the resulting waste	3,759	254	(100)	(12)	3	3,904
Provisions for end of nuclear fuel cycle	14,658	1,411	(1,741)	(33)	17	14,312

26.1 Provisions for reprocessing of nuclear fuel

For EDF SA, the main costs covered by this provision are:

– transportation from the plant to the La Hague site, reception, storage and reprocessing of burnt fuel from the various types of reactors;
– oxidation and storage of unrecycled uranium obtained from reprocessed fuel;
– recovery and conditioning of old waste from the La Hague site;
– contribution towards final shutdown and dismantling costs for the La Hague reprocessing plant.

Estimated based on 2004 economic conditions, these costs amount to €16,311 million, to be spread over the provisional disbursement schedule. An amount of €9,593 million is included in provisions at 31 December 2004, corresponding to the present value for 2004 assuming 2% inflation and a 5% discount rate.

These costs are measured on the basis of the agreements between EDF and Cogema and a disbursement schedule based on the quantities to be removed and/or reprocessed at 31 December 2004.

The EDF-Cogema agreement signed on 24 August 2004 covers the period 2001-2007. The contractual basis for estimation of the figures at 31 December 2003 was not revised. The quantities taken into account in calculating the provision cover the total duration of this contract and a portion of the subsequent contract or contracts.

Beyond the period covered by the contract, the provision is estimated based on prudent assumptions set by the company's experts based on the existing contractual conditions.

For the reprocessing of fuel from Creys-Malville, the provision is based on the option of reprocessing all fuel belonging to EDF in specially equipped dedicated facilities, following long-term storage on site.

Further to the agreement signed on 24 August 2004, EDF and Cogema are currently in negotiation over the following matters:

– the legal and financial terms for transfer to Cogema of EDF's current contractual obligations in terms of its financial contribution towards the dismantling of La Hague plant and the recovery and conditioning of old waste;
– the technical and economic terms of a future agreement concerning reprocessing of fuels burnt after 2007.

Despite further progress in the negotiations, the terms of a global agreement had not been finalised at 31 December 2004.

Consequently:
– EDF's share and the basis of the dismantling costs for the La Hague reprocessing plant, as well as the provisional disbursement schedule and the inflation and discount rates are based on data approved by both EDF and Cogema in September 2003;
– data concerning the recovery and conditioning of waste are based on information common to both EDF and Cogema.

The terms on which EDF could be released from its obligations in respect of waste recovery and reconditioning and the decommissioning of the La Hague plant have not yet been finalised with Cogema. This issue is assessed on the basis of prudent assumptions established by EDF's experts with reference to the progress of current talks.

Finally, in December 2004, EDF, Cogema and the French Atomic Energy Commission (CEA) signed an agreement transferring the management and financing of final shutdown, decommissioning and waste recovery and reconditioning for the UP1 reprocessing facility at Marcoule to the CEA. In return, EDF is to pay the CEA a one-time financial contribution to cover its full share of the cost of outstanding operations, while remaining the owner of its final waste and bearing the corresponding transport and storage costs.
Following execution of this agreement, the total one-time financial contribution was recognised in the income statement (€1,141 million) and the provision booked by EDF in respect of these operations at Marcoule was reversed (€951 million).
An initial payment of €100 million was made in December 2004, and the balance is to be paid in two equal instalments in early January 2005 and early January 2006, adjusted for inflation and interest.
The impacts of this operation are reported on a specific line in the income statement, "Net impact of the protocol concerning dismantling of facilities at the Marcoule site".

26.2 Provisions for the disposal and storage of radioactive waste

For EDF SA, these provisions cover expenses related to:

– monitoring of the Manche storage facility, as well as monitoring and coverage of the Aube storage facility, both of which store short-life low-radioactivity waste derived from plant maintenance and decommissioning;
– removal and underground storage of long-life low-radioactivity waste, and the associated research;
– long-term management of long-life high and medium-radioactivity waste, in accordance with the Law of 30 December 1991;
– transport and storage of waste from the facilities on the Marcoule site.

Estimated based on 2004 economic conditions, these costs amount to €7,783 million, to be spread over the provisional disbursement schedule. An amount of €3,865 million is included in provisions at 31 December 2004, corresponding to the present value for 2004 assuming 2% inflation and applying a discount rate of 5%.

Most of the provisions for disposal and storage of radioactive waste concern the management of long-life high and medium-radioactivity waste.

To estimate future expenses for management of long-life high and medium-radioactivity waste, EDF assumes that geological storage will be applied from 2020. This assumption is considered valid in the light of research carried out in application of the French "Bataille" Law of 1991, and is coherent with the solution adopted by the countries that are closest to implementing a long-term management solution for waste with high radioactivity and a long life (e.g. the United States, Finland, etc.).
In accordance with the French "Bataille" Law, this solution will be submitted for approval at a parliamentary debate scheduled for 2006.

The valuation of the provision is currently based on the assumption that long-life high and medium-radioactivity waste resulting from the reprocessing of EDF's burnt fuel will be stored underground in clay-rich soil.
The provisional disbursement schedule is based on a valuation for the industrial storage cost established and published in 1996 by the French national radioactive waste management agency (*Agence Nationale pour la gestion des Déchets Radioactifs* – ANDRA). This evaluation takes account of both existing waste and waste that will be produced once all quantities burnt at 31 December 2004 have been processed.
Andra's 1996 quotation is currently being updated. A working party was set up in early 2004 by the French department for Energy and Raw Materials (*Direction Générale de l'Énergie et des Matières Premières* – DGEMP) comprising members representing the relevant government departments and energy producers (EDF, AREVA, CEA), to define a basis for identification and specification of the assumptions technical data required for calculating benchmark costs for deep-level geological storage.

This working party is due to complete its task during 2005. Based on the current state of progress, EDF's experts consider that there is no call for revision of the currently booked provision.

26.3 Provisions for end of nuclear fuel cycle (subsidiaries)

These provisions, amounting to €852 million, mainly cover the cost of eliminating the EnBW Group's burnt fuel and radioactive waste. The cost fixed for recycling depends on contractual terms.

27. Provisions for decommissioning and last cores

The variation in decommissioning and last cores provisions breaks down as follows at 31 December 2004:

(in millions of euros)

	31.12.2003	Increases	Decreases		Other changes	31.12.2004
			Utilisations	Reversals		
Provisions for decommissioning	10,477	581	(146)	(10)	65	10,967
Provisions for last cores	1,624	81	–	–	(64)	1,641
Provisions for decommissioning and last cores	12,101	662	(146)	(10)	1	12,608

27.1 Decommissioning provisions

In respect of EDF SA, these concern the decommissioning of:

- Pressurised Water Reactor (PWR) nuclear power stations currently in operation and nuclear power stations that have been permanently shut down (first-generation UNGG power stations and the Creys-Malville power station);
- non-nuclear power stations.

Estimated based on 2004 economic conditions, these costs amount to €20,923 million, to be spread over the provisional disbursement schedule. An amount of €9,856 million is included in provisions at 31 December 2004, corresponding to the present value for 2004 assuming 2% inflation and a 5% discount rate.

27.1.1 DECOMMISSIONING PROVISIONS FOR NUCLEAR POWER STATIONS BELONGING TO EDF SA

- For nuclear power stations currently in operation (PWR stations with 900 MW, 1300 MW and N4 reactors), a study undertaken in 1991 by the French Ministry of Trade and Industry estimated a benchmark cost, confirming the assumptions defined in 1979 by the PEON commission, estimating decommissioning costs at approximately 15% of investment expenditure as a ratio to net continuous power. This estimate was in turn confirmed by further studies carried out in 1999 on one target site;.
The underlying assumption is that once decommissioning is complete, the sites should be returned to their original state so that the land can be reused.

The total present value of the commitment concerning decommissioning of nuclear power stations is covered by a provision. The estimated schedule for future disbursements is based on the decommissioning plans drawn up by EDF experts, which take into account all known statutory and environmental regulations applicable, together with an uncertainty factor inherent in the fact that payments will only be made in the long-term.
An asset corresponding to the provision is recognised under the conditions described in paragraph 1.9 of the accounting principles and methods.

In application of the principle whereby assets and liabilities are not netted when estimating the provisions for risks and expenses, an asset receivable is also recorded in the form of accrued revenues. This corresponds to the share of decommissioning costs for the Cattenom 1-2 and Chooz B 1-2 PWR stations to be borne by foreign partners, in proportion to their investment.

– For permanently shut-down nuclear power stations, the provision is based on the cost of work already completed and on studies, quotations and an inter-comparison made by EDF. Forecast disbursements, based on internally-prepared schedules, are adjusted to reflect inflation, then discounted.

– Decommissioning and last cores provisions also include a provision for EDF's share of the decommissioning costs for the Phénix and Brennilis power stations.

27.1.2 DECOMMISSIONING PROVISIONS FOR NON-NUCLEAR POWER STATIONS BELONGING TO EDF SA

The provision for expenses related to decommissioning of non-nuclear power stations was determined following a study undertaken in 1998 and updated in 2004, based on estimated future costs, measured by reference to the charges recorded on past operations together with more recent estimates for plants still in operation.

27.1.3 DECOMMISSIONING PROVISIONS FOR SUBSIDIARIES' POWER STATIONS

Decommissioning commitments in respect of plants belonging to subsidiaries concern EnBW's power stations. A provision is recorded to cover the full present value of the decommissioning commitments. The forecast disbursement schedule and future costs are estimated based on the decommissioning plan drawn up by external consultants, and take account of all regulatory and environmental regulations known to date in Germany. The costs are calculated on the assumption of direct decommissioning of the stations.

27.2 Provisions for last cores

For EDF SA, this provision covers expenses related to the future loss on unused fuel following the final reactor shutdown. It comprises two types of expenses:
– depreciation of the inventory of fuel in the reactor that will not be totally burnt up when the reactor is shut down, valued at the average price of components in inventories at 30 November 2004;
– the cost of fuel reprocessing and the corresponding waste disposal and storage costs for fuel not covered by a provision at the time the plant shuts down. These costs are measured under the same principles as the provisions relating to reprocessing and the removal and storage of waste.

Since this provision relates to a commitment that existed at the commissioning date of the nuclear station containing the core, all costs are fully covered by provision and an asset associated with the provision is recognised as described in paragraph 1.9 of the accounting principles and methods.

Estimated based on 2004 economic conditions, these costs amount to €3,509 million, to be spread over the provisional disbursement schedule. An amount of €1,617 million is included in provisions at 31 December 2004, corresponding to the present value for 2004 assuming 2% inflation and a 5% discount rate.

Sensitivity factors for the end of nuclear cycle, decommissioning and last cores provisions

In view of the sensitivity to the underlying assumptions of all the provisions mentioned in notes 26 and 27, particularly in terms of cost, inflation rate, long-term discount rate, and disbursement schedules, a revised estimate is established at each closing date to limit the difference between the costs eventually to be borne by EDF and the amounts accrued. These revised estimates could entail changes in the amounts accrued.

No significant change was made to the assumptions at 31 December 2004.

Secure financing of long-term obligations

For secure financing of long-term obligations as the electricity markets are increasingly deregulated, EDF is progressively building up a portfolio of assets dedicated to covering nuclear-related costs, specifically the decommissioning of currently active nuclear power stations and the long-term storage of long-life high and medium-radioactivity waste (see note 18). The gross value of this portfolio was €2.6 billion at 31 December 2004.

28. Provisions and obligations for employee benefits

28.1 Changes in provisions

The variation in provisions for employee benefits is broken down as follows as at 31 December 2004:

(in millions of euros)

	31.12.2003	Increases	Decreases		Other changes	31.12.2004
			Utilisations	Reversals		
Provisions for post employment benefits	1,961	133	(114)	(12)	93	2,061
Provisions for other long-term benefits	224	30	(14)	–	102	342
Provisions for employee benefits	**2,185**	**163**	**(128)**	**(12)**	**195**	**2,403**

The net provision at 31 December 2004 (€2,278 million) is recorded in the balance sheet as:
– a provision of €2,403 million included in Provisions for employee benefits;
– a receivable of €125 million concerning the EDF Energy pension fund (see note 22).

(in millions of euros)

	France		Europe	Americas	Total	Of which	
	IEG	non IEG				Total receivables (assets)	Total provisions (liabilities)
Provisions at 31.12.2003	159	8	1,727	185	2,079	(106)	2,185
Amounts used during the year	(10)	(1)	(115)	(14)	(140)	–	(140)
Changes in consolidation scope	–	–	93	–	93	–	93
Net additions for the year	29	3	107	24	163	–	163
Other	100	–	(17)	–	83	(19)	102
Provisions at 31.12.2004	**278**	**10**	**1,795**	**195**	**2,278**	**(125)**	**2,403**
including :							
Post-employment benefits	–	7	1,735	194	1,936	(125)	2,061
Other long-term benefits	278	3	60	1	342	–	342

28.2 Provisions for post-employment benefits

(in millions of euros)

	France IEG	France non IEG	Europe	Americas	Total non IEG
Obligations at 01.01.2004	63,428	80	4,616	416	5,112
Current year service cost	1,378	7	96	1	104
Interest expenses	3,238	–	259	43	302
Benefits paid	(2,559)	(2)	(226)	–	(228)
Changes in assumption/plans [1]	(49,003)	9	360	11	380
Other	595	–	158	4	162
Obligations at 31.12.2004	17,077	94	5,263	475	5,832
Fair value of plan assets	(4,262)	(78)	(2,693)	(213)	(2,984)
Actuarial gains (losses)	(1,327)	(9)	(835)	(68)	(912)
Unrecorded provisions	11,488				
Recorded provisions		7	1,735	194	1,936

(1) See note 2.3.

28.2.1 FRENCH AND FOREIGN SUBSIDIARIES NOT COVERED BY THE SPECIAL IEG SYSTEM

Pension obligations essentially relate to British and German companies and are mostly covered by defined-benefit plans.

Pension obligations are partly covered by contributions to external funds, particularly for the German and British subsidiaries. The present value of these fund assets is €2.9 billion. Unamortised actuarial variances concern the same subsidiaries.

28.2.2 FRENCH SUBSIDIARIES COVERED BY THE IEG SYSTEM

Details of the valuation method for pension benefits payable to employees in the IEG system are provided in note 1.21.

Pensions

For EDF SA, the total obligation at 31 December 2004 after the pension reform is €13,965 million, plus €3,683 million corresponding to the one-time payments and contributions for preservation of benefit entitlements recognised in 2004. These values include CNIEG management costs borne by EDF.

Other long-term benefits

This obligation amounts to €3,112 million and concerns the following benefits:

• benefits in kind (electricity/gas)

Article 28 of the electricity and gas industries' national statutes entitles all employees (active or inactive) to benefits in kind in the form of supplies of electricity or gas at the preferential "Employee price".
At 31 December 2004, the corresponding obligation is valued at €1,133 million.

• retirement gratuity

Retirement benefits are paid upon retirement to employees due to receive the statutory old-age pension, or to their dependents if the employee dies before reaching retirement. At 31 December 2004, this obligation is valued at €488 million and is almost totally covered by an insurance policy.

• exceptional additional pension

The exceptional additional pension benefit is a complementary benefit paid annually to retired employees and their dependents. It is governed by a specific agreement signed by some IEG companies, and is not therefore determined by the electricity and gas industries' national statutes. Instead it depends on decisions by the CEOs of EDF and Gaz de France, renewed every three years since 1987.
At 31 December 2004, the corresponding obligation is valued at €338 million.

• bereavement benefit

The bereavement benefit is paid out upon the death of an inactive or invalid employee, to provide financial assistance for the expenses incurred at such a time (Article 26 § 5 of the National Statutes). It is paid to the deceased's principal dependents (statutory indemnity equal to two months' pension) or to a third party that has paid funeral costs (discretionary indemnity equal to the costs incurred).
At 31 December 2004, the corresponding obligation is valued at €262 million.

• bonus paid leave

All employees eligible to benefit immediately from the statutory old-age pension and aged at least 55 at their retirement date are entitled to 18 days of bonus paid leave during the last twelve months of their employment. At 31 December 2004, the corresponding obligation is valued at €176 million.

• cost of studies indemnity

The cost of studies indemnity is a family benefit not defined by the statutes, intended to provide assistance to inactive employees or their dependents whose children are still in education. It is also paid to beneficiaries of the orphan's pension.
At 31 December 2004, the corresponding obligation is valued at €35 million.

• annuities following industrial accident or work-related illness for inactive employees

Like their counterparts in the general national system, IEG employees are entitled to financial support in the event of industrial accident or work-related illness, as stipulated in Book IV of the French Social Security Code. These benefits cover all employees and the dependents of any employee who dies as a result of an industrial accident, an accident on the journey between home and work or work-related illness.
The commitment is measured as the probable present value of future benefits payable to current beneficiaries, including any possible reversions.
At 31 December 2004, the obligation relating to annuities payable to inactive employees following industrial accident or work-related illness is valued at €663 million.

• discretionary benefit for asbestos-related illness

To improve the compensation received by employees with a recognised asbestos-related illness contracted in the course of their employment, EDF pays a discretionary indemnity to the employee or to his dependents if he has died as a result of the illness. The indemnity is equivalent to 20% of the annuity received by beneficiaries or their dependents. For beneficiaries receiving a lump-sum indemnity under the special IEG system, this indemnity also takes the form of a lump sum (20% of the first lump-sum).
At 31 December 2004, the obligation relating to the discretionary benefit for asbestos-related illness is valued at €16 million.

• French healthcare coverage

As members of the electricity and gas (IEG) sector, EDF and certain of its French subsidiaries are automatically affiliated to the sector's special social security regime.
Current and retired employees are therefore automatically covered by this regime for their healthcare costs. It offers:
– the basic healthcare benefits provided by the French standard national social security system;
– additional benefits.

This system, particularly the rules governing active and inactive employees, and employers contributions, and its management, is governed by the IEG statutes.
Until the beginning of 2005, IEG companies and their employees (current and retired) both paid contributions to the system. The rates of contributions were fixed by decree.
Following negotiations during the second half of 2004, regulatory measures were taken in February 2005 to adapt the financing reform, in accordance with the plan discussed during negotiations, involving the following:
– foundation of two sections (for current and retired employees respectively) each with separate accounts and responsible for its own financial equilibrium. Solidarity between current and retired employees is continued in the form of a specific fixed-rate contribution payable by salaried employees only;
– the companies no longer make any direct contribution to the financing of the retired employee section; instead, employers now finance 65% of current employees' contributions.

These measures were ratified by the decree of 15 February 2005 and entailed an amendment to IEG statutes and the employers' and employees' contribution rates.
At 31 December 2004, in view of the features of the regime, an obligation should have been measured on the basis of benefits paid out. The value of the obligation cannot be estimated as the accounts for the respective sections concerning current and retired employees had not been separated at that date.

Following the financing reform, EDF will no longer have any corresponding obligation from 2005 onwards.

28.3 Provisions for other long-term benefits for current employees

(in millions of euros)

	France		Europe	Americas	Total
	IEG	non IEG			
Obligations at 01.01.2004	159	–	62	1	222
Current year service cost	62	–	6	–	68
Interest expenses	16	2	3	–	21
Benefits paid	(59)	–	(3)	–	(62)
Changes in assumption/plans	–	–	(9)	–	(9)
Other	100	–	1	–	101
Obligations at 31.12.2004	278	2	60	1	341
Fair value of plan assets	–	1	–	–	1
Actuarial gains (losses)	–	–	–	–	–
Recorded provisions	278	3	60	1	342

Other long-term benefits are payable to employees. For current employees covered by the IEG system, these benefits include:
– annuities following industrial accident or work-related illness;
– long-service awards;
– invalidity benefit.
In application of the accounting policies described in note 1.21, a provision was booked for annuities following industrial accident, work-related illness or invalidity for the first time at 1 January 2004 via an adjustment to equity.

29. Provision for renewal of plants under concession

(in millions of euros)

	31.12.2003	Increases	Decreases		31.12.2004
			Utilisations[1]	Reversals	
Provisions for renewal of plants under concession	13,939	1,048	(252)	(95)	14,640

(1) Including €249 million allocated to special concession accounts.

30. Other provisions for risks and expenses

Details of changes in provisions for risks and expenses are as follows at 31 December 2004:

(in millions of euros)

	31.12.2003	Increases	Decreases		Other changes	31.12.2004
			Utilisations	Reversals		
Provisions for risks related to investments	858	425	–	–	–	1,283
Provisions for tax liabilities	37	75	(1)	(4)	(2)	105
Provisions for other risks	1,354	396	(406)	(56)	(84)	1,204
Provisions for restructuring	88	5	(40)	(7)	31	77
Provisions for other expenses	1,175	538	(176)	(72)	262	1,727
Other provisions for risks and expenses	3,512	1,439	(623)	(139)	207	4,396

30.1 Provisions for risks related to investments

In 2003, a €45 million provision in respect of IEB shares and a €855 million provision for risks on share purchase commitments relating to the put and call options (see note 30.1 of the notes to the financial statements at 31 December 2003) were recorded.

On 23 August 2004, the Italian Parliament passed Law 239. This law allows the Italian authorities (under section 29 of its sole article) to take discretionary measures against EDF if options are exercised, thus placing at risk EDF's capacity to benefit from the full value of the assets concerned by the option contracts. Since enactment of the Law, EDF has initiated arbitration proceedings for all option contracts signed with other shareholders in IEB, as provided for by the contracts. EDF has also started negotiations with various industrial and financial parties, with a view to the options contracts being settled.

The provision of €855 million was therefore increased by €395 million, following the adjustment to fair value of exercisable repurchase commitments (see below). No other risk has therefore been taken into account.
On 29 June 2004, a protocol for the sale of the

Argentinian subsidiary Edemsa was signed. The sale's completion depends on fulfilment of certain conditions, including approval of the transaction by the competent authorities. The final deed should be signed during 2005. A provision for risk of €25 million was booked in respect of Edemsa.

30.2 Other provisions for risks

This heading principally comprises provisions for litigation and onerous contracts.

For EDF SA, provisions for onerous contracts amount to €263 million, comprising:

– A provision for loss on energy purchase contracts with SNET - Sodelif - Soprolif equivalent to the difference over the life of the contract between the contractual purchase cost and the forecast price of electricity on the European market. At 31 December 2004, this provision amounts to €133 million. The annual estimation of this provision is particularly sensitive to the assumptions adopted concerning electricity market price trends, the price of coal and the Euro/US dollar parity.
– A provision for loss on contracts for electricity sales representing the difference between the direct cost of nuclear production and the sale price of the quantities of energy to be supplied over the life of these contracts. At 31 December 2004, this provision amounts to €130 million.

The provisions for onerous contracts concerning subsidiaries amount to €204 million for EnBW and €215 million for EDF Energy.

30.3 Other provisions for expenses

This heading essentially includes:

– a provision of €309 million to cover EDF's share of the expenses relating to work programmes adopted by the Fund for Amortisation of Electrification Charges, for work to be done in future years;
– a provision of €327 million for the contribution to preserve entitlements to the unregulated benefits concerned by agreements signed with the additional pension organisations;
– a provision of €214 million for litigation with social security bodies.

30.4 Contingent liabilities

– Discharge by the Saint Chamas power station into the Étang de Berre.

The European Commission started proceedings against France before the European Court of Justice (ECJ) on 4 June 2003. It considered that the French state had failed to take all appropriate measures to prevent, reduce and fight pollution caused by the Saint-Chamas and Salon hydro-electric power stations, involving discharges of fresh water and silt from the river Durance drifting into the Étang de Berre (covered by the Athens protocol of 17 May 1980 for the Protection of the Mediterranean Sea against Pollution). On 7 October 2004, the Court ruled in favour of the Commission. Together with the relevant government ministers, EDF has examined the various possible options for reducing the impacts of fresh water and silt discharges. Proposals to reduce fluctuations in salt levels over a trial period of four years, by regulating fresh water discharges and reducing the quantity of silt discharged to 60,000 tonnes a year, were presented to the European Commission on 25 February 2005. If the Commission rejects these proposals or the trial ends in failure, production by the power stations concerned could be significantly reduced. Based on the information available to date, no provision has been established in connection with this matter.

Another litigation is in process before the French courts concerning the violation of the law, and the case was brought before the ECJ for interpretation of the terms of the Athens protocol. The Court ruled on 15 July 2004 that the Protocol lays down obligations clearly and precisely and is thus immediately applicable. France's highest court of appeal (*Cour de Cassation*) will probably refer the matter to a French Appeal Court (*Cour d'appel*) to judge whether the facts of the case constitute a breach of the law. This case could also have an impact on production.

– A French tax inspection began in late 2004 of EDF and its tax consolidated subsidiaries, covering 2002 and 2003. The results of this inspection, currently in process, will probably be known by the end of June 2005.

31. Loans and other financial liabilities

31.1 Variation in loans and other financial liabilities

(in millions of euros)

	Bonds	Loans from financial institutions	Other financial liabilities	Loans linked to finance leased assets	Accrued interest	Total
At 31 December 2003	13,268	4,073	11,432	255	576	29,604
Increases	569	1,120	2,187	1	342	4,219
Decreases	(3,590)	(1,190)	(2,436)	(14)	(344)	(7,574)
Changes in scope of consolidation	(239)	(271)	18	66	1	(425)
Translation adjustments	(22)	(122)	106	–	(6)	(44)
Other	(93)	256	(105)	1	(53)	6
At 31 December 2004	9,893	3,866	11,202	309	516	25,786

The main entities contributing to loans and financial liabilities are EDF (€12,526 million), EDF Energy (€5,355 million), EnBW (€2,973 million), and the Light group (€1,298 million).

Other financial liabilities are mainly carried by EDF for €8,540 million at 31 December 2004, and principally comprise Euro Medium Term Notes.

Group borrowings higher than €1 billion are as follows:

Major borrowings
(in millions of euros)

	Entity	Issue	Maturity	Amount	Currency	Rate
Bond	EDF SA	1998	2009	1,996	EUR	5.0%
Euro MTN	EDF SA	2001	2016	1,100	EUR	5.5%
Euro MTN	EDF SA	2000	2010	1,000	EUR	5.8%

The Group is also engaged in a debt rescheduling process for its Brazilian and Argentine subsidiaries.

31.2 Maturity of loans and other financial liabilities

(in millions of euros)

	Bonds	Loans from financial institutions	Other financial liabilities	Loans linked to finance leased assets	Accrued interest	Total
At 31 December 2003	13,268	4,073	11,432	255	576	29,604
Less than one year	4,182	816	4,300	18	574	9,890
From one to five years	3,124	1,830	2,399	69	2	7,424
More than five years	5,962	1,427	4,733	168	–	12,290
At 31 December 2004	9,893	3,866	11,202	309	516	25,786
Less than one year	1,252	922	2,168	6	516	4,864
From one to five years	4,287	1,364	2,863	100	–	8,614
More than five years	4,354	1,580	6,171	203	–	12,308

31.3 Breakdown of loans and other financial liabilities by currency at 31 December 2004

(in millions of euros)

	31.12.2004				31.12.2003			
	Initial debt structure	Impact of swaps	Debt structure after swaps	% debt	Initial debt structure	Impact of swaps	Debt structure after swaps	% debt
Euro (EUR)	14,187	(2,265)	11,921	46.2%	17,811	(2,582)	15,229	51.4%
US Dollar (USD)	3,739	(1,458)	2,280	8.8%	4,078	(1,652)	2,426	8.2%
British Pound (GBP)	5,477	3,483	8,961	34.8%	6,208	3,337	9,545	32.2%
Other	2,268	355	2,624	10.2%	1,651	753	2,404	8.2%
Total of loans and other financial liabilities	25,671	115	25,786		29,748	(144)	29,604	

31.4 Breakdown of loans and other financial liabilities by type of interest rate, before and after swaps

(in millions of euros)

	31.12.2004			31.12.2003		
	Initial debt structure	Impact of swaps	Debt structure after swaps	Initial debt structure	Impact of swaps	Debt structure after swaps
Fixed rate	19,056	(3,334)	15,722	23,232	(6,326)	16,906
Floating rate	6,615	3,449	10,064	6,516	6,182	12,698
Loans and other financial liabilities	25,671	115	25,786	29,748	(144)	29,604

31.5 Net indebtedness

Net indebtedness comprises total financial borrowings and debts, less short term financial assets and cash and cash equivalents.
Changes in net indebtedness are as follows:

(in millions of euros)

	31.12.2004	31.12.2003
EBITDA	12,127	11,026
Cancellation of non-monetary items included in EBITDA	(150)	28
Dividends received from companies accounted for under the equity method	90	79
Change in net working capital	318	18
Other items	(272)	(111)
Net cash flow from operations	12,113	11,040
Acquisitions of intangible assets and property, plant and equipment, net of disposals	(4,327)	(4,621)
Interest and financial expenses	(1,096)	(1,007)
Income tax paid	(2,047)	(3,337)
Tax and interest paid following the decision of the European Commission	(1,224)	-
Free cash flow	3,419	2,075
Investments (including investments in consolidated companies)	400	284
Dividends paid	(367)	(271)
Increase in capital and variation in other equity	248	222
Other items	2	(109)
Monetary decrease in net indebtedness, excluding the impact of changes in scope of consolidation and exchanges rates	3,702	2,201
Effect of change in scope of consolidation	601	(354)
Effect of exchange rate fluctuations	58	1,015
Effect of other non-monetary changes	(20)	(8)
Decrease in net indebtedness	4,341	2,854
Net indebtedness at beginning of period	24,009	26,863
Net indebtedness at end of period	19,668	24,009

The net indebtedness continued to fall in 2004, to €4,341 million. This reduction mainly concerned EDF for €2,345 million and EnBW for €1,393 million.

32. Other liabilities

(in millions of euros)

	31.12.2004	31.12.2003
Advances received	3,678	3,356
Liabilities related to property, plant and equipment	279	228
Tax and social charges (1)	8,106	6,194
Deferred income	5,009	4,891
Other (2)	3,810	2,633
Other liabilities	**20,882**	**17,302**

(1) The €1,912 million variation is due to the payment of €1,224 million following the European Commission's decision of December 2003 (see note 3.1), and the recognition of the one-time payment and contribution payable under the financial agreements involved in the IEG pension financing reform: €3,355 million in 2004 (see note 2.3).

(2) The increase in 2004 in other liabilities results from recognition of €1,246 million due to the net impact of the protocol for dismantling facilities at the Marcoule site.

33. Special purpose entities

Debt securitisation operations via the Titriwatt mutual debt fund have been discontinued.
The Minotaure mutual debt operation set up in December 2004 does not qualify for consolidation.
The Electra investment fund has been restructured and no longer meets the requirements for consolidation.

34. Financial instruments

EDF uses financial instruments to limit the impact of the foreign exchange rate risk on equity and the income statement, and to hedge its interest rate risk.

34.1 Details of the Group's financial instruments

Details of the Group's financial instruments, excluding internal swaps, are as follows:

(in millions of euros)

	31.12.2004		31.12.2003	
	To be received Notional	To be given Notional	To be received Notional	To be given Notional
1-Interest rate transactions				
In euro:				
Purchases of options		340		
Sales of options		555		
Purchases of CAP contracts	1,750		2,750	
Sales of CAP contracts		100		100
Other interest rate hedging instruments				569
In foreign currencies:				
Sales of options		173		162
Purchases of CAP contracts	173		162	
Interest rate swaps - short-term:				
EUR	468	468		
USD	48	49		
Interest rate swaps - long-term:				
EUR	3,325	3,325	4,727	4,727
GBP	142	142		
USD	235	237	238	238
Other	259	259	257	257
Subtotal	6,400	5,648	8,134	6,053
2-Foreign exchange transactions				
Forward transactions:				
EUR	646	142	498	174
GBP		87		
USD	136	509	88	436
Other		20	93	95
Currency swaps - long-term:				
EUR	4,540	2,101	4,324	1,756
GBP		3,895		3,331
USD	1,660	294	1,219	317
Other	491	809	207	323
Subtotal	7,473	7,857	6,429	6,432
3-Other risks transactions				
Securitisation swaps	1,823	1,823	1,927	1,927
Subtotal	1,823	1,823	1,927	1,927
Financial off-balance sheet commitments	15,696	15,328	16,490	14,412

34.2 Fair value of EDF's derivative financial instruments

The fair value of EDF SA's derivative financial instruments as calculated by EDF is as follows:

(in millions of euros)

	31.12.2004	
	Book value	Fair value
Interest rate hedges:		
– interest rate options on organised markets	(9)	(9)
– long-term interest rate swaps	74	135
Foreign currency hedges:		
– forward exchange transactions	21	26
– long-term currency swaps	(58)	123
Total	28	275

35. Off-balance sheet commitments

EDF and its subsidiaries give and receive various off-balance sheet commitments in the course of business. The commitments concerned at 31 December 2004 are summarised below:

(in millions of euros)

	Total	Maturity		
		< 1 year	1-5 years	> 5 years
35.1 OFF-BALANCE SHEET COMMITMENTS GIVEN				
35.1.1 Operating commitments				
Satisfactory performance, completion and bid guarantees	**639**	160	442	37
Commitments related to commercial contracts	228	34	–	194
Commitments related to orders for operating items and fixed assets *	3,440	2,221	1,110	109
Other operating commitments	3,783	625	2,197	961
35.1.2 Financing commitments				
Guarantees related to borrowings	3,246	1,561	406	1,279
Other financing commitments	406	288	102	16
35.1.3 Investment commitments				
Investment and divestment commitments	7,572	6,282	1,274	16
Other investment commitments	233	3	69	161
35.2 OFF-BALANCE SHEET COMMITMENTS RECEIVED				
35.2.1 Operating commitments	4,125	2,288	1,526	311
35.2.2 Financing commitments	9,877	1,268	7,675	934
35.2.3 Investment commitments	324	2	322	–

* Excluding raw materials and energy (see note 35.3).

35.1 Off-balance sheet commitments given

35.1.1 OPERATING COMMITMENTS

Satisfactory performance, completion and bid guarantees

These mainly consist of guarantees related to the construction or operation of power stations in Mexico (€327 million), China (€23 million), Vietnam (€31 million) and Egypt (€10 million). EDF Energies Nouvelles and Dalkia International also gave guarantees for an amount of €57 million and €142 million respectively.

Commitments related to commercial contracts

These essentially concern payment guarantees on gas purchase and distribution contracts of EDF Trading (€195 million).

Commitments related to orders for operating items and fixed assets other than raw materials and energy

These are reciprocal commitments undertaken upon signature of orders for operating items and fixed assets, mostly made by EDF (€3,109 million).

Other operating commitments

These mainly concern:
- the solidarity commitment undertaken by operators of nuclear power stations in Germany, which would come into force in the event of any one of them being unable to meet its obligations following a nuclear incident. The total amount consolidated by the EDF group through EnBW amounts to €1,087 million.
- as part of its policy to cover the exposure of EDF's electricity distribution network in France, EDF has entered into a contract with CDC Ixis Capital Markets, whereby each party undertakes to indemnify the other for any liability connected with issuance of a CAT bond, up to an overall maximum of €240 million for each party. The total amount of the fixed premium outstanding at 31 December 2004 is valued at €96 million.
- the guarantees given by EDF to High Holborn Estates Ltd and to Deutsche Bank concerning lease contracts. (€126 million).
- operating leases and guarantees given to third parties: suppliers, customs authorities, etc.

35.1.2 FINANCING COMMITMENTS

Guarantees related to borrowings

Including:
- commitment from EDF to guarantee a zero coupon bond in favour of IEB Finance for €1,113 million at 31 December 2004. EDF also received a counter guarantee from other shareholders of IEB up to their percentage interest (see financing commitments received). This counter-guarantee will be substituted by a pledge of shares held by IEB in Edison given by the other shareholders when it becomes possible to pledge the shares, before the various options on IEB shares are exercised.
- pledges and mortgages on tangible assets (€1,220 million) given by some EDF SA subsidiaries as security on their loans.
- guarantees given by EDF International on loans taken out by its subsidiaries (€180 million).
- various guarantees given notably by EDF SA (€350 million), the Edev Group (€69 million) and the Dalkia group (€23 million).

Other financing commitments

These are principally:
- commitments for additional contributions to the financing of various power stations (€102 million);
- overdrafts not used at closing granted by Électricité de Strasbourg (€76 million).

35.1.3 INVESTMENT COMMITMENTS

Investment and divestment commitments

– EDF holds a 18% stake in Italenergia Bis (IEB), Edison's parent company. These shares are recorded in the assets at a gross value of €590 million (including warrants).
During 2002, EDF entered into various commitments to other IEB shareholders totalling €3,736 million, that could lead to acquisition of all or some of 82% of IEB's capital as well as acquisition of the Edison shares subscribed by Italian banks (Intesa, IMI Investimenti and Capitalia) as part of Edison's capital increase decided in December 2002.
EDF has granted a put option to Fiat giving Fiat the right to sell to EDF 24.6% of IEB's shares and warrants at a floor price of €1,147 million. This option can be exercised between 1 March 2005 and 30 April 2005, or possibly earlier should a financing arrangement by Fiat with a banking syndicate be called early.

EDF has also granted Fiat a put option on 14% of IEB's capital assigned to the Italian banks (Intesa, IMI Investimenti and Capitalia). This put is conditional upon exercise of the put option entitling Fiat to sell EDF 24.6% of IEB shares and warrants and the banks exercising their put in respect of Fiat for 14% of IEB shares. It can be exercised in the same conditions as the put option on the 24.6% (see above) with a floor price of €653 million. Fiat has also given EDF a call option for the right to buy 14% of IEB shares once Fiat has exercised its put on the 24.6%.
The Italian banks (23.37% of IEB shares excluding the shares acquired by Fiat) have a put option to sell their IEB shares and warrants to EDF as well as the Edison shares subscribed by the latter under Edison's capital increase decided in December 2002; EDF also has a call option. These options may be exercised between February 2005 and March 2005.
Carlo Tassara (holder of 20% of IEB shares) has a put option to sell his IEB shares to EDF and EDF has a call option to buy them. These two options may be exercised between March 2005 and April 2005.
The overall floor price of the options described above (Italian banks and Carlo Tassara) amounts to €1,936 million. These may not be exercised earlier by the counterparties.
The valuation of the shares held in IEB and the direct and indirect financial commitments taken by EDF in IEB and Edison are described in note 30.1.
On the assumption that the put options given by EDF to various shareholders in IEB are exercised and that this leads to possession of indirect control over Edison, EDF could find itself in a situation where it has to make a public offer for Edison. However, this could only happen in the event of repeal of Italian law 301 to re-establish EDF's voting rights, which are currently limited to 2%, and provided Fiat does not exercise its pre-emptive rights within a certain limit.
Following the enactment by the Italian Parliament on 23 August 2004 of law 239 (see note 30.1) paving the way for potentially damaging measures against EDF in the event it exercises its option contracts, EDF decided on 16 December 2004 to initiate arbitration proceedings for all option contracts signed with other shareholders in IEB, as provided for by the option contracts.
Edison's main key indicators at 31 December 2004, established under Italian accounting principles, are the following:

	31.12.2004 (*)	31.12.2003
Net revenues	6,491	6,287
EBITDA	1,254	1,103
EBIT	611	415
Income before taxes and minorities	364	128

	31.12.2004	31.12.2003
Equity of the Group	not available	5,213
Net financial position	3,852	4,143

* Provisional figures published on 14 February 2005 (source : Edison).

– Commitment granted to OEW by EDF International relating to EnBW in respect of a shareholder agreement concluded on 26 July 2000.
From 1 January 2005 and until 31 December 2005, OEW may decide to sell all or some of its 62,514,267 shares for a price of €37.14 per share with a discount depending on the financial parameters specified in the shareholders' agreement.
From 1 June 2006 and until 31 December 2011, OEW may decide to sell all or some of its shares for a price of €37.14 per share with no discount applied.
The value of this option is estimated at €2,322 million at 31 December 2004.
Following EnBW's refinancing operations during the first half of 2004, EDF raised its investment by 4.4% and waived its future subscription rights to new shares issued for the purposes of the refinancing in favour of OEW, in case OEW wishes to raise its holding to a level equivalent with EDF's investment during 2005.

Other agreements concluded between EDF International and OEW state that OEW has a put option over 5.94% of EnBW shares that may be exercised between 28 January 2005 and 30 November 2006. The value of this commitment is estimated at €476 million at 31 December 2004.
– Various options or agreements entered into by EDF International (€229 million) and EnBW (€621 million) concerning shares in various companies in the power generation industry.

– Commitments made by Edev SA in relation to EDF Energies Nouvelles
On 16 November 2002, Edev purchased 170,419 shares in SIIF-Energies (renamed EDF Energies Nouvelles in 2004) and then raised its total investment to 49.73% through a capital increase. Edev also has usufruct over 20,181 shares, and thus holds 50% of voting rights at ordinary shareholders' meetings. This 50% control over voting rights is guaranteed by the attribution of 380,000 stock subscription warrants issued at the Shareholders' Meeting of December 2002, exercisable at the price of €51.30.
For the purchase of the shares, the companies have agreed that a sale price adjustment may be payable in 2005 depending on the company's development and the rise in its value. An expert will assess the scale of this rise over the period. At the time of the transaction, the shareholders confirmed their intention to eventually proceed to an IPO. Should Edev SA subsequently object to the IPO, it would, subject to certain requirements, grant the other shareholders a promise to purchase their shares, to be exercised between 1-31 December 2007 at the earliest. Edev would then be the beneficiary of a promise of sale concerning the same shares, to be exercised from 1 January 2009.
Based on the most recent valuation (December 2002) and taking into account developments since that date, the price supplement should be less than €10 million, and the purchase cost of the shares if they were acquired now lower than €200 million.
Finally, subject to certain conditions, Edev has undertaken to provide equity financing for all or some projects developed by EDF Energies Nouvelles, up to a total of no more than €150 million (€75 million at 49.73%). At 31 December 2004, Edev has granted equity financing of €83 million (its share of €41 million).
– Agreement with Veolia Environnement: Veolia Environnement has granted EDF a purchase option on all its Dalkia shares in the event a competitor of EDF should take control over Veolia Environnement. EDF also granted Veolia Environnement a purchase option over all its Dalkia shares in the event the status of EDF is changed and a competitor of Veolia Environnement, individually or with other parties, should take control over EDF. If the parties fail to agree on the sale price of the shares, it is to be fixed by independent expert.
EDF and Veolia Environnement also respectively hold put and call options which would lead EDF, in the event they were exercised by one of the parties, to hold 50% of capital and voting rights in Dalkia. If the parties fail to agree on the sale price of the shares, it is to be fixed by an expert.

Other investment commitments
Including:
• guarantee given by EDF International to the Polish treasury concerning the level of investment to be made by ECW (€55million),
• investment commitments to Zielona Gora by Kogeneracja (€19 million) and by Dalkia International (€17 million) to the town of Poznan (Poland).
• other commitments by Edev, Figlec, EnBW (€109 million).

35.2 Off-balance sheet commitments received

35.2.1 OPERATING COMMITMENTS

These are commitments received by EDF SA for €3,772 million, €3,523 million of which concern reciprocal commitments (including commitments on orders for operating assets and the contract with CDC Ixis Capital Market - see Other operating commitments given).

35.2.2 FINANCING COMMITMENTS

They principally concern:
– the overall amount of the EDF group's credit lines (€8,733 million) with various banks;
– the counter-guarantee given to EDF by the other IEB shareholders for their share (€912 million at 31 December 2004) relating to the bond guaranteed by EDF (see guarantees related to borrowings).

35.2.3 INVESTMENT COMMITMENTS

– EDF International has a put option agreed with Edison for its investment in Finel (40%). This option can be exercised from 1 July 2005 until 31 December 2006. The exit price will be 40% of the value of Finel at that date, with a minimum of €300 million.

35.3 Off-balance sheet commitments relating to raw materials and energy supplies

In the course of its generation and distribution activities, the Group has entered into long-term contracts and "take or pay" contracts, in which it undertakes to purchase raw materials, fuel, energy and gas for periods of up to 20 years. The Group also has commitments to supply energy and electricity under firm sales contracts to end-users.

In most cases, these are reciprocal commitments, and the third parties concerned are under an obligation to supply or purchase the quantities specified in the contracts.

EDF SA has signed a group of long-term contracts with a certain number of European electricity businesses, undertaking to supply electricity. These contracts are of two types:

– co-financing agreements for nuclear power stations, either for a specific power station or for a defined group of stations. Companies participating in this financing have a right to draw power from the stations concerned, in proportion to their initial contribution;
– long-term commercial sales contracts, generally covered by the nuclear power stations.

EDF has also entered into long-term purchase contracts with a certain number of electricity producers, either by financing power stations, or through commercial electricity purchase contracts.

When it made its investment in EnBW in 2001, EDF also undertook to sell 6000 MW on the French market to the highest bidder. This sale took place by the end of 2003. Its basic duration is 5 years and it may be reviewed with the EU authorities in early 2006.

Under article 10 of the law of 10 February 2000, EDF is obliged, at the producer's request, subject to compliance with certain technical features, to purchase the power produced by co-generation plants and renewable energy production units (wind turbines and small hydro-electric stations or operations recycling organic waste). The excess costs generated by this obligation are offset by the contribution to the public electricity service (CSPE).

These commitments also include commitments related to long-term purchase contracts for fuel and gas, and contracts signed by EDF's Nuclear Fuels Division.

36. Subsequent events

Exercise by Italian banks of put options for the sale of IEB shares

On 3 February 2005, the Italian banks (holding 23.37% of the IEB shares other than those acquired from Fiat) notified EDF that they were exercising their put option.

In EDF's opinion, the arbitration proceedings suspend execution of contracts until the arbitration courts issue a ruling on the substantive merits of the case.

37. Scope of consolidation

The main changes in scope of consolidation between 2003 and 2004 are detailed in paragraph 4.

The scope of consolidation at 31 December 2004 is as follows:

Company		Head office	% owned	% voting rights	Consolidation method	Business sector	Siren N°
France (EDF SA)							
Électricité de France SA	(f)	22-30, avenue de Wagram 75382 Paris cedex 08	100	100	Parent company	G,D,S	552081317
Europe							
EDF Energy		Templar House, 81-87 High Holborn London WCIV 6NU – England	100	100	FC	G,D,S	
EDF UK		Templar House, 81-87 High Holborn London WCIV 6NU – England	100	100	FC	D	
EnBW		Durlacher Allee 93 D-76131 Karlsruhe – Germany	48,43	42,02	PC	G,D,S	
EDF Ostalbkreis		Stuttgarterstrasse 41 D-73430 Aalen – Germany	100	100	FC	D	
EDF Weinsberg		Rathaus D-74189 Weinsberg – Germany	100	100	FC	D	
Motor Columbus		Parkstrasse 27 CH-5401 Baden – Switzerland	22,39	20	EM	G	
Groupe Atel		Bahnhofquai 12 CH-4601 Olten – Switzerland	14,51	21,23	EM	G	
Finelex BV		Drentestraat 20 1083 HK Amsterdam – The Netherlands	100	100	FC	G	
ECK Cracow		Ul. Cieplownicza 1 31-587 Cracow 28 – Poland	66,26	66,26	FC	G	
Kogeneracja		Ul. Lowieecka 24 50-220 Wroclaw – Poland	35,86	49,82	FC	G	
ECW		Ul. Swojska 9 80-867 Gdansk – Poland	77,44	77,44	FC	G	
Rybnik		Ul. Podmiejska 44-270 Rybnik – Poland	78,25	69,87	FC	G	
Zielona Gora		Elektrocieplownia Zielona Gora ul. Zjednoczenia 103 65120 Zielona Gora – Poland	26,75	74,61	FC	G,D	
Demasz		Klauzal Ter 9 6720 Szeged – Hungary	60,91	60,91	FC	D	
Bert		Budafoki ut 52 1117 Budapest XI – Hungary	95,57	95,57	FC	G	
Groupe Estag		Palais Heberstein Leonhard-strasse 59 A-8010 Graz – Austria	20	25	EM	G	
SSE		Ulica Republiky c. 5 01047 Zilina – Slovakia	49	49	EM	D	
Cinergy Holding Company BV		Burgemeester Haspelslaan 455/F 1181 NB Amstel Veen The Netherlands	50	50	PC	G	
Finel		Foro Buonaparte n° 31 20121 Milano – Italy	40	40	EM	G	
Fenice		Via Acqui n°86 10090 Rivoli – Italy	100	100	FC	G	
EDF Energia Italia		EDF Energia Italia Srl EDF Bureau de Roma – Via Abruzzi n° 25 00187 Roma – Italy	100	100	FC	G	
Hispaelec		C/Alcala 54-3°Izda 28014 Madrid – Spain	100	100	FC	G	
Skandrenkraft		Norrlandsgatan 15 SE 11143 Stockholm – Sweden	100	100	FC	G	

Company	Head office	% owned	% voting rights	Consolidation method	business sector	Siren N°
Port Said	92 El Nile St Apt 12 1611 Giza – Egypt	100	100	FC	G	
Port Suez	92 El Nile St Apt 12 1611 Giza – Egypt	100	100	FC	G	
Azito O&M SA	Yopougon Niangon Sud-village Azito 23 BP 220 2204 Abidjan – The Ivory Coast	50	50	PC	G	
Azito Energie	01 B.P. 3963 Abidjan 01 – The Ivory Coast	32,85	32,85	PC	G	
Rest of the world						
Edenor	Azopardo 1025 – Piso 171107 Buenos Aires – Argentina	90	90	FC	D	
Easa	av. Eduardo Madero 900 – Piso 22 C1006ACV Buenos Aires – Argentina	100	100	FC	D	
Sodemsa	Calle Nocochea N°62 Piso 3 – Departamento 4 5500 Mendoza – Argentina	88	88	FC	D	
Edemsa	Belgrano 815 5500 Mendoza – Argentina	44,88	51	FC	D	
Lidil	Avenida Marechal Floriano n° 168 – Bloco 1 – 2° Andar centro CEP 20080 Rio de Janeiro – Brazil	100	100	FC	D	
Light	Avenida Marechal Floriano n°168 – Bloco 1 – 2° andar CEP20080 – 002 Caixa Postal Centro Rio de Janeiro – Brazil	94,79	94,79	FC	D	
Light Energy	Avenida Marechal Floriano n° 168 – Bloco 1 – 2° andar CEP20080 – 002 Caixa Postal Centro Rio de Janeiro – Brazil	94,79	94,79	FC	D	
Light Overseas Investment	Avenida Marechal Floriano n°168 – Bloco 1 – 2° andar CEP20080 – 002 Caixa Postal Centro Rio de Janeiro – Brazil	94,79	94,79	FC	D	
Norte Fluminense	Avenida Graça Aranha n° 182 ao 9° andar CEP 20030 – 002 Caixa Postal Rio de Janeiro – Brazil	90	90	FC	G	
Ute Paracambi	Avenida Graça Aranha, n°182 ao 9° andar CAP 20030 Rio de Janeiro – Brazil	100	100	FC	G	
Controladora del Golfo	C/o Compania Mexicana de Gerencia y Operacion SA de CV, Panzacola n°62, Local 202, Villa Coyoacan, 04000 Mexico DF	100	100	FC	G	
Central Anahuac SA de CV	C/O Compania Mexicana de Gerencia y Operacion SA de CV, Panzacola n°62, Local 202, Villa Coyoacan, 04000 Mexico DF	100	100	FC	G	
Central Saltillo SA de CV	C/O Compania Mexicana de Gerencia y Operacion SA de CV, Panzacola n°62, Local 202, Villa Coyoacan, 04000 Mexico DF	100	100	FC	G	
Central Lomas del Real SA de CV	C/O Compania Mexicana de Gerencia y Operacion SA de CV, Panzacola n°62, Local 202, Villa Coyoacan, 04000 Mexico DF	100	100	FC	G	

Company		Head office	% owned	% voting rights	Consolidation method	Business sector	Siren N°
Altamira		Paseo de la Reforma 287 Piso 3 Colonia Cuauhtemoc, 06500 Mexico DF	51	51	FC	G	
Valle Hermoso		C/O Compania Mexicana de Gerencia y Operacion SA de CV, Panzacola n° 62, Local 202, Villa Coyoacan, 04000 Mexico DF	100	100	FC	G	
Figlec		25 TH Floor, Guangxi Foreign Trade Building 137, Qixing road – Nanning Guangxi 53 00 22 Republic of China	100	100	FC	G	
Synergie		Laibin Power Plant Post Box 09 Laibin City 546138 Guangxi Republic of China	85	85	FC	G	
Shandong Zhonghua Power Company		17, Jing San Road 25 0001 Jinan Shandong – Republic of China	19,6	19,6	EM	G	
Meco		Sun Wah Tower 115 Nguyen Hue Street – District 1 Ho Chi Minh City – Vietnam	56,25	56,25	FC	G	
Nam Theun Power Company		26 Khun Boulom Road Ban Haysok PO Box 5862 Vientiane – Lao PDR	35	35	EM	G	
EDF Trading							
EDF Trading		Mid City Place – 71, High Holborn London WC 1V6ED – England	100	100	FC	G.S	
Other							
Emosson		Centrale de la Bâtiaz CH-1920 Martigny – Switzerland	50	50	PC	G	
Richemont	(f)	Centrale Sidérurgique de Richemont 57270 Richemont – France	100	100	FC	G	785580333
Semobis		41, rue de la Pépinière 1000 Bruxelles – Belgium	100	100	FC	G	
EDF Capital Investissement	(f)	16, avenue de Friedland 75008 Paris – France	100	100	FC	S	413114653
Sapar Finance	(f)	1, place Pleyel 93282 Saint-Denis cedex – France	100	100	FC	S	347889149
Sapar Participations	(f)	1, place Pleyel 93282 Saint-Denis cedex – France	100	100	FC	S	403189467
C2	(f)	C/o EDF International SA 20, place de la Défense 92050 Paris-La Défense cedex – France	100	100	FC	S	421328162
C3	(f)	22-30, avenue de Wagram 75382 Paris cedex 08 – France	100	100	FC	S	428722714
Immobilière Wagram Etoile	(f)	20, place de la Défense/Tour EDF 92050 Paris-La Défense cedex – France	100	100	FC	S	414660043
La Gérance Générale Foncière	(f)	20, place de la Défense/Tour EDF 92050 Paris-La Défense cedex – France	99,86	99,86	FC	S	562054510
Société Immobilière PB6		31, rue de Mogador 75009 Paris – France	50	50	PC	S	414875997
Sofilo	(f)	20, place de la Défense/Tour EDF 92050 Paris-La Défense cedex – France	100	100	FC	S	572184190
EDF International	(f)	20, place de la Défense/Tour EDF 92050 Paris-La Défense cedex – France	100	100	FC	D	380415125

Company		Head office	% owned	% voting rights	Consolidation method	Business sector	Siren N°
Société d'Investissement en Autriche		C/O EDF International Tour EDF 20, place de la Défense 92050 Paris-La Défense cedex – France	80	80	FC	G	421089913
EDF Développement Environnement SA	(f)	90, esplanade du Général-de-Gaulle 92050 Paris-La Défense cedex – France	100	100	FC	G	380414482
Électricité de Strasbourg		26, boulevard du Président-Wilson 67953 Strasbourg cedex 9 – France	74,86	74,86	FC	D	558501912
A.S.A.-Holding A.G.		Hans-Hruschka - Gasse 9 2325 Himberg – Austria	100	100	FC	S	
VERO GmbH		Libertas-Intercount Revisions- und Beratungsgesellschaft WIEN Teinfaltstrasse 4 – Austria	100	100	FC	S	
T.I.R.U.		134, boulevard Haussmann 75008 Paris – France	51	51	FC	S	334303823
EnXco		63-665 19th avenue North Palm Springs California 92258 – USA	50	50	PC	S	
EDF Énergies Nouvelles (ex-SIIF Énergies)		Cœur Défense imm. B1 90, esplanade du Général de Gaule 92933 Paris-La Défense cedex – France	50	50	PC	S	379677636
Dalkia Holding		37, avenue Maréchal-de-Lattre-de-Tassigny, 59350 St André les Lille – France	34	34	EM	S	403211295
Edenkia		37, avenue Maréchal-de-Lattre-de-Tassigny, 59350 St André les Lille – France	50	50	EM	S	434109807
Dalkia International		37, avenue Maréchal-de-Lattre-de-Tassigny, 59350 St André les Lille – France	50	24,14	PC	S	433539566
Dalkia Investissement		37, avenue Maréchal-de-Lattre-de-Tassigny, 59350 St André les Lille – France	67	50	PC	S	404434987

FC = full consolidation, PC = proportional consolidation, EM = accounted for under the equity method; G = Generation, D = Distribution, S = Services;
(f) companies that are consolidated for tax purposes.

This is a free translation into English of the independent auditors' report on the consolidated financial statements signed and issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in any auditor's report, whether qualified or not, i.e. an explanatory paragraph separate from and presented below the audit opinion discussing the auditor's assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing the audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account caption or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the Group management report.
This report should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

Independent auditors' report on the consolidated financial statements for the year ended December 31, 2004

(Free translation of a French language original)

In accordance with our appointment as auditors as set out in your statutes, we have audited the accompanying consolidated financial statements of EDF SA ("the Group") for the year ended December 31, 2004.

The consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position and the assets and liabilities of the Group as of 31 December 2004 and the results of its operations for the year then ended in accordance with accounting rules and principles applicable in France.

Without qualifying our opinion, we draw your attention to the uncertainty related to nuclear provisions and to the information relating to employee benefits given in the notes to the consolidated financial statements:

- The estimated valuation of provisions related to nuclear electricity production, as described in notes 1.20, 26 and 27 to the consolidated financial statements, is sensitive to the assumptions made concerning costs, inflation rates, long-term discount rates, forecast cash outflows and the results of current negotiations with Areva. In view of this, any change in those assumptions could lead to a significant revision of the level of provisioning.

- Notes 1.21, 2.3 and 28 of the consolidated financial statements describe the funding reform of the specific Electricity and Gas Industries pension scheme and indicate the amount of EDF's financial commitments under this scheme before reform and its remaining financial commitments after reform. The disclosure of this information results in removing the qualification expressed in our audit opinion issued on consolidated financial statements as at December 31, 2003.

  Note 28.2 to the consolidated financial statements also mentions the absence of reliable estimates of EDF's financial commitments under the specific Electricity and Gas Industries social security scheme, which existed before the financing reform in February 2005. Following this reform, EDF will have no financial commitments towards retired employees starting from this date.

II. Justification of assessments

In accordance with the requirements of article L. 225-235 of the French *Code de commerce* relating to the justification of our assessments, we bring to your attention the following matters:

Accounting principles and methods

- As part of our assessment of the Group's accounting principles and methods, we have verified the disclosures presented in the note 1.1 to the consolidated financial statements relating to future changes in accounting principles and methods which would be likely to have a material impact on the financial statements.

Estimates

- Notes 1.2, 1.10, 10, 15, 17, 19 and 30.1 to the consolidated financial statements notably describe the principles and policies used for impairment tests of goodwill, other fixed assets and investments-related financial commitments, the related provisions accounted for during the financial year, as well as the sensitivity of the results to the underlying assumptions. We have assessed the methodology used by the Group and, based on information available, determined whether the policies used for these estimates are reasonable.
- Note 28.2 to the consolidated financial statements discloses the amount of EDF's obligations relating to pensions and other employee benefits. As part of our assessment of significant estimates made for year-end closing, we have examined the actuarial valuation methods used to determine the obligation and the disclosures given. We have assessed the reasonableness of actuarial assumptions taken and estimates made.

The assessments were made as part of our audit of the consolidated financial statements taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

III. Specific verification

In accordance with professional standards applicable in France, we have also verified the information given in the Group management report. Except for the impact, if any, of the matters described above, we have nothing to report regarding its fair presentation and consistency with the consolidated financial statements.

We draw your attention to the disclosures given on accounting principles and methods used for the preparation of the 2004 IFRS financial information (chapter 9 of the Group management report), in particular those relating to concessions and employee benefits.

Neuilly-sur-Seine, Paris-La Défense and Paris, March 16, 2005

The Independent Auditors

DELOITTE & ASSOCIÉS
Amadou Raimi Tristan Guerlain

ERNST & YOUNG AUDIT
Patrick Gounelle Claire Nourry

MAZARS & GUÉRARD
Jean-Louis Lebrun Guy Isimat-Mirin

EDF’s summary corporate financial statements
at 31 December 2004

All the documents concerning EDF’s corporate financial statements filed with the French bulletin of compulsory legal announcements (BALO) are available on request from the Financial Reporting Division.

NB: Most figures in the tables are reported in millions of euros. The resulting approximation can lead to slight differences in totals or variations.

EDF's summary corporate and unbundled financial statements – income statements

(in millions of euros)

	Generation		Transmission		Distribution		Other activities		Total unbundled activities		Parent company	
	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03
Sales	20,194	19,676	4,170	4,124	12,144	11,790	42	38	36,550	35,628	30,210	29,034
Change in inventories and work in process	236	236	–	–	(4)	(1)	–	–	232	235	232	235
Capitalised production	78	106	128	151	698	721	–	–	904	978	904	978
Revenue	**20,507**	**20,018**	**4,299**	**4,275**	**12,839**	**12,510**	**42**	**38**	**37,686**	**36,841**	**31,346**	**30,247**
Purchases and other external expenses	(11,680)	(11,282)	(1,789)	(1,981)	(7,098)	(7,019)	(57)	(51)	(20,624)	(20,333)	(14,276)	(13,733)
Gross profit	**8,827**	**8,736**	**2,509**	**2,295**	**5,741**	**5,491**	**(15)**	**(13)**	**17,062**	**16,508**	**17,069**	**16,514**
Operating subsidies	1,563	1,452	–	–	1	–	–	–	1,564	1,452	1,563	1,452
Personnel expenses	(5,095)	(4,952)	(612)	(582)	(1,934)	(1,833)	–	–	(7,641)	(7,367)	(7,633)	(7,359)
Taxes other than income taxes	(1,605)	(1,504)	(429)	(396)	(532)	(515)	–	–	(2,566)	(2,414)	(2,566)	(2,414)
Operating profit / (loss) before depreciation, amortisation and other expenses	**3,690**	**3,732**	**1,468**	**1,317**	**3,276**	**3,143**	**(15)**	**(14)**	**8,420**	**8,179**	**8,434**	**8,192**
Depreciation allowances and recoveries	(1,484)	(1,497)	(604)	(599)	(1,337)	(1,287)	–	–	(3,425)	(3,383)	(3,425)	(3,383)
Net (increase) / decrease in provisions	1,081	1,231	(31)	1	(750)	(682)	–	–	300	550	300	550
Other operating income and expenses	(1,550)	(557)	101	220	(126)	(109)	15	12	(1,560)	(433)	(1,575)	(446)
Operating profit / (loss)	**1,738**	**2,909**	**933**	**940**	**1,064**	**1,065**	**(1)**	**(1)**	**3,735**	**4,913**	**3,735**	**4,913**
Financial income and expenses	**(1,730)**	**(3,670)**	**(325)**	**(456)**	**3**	**(109)**	**–**	**–**	**(2,052)**	**(4,235)**	**(2,052)**	**(4,235)**
Current profit / (loss)	**8**	**(761)**	**608**	**484**	**1,067**	**956**	**(1)**	**(1)**	**1,683**	**678**	**1,683**	**678**
Exceptional profit / (loss)	**30**	**511**	**(61)**	**(38)**	**(43)**	**712**	**–**	**–**	**(74)**	**1,185**	**(74)**	**1,185**
Income taxes	(137)	(617)	(201)	(170)	(369)	(607)	–	–	(706)	(1,394)	(706)	(1,394)
Net profit/ (loss) for the period	**(99)**	**(868)**	**347**	**276**	**655**	**1,061**	**–**	**(1)**	**902**	**469**	**902**	**469**

The differences between the total for the unbundled accounts and the figures reported for the parent company are due to implementation of agreements between the unbundled activities.

EDF's summary corporate and unbundled financial statements – balance sheets

Assets

(in millions of euros)

		Generation		Transmission		Distribution		Other activities		Total unbundled activities		Parent company	
		31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03
Fixed assets	Intangible assets	265	244	159	146	104	40	–	–	528	430	528	430
	Property, plant and equipment	26,689	27,723	10,937	11,879	36,986	35,632	–	–	74,613	75,234	74,598	75,225
	Investments	25,461	19,132	10	12	11	20	–	–	25,481	19,164	18,580	19,164
	Subtotal fixed assets (I)	**52,415**	**47,098**	**11,106**	**12,037**	**37,100**	**35,692**	**–**	**–**	**100,622**	**94,828**	**93,707**	**94,819**
Current assets	Inventories, including work in process	6,179	6,451	81	92	44	52	–	–	6,305	6,595	6,305	6,595
	Payments in advance	214	400	2	4	–	–	–	–	216	404	250	404
	Trade receivables	10,658	6,298	845	856	4,228	6,545	3	5	15,734	13,705	12,708	10,930
	Marketable securities	3,291	2,600	–	–	–	–	–	–	3,291	2,600	3,291	2,600
	Cash instruments	49	58	–	–	–	–	–	–	49	58	49	58
	Cash and cash equivalents	477	1,018	191	44	2,123	3	3	7	2,794	1,072	468	829
	Prepaid expenses	486	519	7	32	4	5	–	–	497	555	497	555
	Subtotal current assets (II)	**21,354**	**17,343**	**1,126**	**1,028**	**6,400**	**6,606**	**6**	**12**	**28,886**	**24,988**	**23,569**	**21,971**
	Deferred charges and unrealised foreign exchange losses (III)	**92**	**70**	**–**	**47**	**97**	**81**	**–**	**–**	**189**	**198**	**145**	**170**
	Total assets (I + II + III)	**73,861**	**64,511**	**12,232**	**13,112**	**43,597**	**42,379**	**6**	**12**	**129,697**	**120,014**	**117,420**	**116,959**

The differences between the total for the unbundled accounts and the figure reported for the parent company are due to implementation of agreements between the unbundled activities.

Equity and Liabilities

(in millions of euros)

		Generation		Transmission		Distribution		Other activities		Total unbundled activities		Parent company	
		31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03	31.12.04	31.12.03
Capital and reserves	Capital	4,617	224	2,132	104	1,342	65	38	2	8,129	395	8,129	395
	Capital contributions	–	4,393	–	2,029	–	1,276	–	36	–	7,734	–	7,734
	Merger premium	25	25	–	–	–	–	–	–	25	25	25	25
	Reserves and revaluation reserve	1,528	2,978	466	1,472	2,047	924	(37)	(32)	4,004	5,342	4,005	5,342
	Retained earnings	(2,639)	(537)	(31)	(909)	(194)	(33)	–	(4)	(2,863)	(1,484)	(2,863)	(1,484)
	Profit or loss for the period	(99)	(868)	347	276	655	1,061	–	(1)	902	469	902	469
	Investment grants received	15	4	196	176	31	24	–	–	241	204	197	175
	Tax regulated provisions	7,498	7,429	924	900	574	479	–	–	8,995	8,808	8,995	8,808
	Subtotal	**10,945**	**13,648**	**4,034**	**4,049**	**4,455**	**3,796**	**1**	**1**	**19,435**	**21,494**	**19,390**	**21,465**
	Special concession accounts	1,453	1,493	–	–	18,468	18,019	–	–	19,920	19,511	19,906	19,502
	Subtotal (I)	**12,397**	**15,141**	**4,034**	**4,049**	**22,923**	**21,814**	**1**	**1**	**39,355**	**41,005**	**39,296**	**40,967**
	Provisions for risks and expenses (II)	**27,598**	**26,648**	**50**	**30**	**14,769**	**13,965**	**–**	**–**	**42,418**	**40,642**	**42,418**	**40,642**
Liabilities	Loans & financial liabilities	12,766	8,490	6,940	7,453	473	639	–	–	20,179	16,583	13,278	16,583
	Advances and payments on account received	1,435	1,371	31	32	1,384	1,292	–	–	2,850	2,694	2,850	2,694
	Trade payables and other liabilities	12,635	8,031	939	1,380	3,949	4,325	6	11	17,529	13,748	14,537	10,973
	Cash instruments	2,647	292	224	145	–	243	–	–	2,871	679	545	437
	Deferred income	4,201	4,338	14	23	99	101	–	–	4,315	4,463	4 315	4,463
	Subtotal liabilities (III)	**33,684**	**22,522**	**8,148**	**9,033**	**5,905**	**6,601**	**6**	**11**	**47,742**	**38,167**	**35,524**	**35,150**
	Unrealised foreign exchange gains (IV)	**182**	**200**	**–**	**–**	**–**	**–**	**–**	**–**	**182**	**200**	**182**	**200**
	Total equity and liabilities (I + II + III + IV)	**73,861**	**64,511**	**12,232**	**13,112**	**43,597**	**42,379**	**6**	**12**	**129,697**	**120,014**	**117,420**	**116,959**

EDF's summary corporate financial statements – cash flow statements

(in millions of euros)

		2004 (a)	2003 (a)
Net profit / (loss)		902	469
Income tax		706	1,394
Profit / (loss) before income tax		1,608	1,863
Amortisation, depreciation and provisions		5,694	5,235
Net gains on disposals of fixed assets		55	(170)
Financial profits and losses		(490)	865
Other movements		29	26
Cash flows from operating activities before changes in working capital		6,897	7,818
Net change in inventories		*290*	*426*
Net change in accounts receivables		*(422)*	*269*
Net change in accounts payables		*629*	*(5)*
Change in working capital		497	689
Net financial expenses paid		(257)	(854)
Income taxes paid		(1,642)	(2,750)
Cash flows from operating activities	(A)	5,494	4,904
Purchases of tangible and intangible fixed assets		(2,790)	(2,809)
Purchases of investments		(1,559)	(1,815)
Disposals of fixed assets		1,489	1,559
Financial assets variation		1,155	(471)
Cash flows from investing activities	(B)	(1,704)	(3,535)
Issuance of borrowings		3,194	2,687
Repayment of borrowings		(6,169)	(3,921)
Dividends paid		(321)	(208)
Investment subsidies		22	26
Cash flows from financing activities	(C)	(3,274)	(1,416)
Net increase / (decrease) in cash and cash equivalents	(A) + (B) + (C)	517	(47)
Cash and cash equivalents - opening balance		883	609
Effect of currency fluctuations		4	(7)
Reclassification impact (1) (2)		(336)	329
Cash and cash equivalents – closing balance (2)		1,068	883
Net change in cash and cash equivalents		517	(47)

(1) In 2003, the provision for depreciation of dedicated assets was reclassified as a provision for depreciation of portfolio securities.
(2) As of 2004, transactions undertaken under cash management agreements with subsidiaries are included in "Cash and cash equivalents - closing balance". They were previously recorded under "Issuance of borrowings".

(a) The figures for 2004 and 2003 are reported in an identical format to EDF's consolidated financial statements.

1. Main differences between the accounting policies and presentation formats used for EDF's corporate financial statements and the consolidated financial statements

EDF's balance sheet and income statement are prepared in accordance with the same accounting principles and valuation methods as those described in the notes to the consolidated financial statements, except for the following:

– accelerated depreciation, which corresponds to the additional declining-balance depreciation of power stations and certain transmission and distribution installations, is included in equity under "tax regulated provisions";
– a provision is established for periodic inspections of nuclear and non-nuclear power stations;
– strategic safety spare parts for nuclear facilities are recorded in inventories under "consumables, materials and spare parts". Depreciation is recorded in proportion to the service life of the relevant power stations and reactor series;
– unrealised exchange gains and losses on foreign currency receivables and liabilities are recorded in the balance sheet under the headings "unrealised exchange losses" and "unrealised exchange gains";
– unrealised exchange losses on foreign currency borrowings and currency swaps are fully covered by provision, according to the preferential method;
– bond redemption premiums and the corresponding amortisation are recognised as balance sheet assets under "Deferred charges";
– exceptional items are recorded under "Exceptional profit / (loss)".

2. Extracts from EDF's corporate financial statements

2.1 Accounting policies

EDF's financial statements are prepared in accordance with generally accepted accounting principles for industrial and commercial companies, including certain principles adopted because of specific features of the company. In addition, in accordance with a decree of 22 October 1947, EDF uses a specific chart of accounts submitted for examination to the French national accounting council (*Conseil national de la comptabilité – CNC*) and approved by ministerial ordinance.

EDF's chart of accounts was declared valid by the CNC on 19 December 1984 and approved in 1986 by the regulatory authority (decision by the French Ministries of Economy and Industry issued on 26 December 1986). In 1997, certain legislative and additional measures confirmed that all general transmission systems belonged to EDF, and stipulated the dispositions relating to public distribution networks.
In preparation for compulsory application of IFRS (International Financial Reporting Standards) by listed European companies from 2005, EDF introduced several accounting policy changes in 2002 and 2003, as described in note 2.3 below.

Following developments in French accounting regulations, EDF booked a provision for all long-term benefits concerning current employees in 2004. The effects of this decision were recorded in the income statement for tax reasons (impact of €118 million before taxes, of which €100 million at 1 January 2004).

2.2 Unbundling accounting policies

In accordance with law 2000-108 of 10 February 2000, EDF keeps separate accounts for its generation, transmission and distribution activities, and other activities, and publishes the corresponding balance sheets and income statements in the notes to the company's financial statements.
These unbundled financial statements are prepared in accordance with the following:
– the principles of unbundling specified by the French energy regulator (CRE) in its decision of 15 February 2001;
– the recommendations issued by the CRE on 15 January 2003 and 4 March 2004.
In accordance with the law of 10 February 2000 (article 25), the notes to EDF's corporate financial statements disclose the following:
– a description of the scope of each unbundled activity;
– the allocation principles applied and a description of the unbundling protocols and conventions used, outlining the financial relationships between these activities;
– the balance sheets and income statements for each unbundled activity;
– transactions worth at least €40 million with EDF group companies.
Under article 48.I of law 2004-803 of 9 August 2004 concerning the Electricity and Gas Public Services and Electricity and Gas Companies, the measures amending article 25 of the law of 10 February 2000 will not take effect until the transfer of assets by EDF to the company to operate the public transmission network. Once this has taken place in 2005, EDF will keep a separate account internally for the management of distribution networks by the GRD (distribution networks operator), for presentation to the CRE.
EDF carries out a reconciliation between the balance sheets and income statements of unbundled activities and those of the company's financial statements.

2.2.1 ACTIVITIES

2.2.1.1 Scope of activities

Decree 2005-172 of 22 February 2005 defines the scope of the public transmission network, and fixes the rules for classification of assets and facilities belonging to the public transmission and distribution networks.

2.2.1.1.1 Transmission
The transmission activity corresponds to *Réseau de Transport d'Électricité* (*RTE*), the power transmission system operator set up within EDF. It is managed as an independent entity, this independence being guaranteed under French law. The network operated by RTE comprises all connections in the metropolitan network in mainland France with voltages of 63 kV or more, except for distribution concessions to public utilities, in accordance with Article 2 of the concession agreement for the general transmission grid.
Transmission covers the following activities:
– research and development work relating to the electricity network;
– management of the network infrastructure (operation, dispatching and plant maintenance):
  • dispatching involves national and regional management of power distribution based on supply and demand. RTE acts as a regulator, continuously adjusting the flows of electricity so as to balance supply and demand;
  • plant maintenance consists of routine maintenance, ranging from monitoring to major repair work, on existing lines to ensure continuous compliance with requirements for electrical line networks,
– meter reading and work on meter equipment that is RTE's responsibility;
– relations with users of the transmission network (in particular, management of contractual relations with third parties wishing to access the network) and related services.

2.2.1.1.2 Distribution
Distribution involves managing the distribution network in mainland France and in non-interconnected zones (Corsica and French overseas territories). For the purposes of the unbundled accounts, distribution thus comprises all distribution network operators as defined by law. The following activities are covered:
– operation of electricity distribution networks, and specifically research and development work on these networks;
– management of network infrastructures (operation,

construction, dispatching and plant maintenance);
– meter reading and work on meter equipment;
– relations with users of the network and related services (access to power, disconnection/reconnection, disconnection of customers' facilities, work on customers' facilities, installation of charge-limiting devices, invoicing, etc.);
– relations with the licensing authorities.

2.2.1.1.3 Generation

Generation includes all activities relating not only to the generation of electric power, but also to the sale of that power. In the unbundled accounts, the generation activity therefore also includes sales. Generation covers:
– electricity generating activities (construction, operation, maintenance, forecasting and planning, dispatching, shutdown and decommissioning of plants) in mainland France and non-interconnected zones (Corsica and French overseas territories);
– sales and marketing, and customer management (customer services, invoicing, account monitoring, disputes, sales support);
– purchases of power;
– electricity trading with other countries.

2.2.1.1.4 Other activities

Other activities are all activities outside the electricity industry. These mainly consist of:
– public lighting;
– activities related to hydro-electric generation (e.g. river transport, irrigation, etc.);
– work and services for subsidiaries, supply services (engineering, consulting, research, etc.) and other work and services provided to third parties in sectors other than electricity.

2.2.1.2 Further information

2.2.1.2.1 Support functions

Each activity also covers support functions devoted entirely or predominantly to that activity.
The Transmission activity includes the administration and general functions necessary to guarantee its independent management (e.g. purchasing, accounts, finance, legal services, communications, etc.). As a result, the costs of EDF's central functions are only allocated to Transmission if these functions cannot be carried out directly by RTE due to organisational constraints or for reasons of cost optimisation.

2.2.1.2.2 Investments

Investments made prior to 31 December 2000 are attributed to the Generation activity. All new investments since that date are allocated to the activity which financed them.

2.2.2 ALLOCATION RULES

The basic principle for the establishment of the unbundled balance sheets and income statements is to allocate the various items or flows directly to the relevant activity. Where this is not possible, the allocation is based on unbundling conventions and applied costs.

2.2.2.1 Balance sheets

2.2.2.1.1 Assets

Fixed assets are directly allocated to the relevant activity as defined above. When a fixed asset is used by more than one of the defined activities, it is allocated to the main user.
The same principle applies to current assets. Trade receivables for each activity thus comprise accounts receivable on non-EDF users recorded directly by each activity, and accounts receivable allocated under the unbundling conventions and not overdue at the year-end.
When an asset is used by more than one of the defined activities and cannot be allocated to any one activity as the main user, allocation follows the non-discrimination and anti-cross subsidy principles, while respecting the working capital requirements of the activity concerned.

2.2.2.1.2 Equity and liabilities

The equity and liabilities of the unbundled activities comprise the various items reported in the financial statements of the integrated company (e.g. equity, financial liabilities, provisions, revaluation reserve, operating liabilities, etc.). Each activity is thus attributed all items of equity and liabilities necessary for its operations.
Items are directly allocated to the appropriate activity wherever possible:
– operating liabilities (e.g. accounts payable, accrued expenses, etc.);
– provisions (provisions for renewal of distribution concessions are attributed to Distribution, and provisions for end of nuclear cycle expenses to Generation);
– other directly attributable items (revaluation reserve, external interest in concessionary plant facilities, investment subsidies received).
However, certain equity items and financial and other liabilities are considered non-specific in view of the integrated nature of the company. As RTE's activity is

to be transferred to a subsidiary in 2005, the financial liabilities concerned by previous allocation conventions are replaced at 31 December 2004 by a single overall loan between the Generation and Transmission activities determined using principles validated by the CRE.

2.2.2.2 Income statements

– Direct allocation of expenses was the main principle. Whenever income or expenditure was identified as relating primarily to one activity, the principle of direct allocation was used, and where necessary income is reallocated or expenses reinvoiced to other activities, based on allocated unit costs, or applied costs if this is not possible.
– Internal transactions between the activities are recorded based on conventions or protocols signed by the various parties concerned (see note 2.2.3), which mainly define the principles for valuation and invoicing of these transactions.
– Transmission revenues include actual amounts invoiced to eligible third party customers who have signed a transmission network access contract (CART contract) and revenues resulting from the application of the protocols.
– Revenues from distribution network access, other than direct revenues from eligible third party customers who have signed a distribution network access contract (CARD contract), result from application of the related protocols.
– Generation revenues mainly result from sales of electricity to end customers in France and other countries and services provided in application of the protocols (services rendered to the operating system, energy sales to offset power losses from distribution networks and various other services).
– Income and expenditures related to the balancing mechanism and the balance responsible entity of the Transmission activity are recorded as sales in the event of downward adjustments and expenses (external services) in the event of upward adjustments, and as other income where the balance responsible entity protocol applies.
– The income tax expense is shared between the separate activities in proportion to their contribution (positive or negative) to taxable income. This has led to negative taxes being recorded for the loss-making activities.

2.2.3 UNBUNDLING PROTOCOLS AND CONVENTIONS

The financial relationships between the unbundled activities are defined by approximately one hundred internal conventions and protocols, covering all the relevant flows. Following their initial application in 2001, these protocols and conventions have been reviewed each year and amended, deleted or new conventions introduced as appropriate.
They provide clear and final definitions of the kind of services that the various activities can undertake for each other, and stipulate the practical conditions for the transactions (valuation, invoicing schedule and payment methods).
Those support functions necessary to ensure RTE's independent management that cannot be totally or partially provided directly by RTE due to organisational constraints or for reasons of cost optimisation are covered by conventions governing the provision of the corresponding resources.

2.2.3.1 Description

The protocols cover the following:
– in application of article 23 of law 2000-108, the conditions for access to and use of the transmission and distribution networks, and the application of tariffs for network use;
– in application of article 15 of law 2000-108, relationships arising from the services provided by the Generation activity to RTE that are necessary for the secure operation of the transmission network (services rendered to the operating system, contribution to the balancing mechanism, management planning and production programming, balance responsibility);
– in application of article 25 of law 2000-108, services provided by central management departments (recorded in the accounts of the Generation activity) in human resources (HR administration, training, health and safety), logistics (information technology, telecommunications, real estate, etc), finance, research and development, and more technical services (repairs and maintenance, etc.);
– the allocation of expenses, in particular EDF's central expenses.
The network access protocols govern:
– access by the Distribution activity to the public transmission network;
– access to the public transmission network to inject and draw off the electricity generated or used by EDF's power stations;

– access to the public transmission network to implement the electricity import and export contracts concluded by EDF, and participation in the mechanisms for allocating interconnection capacities with networks in adjacent countries;
– transfer of the portion of revenues related to network access collected by the Generation activity from customers buying their electricity at standard sales tariffs in the course of its supply and sales activity:
  • to RTE, for customers connected to the public transmission network,
  • to the Distribution activity for customers connected to the public distribution network operated under concession by EDF.

2.2.3.2 Financial principles

The financial relationships between the activities are formally defined in the unbundling protocols and conventions in accordance with the transparency, anti-cross subsidy and non-discrimination principles.
They are based on the situation that would exist between separate companies conducting their business dealings under conditions identical to those applied to third parties. When the conditions applied to third parties result from a public tariff or regulation, these public rules are taken as the standard rules applicable between unbundled activities.
Nevertheless, since these relationships are within the same legal entity, the financial transactions conducted under these protocols and conventions are non-taxable (especially regarding VAT).

2.2.3.2.1 Valuation of the network access protocols

For the transmission and distribution network access protocols, RTE and distribution activity revenues are calculated based on the price schedule laid down by Decree 2002-1014 of 19 July 2002 on the tariffs for use of the public electricity transmission and distribution networks.

2.2.3.2.2 Valuation of services rendered under conventions

The stated value is based on the unit cost of the services rendered, except where reference to market prices is possible.
The unit cost is calculated by each service provider entity based on its own costs (costs directly attributable to the service, portion of fixed costs, and costs invoiced to this entity by other internal service providers).

2.3 Changes in accounting policy

Important:

For comparison purposes, the annual financial statements approved by the Board of Directors and published in the French bulletin of compulsory legal announcements (BALO) cover three financial years. Note 2.2 of those financial statements, "Changes in Accounting Policy", which covers these periods, is reproduced in full below, although the summary accounts only show figures for two years.

Following the changes in accounting policy introduced in 2002 and 2003, and changes in certain estimates and formats, adjustments are necessary to ensure comparability of the financial statements for 2002, 2003 and 2004.

2.3.1 CHANGES IN ACCOUNTING POLICY IN 2003

EDF opted for early application at 1 January 2003 of French Accounting Regulation Committee (*Comité de la réglementation comptable – CRC*) regulation 2002-10 on the amortisation and depreciation of assets, which entailed a change in the depreciation method for generation, transmission and distribution facilities, changes to the depreciation schedule of certain components of nuclear power stations identified as being in need of replacement, and the reversal of the provision for maintaining hydraulic potential.
EDF also opted to discontinue capitalisation of interim interest as of 1 January 2003.

2.3.1.1 Change in the depreciation method for nuclear facilities and certain other fixed assets

In keeping with the dominant practice in the industry as the French electricity market is progressively deregulated, EDF now uses the straight-line depreciation method for all assets, and records additional depreciation computed by the declining-balance method on generation facilities and certain transmission and distribution assets. This change of policy led EDF to adjust depreciation to the straight-line method retrospectively, with reclassification of the excess (declining-balance) depreciation under tax regulated provisions. Retained earnings were unaffected.

2.3.1.2 Change in depreciation schedule for certain components

EDF now applies a method whereby the depreciation schedule for certain major components of nuclear power stations is revised prospectively, from the date a generic defect is identified and replacement scheduled. This new method has been applied retrospectively, and as a result provisions previously established to cover replacements of these components have been reversed.

2.3.1.3 Cost of maintaining hydraulic potential

The provision for maintaining hydraulic potential represents routine maintenance costs necessary to keep the facilities in good working order in compliance with the specifications for hydroelectric stations operated under concession. It was retained in the accounts in 2002 under the transitional measures of CRC regulations 2000-06 and 2002-10 but has now been totally reversed (since 2003, maintenance expenses are no longer covered by a provision).

2.3.1.4 Interest on capital borrowed (interim interest) for construction of generation facilities and networks and production of the first nuclear fuel load

As of 1 January 2003, in compliance with the option allowed by French and international regulations, interest on loans accrued while power stations and networks are under construction and the first fuel loads are produced are no longer capitalised, but charged to expenses as incurred. Interest previously capitalised as deferred charges was written off as a result of this change in policy. The same treatment applies to pre-operating expenses.

2.3.2 CHANGES IN ACCOUNTING POLICY IN 2002

Changes in accounting policies introduced in the financial statements at 31 December 2002 resulted from adoption of CRC regulation 2000-06 on liabilities. This principally resulted in recognition in the liabilities of the company's total commitments for decommissioning of non-nuclear and nuclear power stations and last cores expenses, measured on a discounted future cash flow basis, and recognition in the assets of decommissioning and last cores expenses as additional plant costs, valued at commissioning date for the relevant generation phase. Provisions to cover the 10-year inspections of nuclear and non-nuclear power stations were also established, as were provisions for losses on power purchase and sale contracts.
EDF also opted to apply the following methods as of January 1, 2002:
– the preferential method for recording the provision for all unrealised exchange losses on borrowings and swaps, which are no longer spread over the remaining term of the instrument;
– bond issuance expenses are spread over the duration of the bond, on a straight-line basis.

2.3.3 IMPACTS OF ACCOUNTING POLICY CHANGES

The tables below illustrate the impact of changes in accounting policy in 2003 on equity and net income for 2002:

Impact on equity

(in millions of euros)

	Gross value	Income taxes	Net
Equity as published at 31.12.2002			14 921
Impact of the transition from declining-balance depreciation to straight-line depreciation (CRC 2002-10)	8,866	(12)	8,878
Depreciation of components over their useful life (CRC 2002-10)	1,284	474	810
Reversal of the provision for maintening hydraulic potential (CRC 2002-10)	1,442	511	931
Write-off capitalised interests	(3,134)	–	(3,134)
Total changes	8,459	973	7,486
Equity as at 31.12.2002 (pro forma figures)			22,407

Impact on net income

(in millions of euros)

	Gross value	Income taxes	Net
Net income as published at 31.12.2002			(1 075)
Impact of the transition from declining-balance depreciation to straight-line depreciation (CRC 2002-10)	3	1	2
Depreciation of components over their useful life (CRC 2002-10)	(97)	(34)	(63)
Reversal of the provision for maintening hydraulic potential (CRC 2002-10)	(409)	(144)	(265)
Write-off capitalised interests	188	–	188
Total changes	(316)	(178)	(138)
Net income as at 31.12.2002 (pro forma figures)			(1,213)

2.3.4 CHANGES IN ESTIMATE

2.3.4.1 Increase in the useful life of nuclear power stations

At 1 January 2003, the Group decided to increase the useful life of nuclear installations in France from 30 years to 40, prompted by operating experience, technical surveys, the renewal in the United States of operating licences for nuclear installations using the same technology and the Group's consultations with the Nuclear Safety Authority over definition of the operating conditions of installations after a 30-year term. This change was recognised prospectively and therefore had no impact on equity at 31 December 2002.

This extension to the useful life of nuclear power stations, introduced with effect from 1 January 2003, deferred decommissioning and last score disbursements by ten years. Due to discounting, decommissioning and last cores provisions were revised downwards. The extension also had an impact on other assets and liabilities:
– provisions for onerous sales contracts;
– prepaid income and accrued revenues for jointly operated power plants;
– provisions for depreciation of strategic nuclear safety spare parts.

The application of CRC regulation 2000-06 on liabilities with effect from 1 January 2002 had resulted in a decommissioning and a last core asset being recorded retroactively as a counterpart to provisions, valued at the commissioning date of the plants concerned.

French standards do not stipulate the accounting treatment to be used for the variations caused by changes in estimates concerning provisions which were initially recorded against assets, as an element of cost. International standards expressly state that the effects of discounting must be recorded in the income statement. However, until 2003 they did not stipulate accounting methods for the impact of changes in estimates for provisions with associated balance sheet assets, whether due to schedule changes, discount rate changes or new expense estimates.

In the absence of any provision in French accounting rules and given the future harmonisation of the Group's accounting principles with international standards, EDF decided to prepare the parent company's financial statements at 31 December 2003 based on the revised treatment that the International Financial Reporting Interpretations Committee (IFRIC) had stated it intended to propose to the International Accounting Standards Board (IASB). This proposal concerned the application of a prospective method with the impact of the changes in estimate on the provision allocated to the corresponding asset, with any excess allocated to the underlying asset (power station). Where a provision has been reversed, any surplus that cannot be charged to these assets is recorded in the income statement. This proposal was finally approved by the IASB in May 2004.

Impact on 2003 net income (excluding other changes in estimate):

– decrease of €475 million in depreciation and provisions for nuclear power stations;
– decrease of €190 million in depreciation and provisions for assets recorded against a provision (decommissioning and last cores);
– increase of €23 million in sundry operating expenses corresponding to an adjustment of deferred income related to the commitment undertaken by foreign partners to take part in the decommissioning of certain nuclear power stations;
– decrease of €2,948 million (including €2,811 million at 1 January and €137 million in cash flows for the period) in decommissioning and last cores provisions;
– decrease of €2,775 million in decommissioning and last cores provisions at 1 January 2003, charged against the net book value of the corresponding and underlying assets (power stations);
– decrease of €205 million in provisions for onerous energy sale contracts;
– decrease of €24 million in reversals of deferred income for jointly operated power stations, since the advance payments received on these contracts are taken to income according to a schedule that follows the useful life of the nuclear series concerned.

2.3.4.2 Benchmark cost for onerous energy sale contracts

From 2003, the benchmark is the direct cost of nuclear production, considered more financially relevant than the full cost of nuclear production used in 2002. This change of benchmark led to a €111 million decrease in the provision, recorded directly in equity, as the re-estimate affects provisions initially recorded via a charge against equity.

2.3.5 CHANGES IN PRESENTATION

Three reclassifications introduced in 2003 affected the balance sheet format:

– listed investments considered as available for sale, previously recorded as non-consolidated investments, are reclassified as marketable securities;
– marketable securities intended to help finance end of nuclear cycle operations covered by a provision in the balance sheet liabilities are included in investment securities from 2003;
– the liability corresponding to cash received on assignment of trade receivables to a special purpose entity (FCC), formerly included in operating liabilities at 31 December, is now included in financial liabilities. Consequently, related expenses are no longer included in net operating income, but are now classified as financial expenses (€55 million in 2003).

There were no reclassifications in 2004.

2.4 Significant events and transactions of the past three years

2.4.1 IN 2004

– A total of €1,224 million, including €7 million in interest accrued over 2004, was paid to the French State in February 2004 following the European Commission's decision of 16 December 2003 notified to France on 17 December 2003. EDF has applied for cancellation of the European Commission's decision, through an appeal lodged with the European Court of First Instance on 27 April 2004.
– In France, ministerial decisions of 28 February 2004, published in the official gazette *(Journal Officiel)* on 30 March 2004, set the Contribution to Public Electricity Service (*Contribution au service public de l'électricité* – CSPE) at €4.50 per MWh, and simultaneously reduced electricity supply prices by €1.20 per MWh, with retroactive effect to 1 January 2004.
– Article 36 of the French Finance Law for 2003 had altered the scope of application for the tax on hydroelectric plants, restricting its application to plants established alongside navigable waterways. Article 39 of the amended Finance Law for 2003 abolished this tax from 1 January 2004, while raising the tax on Basic Nuclear Facilities (from €1.2 million to €2.1 million per reactor).
– The law of 10 February 2000 on the electricity service transposed the conditions for market deregulation resulting from the EU directive of 1996 into French national law. Under this Law, since 1 July 2004, all business customers have been "eligible" and may, subject to notification of EDF, exercise their right to freely choose their power supplier. This measure increases the deregulated section of the French electricity market from 37% to 70%, and concerns 2.3 million customers.
– In the second half of 2004, all shares owned in Total were sold for €2,558 million. The gain on this operation amounts to €698 million.
– In November 2004, the French Government decided to set up a dedicated fund to cover the cost of dismantling nuclear facilities located at the Marcoule and Pierrelatte sites. The French Atomic Energy Commission (CEA), EDF, Cogema and the EIG Codem signed a protocol in late December 2004 transferring management and financing of the final shutdown and dismantling operations, as well as recovery and reconditioning of waste from Marcoule's UP1 reprocessing plant. In return for agreeing to supervise these operations at the Marcoule UP1 plant, the CEA receives a full discharge €1,141 million contribution from EDF to cover EDF's entire share of the cost of outstanding operations concerning the plant at 1 December 2004. The impact on Ebit is €(190) million net after reversal of the existing provisions.
– A securitisation operation was carried out on employee housing loans in December 2004: the transfer price, which concerned liabilities of €233 million, amounted to €201 million, resulting in a net expense of €32 million.
– An additional provision for risks of €395 million was booked in respect of the Italenergia Bis (IEB) share purchase commitments.
– An additional provision of €698 million was booked for depreciation of shares in EDF International.

2.4.2 IN 2003

– Following the decision of the European Commission issued on 16 December 2003, notified to the French Government on 17 December 2003, the company recorded a liability of €1,217 million. €889 million of this amount, corresponding to income taxes not paid upon the reclassification, in 1997, of the external interest in concessionary plant facilities (French general transmission system) as a capital contribution, was recognised directly in equity, and the balance of €328 million corresponding to accrued interest was booked as financial expenses. Following a decision by the CRE issued on 26 February 2004, these amounts were allocated between the generation, transmission and distribution activities pro rata with equity as reported in the unbundled balance sheets for 2000, i.e. 56.35% for Generation, 27.12% for Transmission and 16.53% for Distribution.
– The law of 3 January 2003 amended and extended the scheme to compensate French operators for the cost of public services in accordance with the law of 10 February 2000. With effect from 1 January 2003, it introduced a "Contribution to the Public Electricity Service" (CSPE) to replace the "Public Service Fund for Electricity Generation" (FSPPE), launched on 1 January 2002. This contribution is paid by the end user (whether eligible or not) and recovered by network operators or electricity suppliers who collect the contribution for payment to the State. This compensation scheme is also reflected in a net gain of €1,450 million in the 2003 financial statements, recorded in operating subsidies.
– On 10 February 2003, the eligibility threshold for customers was lowered to 7 GWh, bringing the French market deregulation to 37%.
– The physical inventory of fixed assets compiled by the company had a positive impact of €584 million on net income for the year (€958 million before tax).
– An additional provision of €1,330 million was recorded for depreciation of the shares held in EDF

International.
– A provision of €45 million was recorded for depreciation of shares held in Italenergia Bis, in addition to a provision of €855 million for risks on share purchase commitments.
– EDF's withdrawal from a cogeneration project, covered by a provision for risks of €200 million in 2002, finally resulted in a net gain of €85 million in 2003.
– In 2003, a securitisation operation was carried out on employee housing loans: the transfer price, which previously involved liabilities of €415 million, came to €377 million, resulting in a net expense of €38 million.
– The heat wave in France in the summer of 2003 caused an additional estimated expense of €335 million.
– Auctions of generation capacities were up €441 million (17 TWh) in 2003, double those of 2002.

2.4.3 IN 2002

– An additional provision of €2,385 million was recorded for depreciation of shares held in EDF International.
– The contract for electricity supply to SEP was renegotiated, resulting in a net gain of €400 million, of which €380 million was included in operating profit and €20 million in net financial income.
– €268 million was reversed from the operating provision on loss-making energy sale contracts due to the limit fixed for the contribution to the FSPPE.
– Operating income of €351 million was recognised in connection with a reversal of the provision for maintaining hydraulic potential.
– €375 million was reversed from the provision for end of nuclear fuel cycle expenses.
– New provisions for risks of €233 million were recorded.

2.5 Changes in equity

(in millions of euros)

	Capital and capital contributions	Reserves Merger premium	Retained earnings	Net income	Investment subsidies received	Tax regulated provisions	Total equity
At 31 December 2002	8,129	5,369	1,976	(1,075)	158	363	14,921
Impact of changes in accounting policy			(1,360)			8,846	7,486
2003 net income		(1)		469	(11)	(395)	62
Allocation of 2002 net income			(1,075)	1,075			–
Dividend distribution (1)			(208)				(208)
Other changes			(817)		28	(5)	(794)
At 31 December 2003	8,129	5,368	(1,484)	469	175	8,808	21,465
Impact of changes in accounting policy			(2,863)				(2,863)
2004 net income		(2)		902	(4)	187	1,084
Allocation of 2003 net income			469	(469)			–
Dividend distribution (1)		(321)					(321)
Other changes		(1,015)	1,015		25		25
At 31 December 2004	8,129	4,030	(2,863)	902	197	8,995	19,390

(1) Article 79 of the amended French finance law for 2001 (law 2001-1276 of 28 December 2001) stipulated the nature and basis for the calculation of any dividends distributed by industrial, commercial or financial government-owned corporations. These dividends, which are the only contribution paid to the State, are deducted from the distributable profit (as defined by article L.346 of the French Commercial Code), which comprises net income for the period, less depreciation and provisions, losses carried forward and appropriations booked to reserves, plus retained earnings. As far as EDF is concerned, the dividend calculation method was redefined in the Group contract with the French State, signed on 14 March 2001. For the three years to 2003, the contribution to the State represented 37.5% of the net income (group's share), and this can fluctuate between a minimum 1.5% and a maximum 4.5%, calculated based on equity (group's share).

Details of the €(2,075) million change in equity in 2004 are as follows:

– €(2,863) million result from the non-recurring payments and contributions due to the pension bodies CNAV, ARRCO and AGIRC and the provision established for preservation of benefit entitlements, net of tax;
– €1,084 million result from net income, after increases and decreases to tax regulated provisions and reversals of subsidies received;
– €(321) million result from the distribution of dividends from 2003 profits;
– €25 million result from subsidies received.

In accordance with law 2004-803 of 9 August 2004 on Electricity and Gas Public Services and Electricity and Gas Companies and decree 2004-1224 of 17 November 2004, the share capital of EDF SA is fixed at €8,129,000,000, consisting of 1,625,800,000 fully paid-up shares, each with par value of five euros.
The capital of EDF, formerly a state-owned utility (Epic) with capital of €395 million and capital contributions of €7,734 million, was thus transformed into the share capital of a public limited company *(société anonyme)*.

In 2003, equity increased by €6,544 million, principally as a result of:

– changes in policy introduced in 2003 resulting in a €7,486 million increase, after income tax of €973 million;
– net income of €62 million, after reversals of tax regulated provisions and subsidies received;
– dividends of €208 million distributed from the 2002 net income;
– an income tax liability of €889 million, not paid upon the reclassification, in 1997, of the external interest in concessionary plant facilities (French general transmission system) as a capital contribution. This followed a decision of the European Commission issued on 16 December 2003;
– the change in the benchmark cost used as a basis for the calculation of provisions for onerous energy sale contracts, which led to a reversal of provision of €72 million net of taxes;
– subsidies of €27 million received.

The impact of changes in accounting policy caused a decrease in retained earnings of €1,360 million, resulting from:

– the negative impact of cancellation of capitalised interim interest (€3,134 million);
– the reversal of the provision for maintaining hydraulic potential (€1,442 million);
– changes to the depreciation schedule of certain components (€1,338 million);
– the negative impact of the change in depreciation method on the provision for loss-making energy sale contracts (€34 million);
– the resulting income tax payable (€973 million).

The €8,846 million impact of changes in accounting policy on tax regulated provisions results from the change from declining-balance depreciation to accelerated tax-basis depreciation at 1 January 2003 for:

– generating plant and networks (€8,040 million);
– assets of €860 million associated with provisions (including €670 million for the PWR decommissioning asset and €190 million for the last cores asset);
– major components (€54 million).

Deliberation of the Board of Directors

Approval of the consolidated financial statements for the 2004 financial year

The Board of Directors,

following the Chief Financial Officer's report,

after notification of the Audit Committee's position,

after having taken note of the opinion expressed by the Statutory Auditors,

definitively approves the consolidated financial statements for the year to 31 December 2004 showing a net profit, EDF Group share of 1,341 million euros and shareholders' equity, EDF Group share of 17,567 million euros.

Deliberation of the Board of Directors

Approval of the parent company financial statements for the 2004 financial year

The Board of Directors,

following the Chief Financial Officer's report,

after notification of the Audit Committee's position,

after having taken note of the opinion expressed by the Statutory Auditors,

definitively approves the parent company financial statements for the year to end 31 December 2004 showing a profit of 902,308,737.30 euros and shareholders' equity of 19,390,188,606.14 euros.

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