

# **EDF GROUP 2006 DOCUMENT DE REFERENCE**



**French société anonyme**  
**with a share capital of €911,085,545**  
**Registered head office: 22-30, avenue de Wagram**  
**75382 Paris Cedex 08**  
**552 081 317 RCS Paris**

# **EDF Group**

## **2006 Document de Référence**

This document is an unofficial translation of the French *Document de Référence* registered with the *Autorité des Marchés Financiers* (the "AMF") on April 19, 2007 under number R.07-036 in accordance with article 212-13 of the AMF General Regulations. This unofficial translation has been prepared by EDF for informational purposes only and has not been reviewed or registered with the AMF. The French *Document de Référence* may be used for purposes of a financial transaction if supplemented with an offering memorandum (*note d'opération*) that received a visa from the AMF. In the event of any ambiguity or discrepancy between this unofficial translation and the French *Document de Référence*, the French version shall prevail.

Pursuant to Article 28 of the European Commission Regulation N° 809/2004, the following information is incorporated by reference into this *Document de Référence*:

- Consolidated financial statements of the EDF Group for the year ended December 31, 2005, prepared in accordance with international accounting standards, as well as the accompanying statutory auditors' reports, set forth respectively in section 20.1 (pages 213 to 308) and section 20.2 (page 309) of 2005's *Document de Référence* of the EDF Group;
- Consolidated financial statements of the EDF Group for the year ended December 31, 2004, prepared in accordance with French accounting standards, as well as the accompanying statutory auditors' reports, set forth respectively in section 5.9.2 (pages 388 to 477) and section 5.9.1.3 (pages 386 to 387) of the *Document de Base* of the EDF Group and;
- The discussion of the EDF Group financial situation and results for the year ended December 31, 2005, presented on pages 136 to 177 in Chapter 9 2005's *Document de Référence* of the EDF Group.

Copies of this *Document de Référence* are available free of charge at EDF, 22-30, avenue de Wagram, 75382 Paris Cedex 08, and on the EDF website (<http://www.edf.com>) as well as on the AMF website (<http://www.amf-france.org>).

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In this *Document de Référence* (the “*Document de Référence*”), unless otherwise stated, the references to “**Company**” and “**EDF**” refer to EDF S.A., the parent company, and the references to “**EDF Group**” and “**Group**” refer to EDF and its subsidiaries and shareholdings.

In addition to the information contained in this *Document de Référence*, investors should carefully consider the risks described in section 4.2 (“**Risk Factors**”). These risks, or one of these risks, could negatively impact the Group’s activity, situation or financial results. Furthermore, other risks, which have not yet been identified or considered as material by the Group, could have the same negative impact and investors could consequently lose all or part of their investment in the Company.

Moreover, this *Document de Référence* contains information relating to the markets in which the EDF Group is present. This information has been taken from surveys carried out by external sources. Considering the very rapid changes that characterize the energy sector in France and in the world, it is possible that this information could prove to be erroneous or no longer be up to date. The Group’s activities could consequently evolve in a manner different from those described in this *Document de Référence* and the declarations or information appearing in this *Document de Référence* could prove to be erroneous.

The forward-looking statement within this *Document de Référence*, notably in section 6.1 (“**Strategy**”), could also be impacted by risks, uncertainties or other factors that may cause the future results, performances and achievements of the Group to differ significantly from the objectives expressed and suggested. These factors may include changes in economic and commercial environment or in regulations as well as to the factors set forth in section 4.2 (“**Risk Factors**”).

Pursuant to European and French legislation, the entities responsible for the transmission and distribution of electricity within the EDF Group may not communicate certain information they gather within the framework of their activities to the other entities of the Group, including its management. Similarly, certain data specific to generation and marketing activities may not be communicated to the entities responsible for transmission and distribution. This *Document de Référence* has been prepared by the EDF Group in compliance with these rules.

A glossary for the major technical terms is provided at the end of this *Document de Référence*, before the annexes.

## ➔ 1.1 - PERSON RESPONSIBLE FOR THE DOCUMENT DE RÉFÉRENCE

Pierre Gadonneix  
EDF Chairman and Chief Executive Officer

## ➔ 1.2 - CERTIFICATION FROM THE PERSON RESPONSIBLE FOR THE DOCUMENT DE RÉFÉRENCE

"Having taken all reasonable care to ensure that such is the case, I certify that, to the best of my knowledge, the information contained in this *Document de Référence* accurately reflects the facts and contains no omission likely to affect its meaning.

I have obtained a letter from the statutory auditors certifying that they have verified the financial and accounting information provided in this *Document de Référence* and that they have read the document in entirety.

The consolidated financial statements for the financial year ended December 31, 2006, prepared in accordance with IAS-IFRS standards and included in this *Document de Référence* in Section 20.1 ("Historical Financial Information"), have been reviewed by the statutory auditors. Their report is set forth in section 20.2 of this *Document de Référence*.

Without qualifying their opinion, the statutory auditors, in their report on the consolidated financial statements for the year ended December 31, 2006, draw the reader's attention to:

- The valuation of long-term provisions relating to nuclear electricity production, as described in notes 2.2.1, 29.2 and 29.3 to the consolidated financial statements, results as indicated in note 2.2.1 from Management best estimates. This valuation is sensitive to the assumptions made concerning costs, inflation rates, long-term discount rates, and forecast cash outflows as well as the results of current negotiations with Areva. Changes in these parameters could lead to a material revision of the level of provisioning;
- The approach adopted by EDF to present in the balance sheet its obligation to renew property, plant and equipments used for the French public distribution of electricity, as described in note 3, is based on the specific characteristics of concession contracts. The amount of contractual obligations as calculated and disclosed to the grantors in reports is used for evaluating the obligation. An alternative approach based on the discounted value of future payments necessary for replacement of these assets at the end of their industrial useful life would result in a different representation of the obligation towards grantors. The impacts this approach would have had on the accounts are shown in note 3 for information purposes. Measurement of the concession liability concerning assets to be replaced is notably subject to uncertainty in terms of costs and disbursement dates.

The consolidated financial statements for the financial years ended December 31, 2005 and 2004, prepared in accordance with IAS-IFRS standards and French accounting standards respectively, have been reviewed by the statutory auditors. Their reports are set forth in section 20.1 of the 2005 *Document de Référence* and in section 5.9 of the *Document de Base*. These financial statements and the corresponding reports of the auditors are incorporated by reference into this *Document de Référence* in accordance with article 28 of EC Regulation 809/2004, dated April 29, 2004.

Without qualifying their opinion on the financial statements, the statutory auditors draw the reader's attention to the following matters in the report on the consolidated financial statements for the year ended December 31, 2005:

- The valuation of long-term provisions related to nuclear electricity production, as described in notes 4.1.1, 31.2 and 31.3 of the notes to the consolidated financial statements result from the Management's best estimates;
- In order to include its commitments relating to the renewal of the assets of the areas operated under concession for electricity public distribution in France in its balance sheet within the framework of existing standards, EDF favored an approach which relies on the specificity of concession contracts as described in note 5 to the consolidated financial statements.

Without qualifying their opinion on the financial statements, the statutory auditors draw the reader's attention to the following matters in the report on the consolidated financial statements for the year ended December 31, 2004:

- The uncertainty relating to the estimated value of provision related to nuclear electricity production;
- The notes to the consolidated financial statements describing the funding reform of the specific Electricity and Gas Industries (IEG) pension scheme which indicate the amounts of EDF's financial commitment under this scheme before reform and its remaining financial commitments as of December 31, 2004 after the reform. The disclosure of this information resulted in removing the qualification expressed by the statutory auditors in their report on the financial statements for the previous financial year;
- The notes mentioning the absence of reliable estimates of EDF's financial commitments under the specific Electricity and Gas Industries (IEG) health care benefit scheme".

Pierre Gadonneix  
Chairman and CEO of EDF

## → 2.1 - STATUTORY AUDITORS

Deloitte et Associés,  
185, avenue Charles de Gaulle, 92200 Neuilly-sur-Seine, represented  
by Mr. Amadou Raimi and Mr. Tristan Guerlain,

KPMG SA,  
Immeuble Le Palatin, 3 Cours du Triangle, 92939 Paris La Défense Cédex,  
represented by Mr. Jean-Luc Decornoy and Mr. Michel Piette.

Appointed by a decision at the ordinary shareholders' meeting of  
June 6, 2005 for a period of six financial years, this term expires at the  
end of the ordinary shareholders' meeting which will approve the  
accounts for the financial year ending on December 31, 2010.

The auditors designated above have thus certified the accounts pre-  
sented in this *Document de Référence*.

In accordance with article 29 of the articles of association of the  
French société anonyme EDF S.A., approved by the French Decree  
n° 2004-1224 of November 17, 2004, the first EDF statutory auditors  
for the period up until the approval of the accounts for the 2004  
financial year by the ordinary shareholders' meeting of June 6,  
2005, were:

- Deloitte et Associés, 185, avenue Charles de Gaulle, 92200 Neuilly-sur-Seine, represented by Mr. Amadou Raimi and Mr. Tristan Guerlain;
- Ernst & Young Audit, Faubourg de l'Arche, 11, Allée de l'Arche, 92400 Courbevoie, represented by Mr. Patrick Gounelle and Ms. Claire Nourry; and
- Mazars & Guerard Audit, represented by Mr. Jean-Louis Lebrun and Mr. Guy Isimat-Mirin.

## → 2.2 - ALTERNATE AUDITORS

BEAS,  
7-9, Villa Houssay, 92200 Neuilly-sur-Seine.

SCP Jean-Claude André,  
2 bis, rue de Villiers, 92300 Levallois-Perret.

Appointed by a decision at the ordinary shareholders' meeting of  
June 6, 2005 for a period of six financial years, this term expires at the  
end of the shareholders' meeting which will approve the accounts for  
the financial year ending on December 31, 2010.

In accordance with article 29 of the articles of association of the  
French société anonyme EDF, approved by the French Decree  
n° 2004-1224 of November 17, 2004, the first EDF alternate auditors  
for the period up until the approval of the accounts for the 2004  
financial year by the ordinary shareholders' meeting of June 6,  
2005, were:

- BEAS, 7-9, Villa Houssay, 92200 Neuilly-sur-Seine;
- Auditex, 2, rue Jacques Daguerre, 92500 Rueil Malmaison; and
- Caderas-Martin, 76, rue de Monceau, 75008 Paris.



## Preamble

Pursuant to European regulation 1606/2002 of July 19, 2002 on the adoption of international accounting standards, the Group's consolidated financial statements for the year ended December 31, 2006 are prepared under the international accounting standards published by the IASB and approved by the European Union for application at December 31, 2006. These international standards are IAS (International Accounting Standards), IFRS (International Financial Reporting Standards), and interpretations (SIC and IFRIC).

## Key financial information

The selected financial information, including the restated financial information for 2005, are taken from the EDF Group's consolidated financial statements at December 31, 2006 which have been audited by EDF's statutory auditors. This financial information published on December 31, 2005 were restated so as to take into account the retrospective application of IFRIC's interpretation 4 (see notes 1.2 and 4.2 to the consolidated financial statements at December 31, 2006) and of certain income statement reclassifications (see note 4 to the consolidated financial statements at December 31, 2006).

The selected financial information below must be read in conjunction with (i) the consolidated financial statements included in section 20.1 ("Historical Financial Information") of this *Document de Référence*, and with (ii) the operating and financial review contained in Chapter 9 of this *Document de Référence*.

## Extracts from the consolidated income statements:

<i>(in millions of euros)</i>	Year Ended December 31, 2006	Year Ended December 31, 2005 <sup>(1)</sup>
Sales	58,932	51,047
Operating profit before depreciation and amortization (EBITDA)	13,930	12,906
Operating profit (EBIT)	9,356	7,993
Income before taxes of consolidated companies <sup>(2)</sup>	6,655	4,578
<b>EDF NET INCOME</b>	<b>5,605</b>	<b>3,230</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of IFRIC 4 interpretation and of certain income statement reclassifications (see note 4 to the consolidated financial statements at December 31, 2006).

(2) The income before taxes of consolidated companies is the Group's net income before income taxes, share in income of companies accounted for under the equity method, net income from discontinued operations and minority interests.

## Extracts from the consolidated balance sheets:

(in millions of euros)	December 31, 2006	December 31, 2005 <sup>(1)</sup>
Non-current assets	130,824	123,524
Current assets	48,122	46,884
Assets classified as held for sale	140	728
<b>Total assets</b>	<b>179,086</b>	<b>171,136</b>
Equity (EDF's share)	23,309	19,313
Minority interests	1,490	961
Non-current provisions	43,124	41,974
Special concession liabilities	36,227	34,907
Non-current financial liabilities	19,983	23,511
Other non-current liabilities <sup>(2)</sup>	10,031	10,538
Current financial liabilities	15,110	11,933
Other current liabilities <sup>(3)</sup>	29,696	27,407
Liabilities related to assets classified as held for sale	116	592
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>179,086</b>	<b>171,136</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of the IFRIC 4 interpretation (see note 4 to the consolidated financial statements at December 31, 2006).

(2) Including "Other liabilities" (non-current fraction) and "Deferred tax liabilities".

(3) Including "Provisions" (current liabilities), "Trade payables and other current liabilities payable", "Current tax liabilities" and "Other liabilities" (current fraction).

## Extracts from the consolidated cash flow statements:

(in millions of euros)	2006	2005 <sup>(1)</sup>
Net cash flow from operating activities	11,795	8,439
Net cash flow used in investing activities	(13,769)	(10,621)
Net cash flow used from financing activities	(1,794)	5,555
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,768)</b>	<b>3,373</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of the IFRIC 4 interpretation (see note 4 to the consolidated financial statements at December 31, 2006).

## Information concerning net indebtedness

(in millions of euros)	December 31, 2006	December 31, 2005 <sup>(1)</sup>
Loans and other financial liabilities	28,142	29,718
Derivatives used to hedge liabilities	237	240
Cash and cash equivalents	(3,308)	(7,220)
Liquid assets	(10,154)	(4,580)
Net financial liabilities from companies disclosed in non-current liabilities related to assets classified as held for sale	15	434
<b>NET INDEBTEDNESS</b>	<b>14,932</b>	<b>18,592</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of the IFRIC 4 interpretation (see note 4 to the consolidated financial statements at December 31, 2006).

<b>4.1</b>	<b>RISK MANAGEMENT AND CONTROL IN THE EDF GROUP</b>	<b>10</b>
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## ➔ 4.1 - RISK MANAGEMENT AND CONTROL IN THE EDF GROUP

### 4.1.1 General framework for managing and controlling the Group's risks

For many years the EDF Group has pursued a policy of managing its operational, financial and organizational risks (see "2006 report of the Chairman of the Board of Directors of EDF on Corporate Governance and internal controls" shown in Annex A to this document).

In 2003, given the changing context, the Group decided to implement an overall process for managing and controlling its risks, reinforcing existing plans, mainly by creating the Corporate Risk Management Division (Direction du Contrôle des Risques Groupe, or "DCRG").

The objectives of this process are to:

- adhere as much as possible to the latest standards of best practice in corporate governance for risk management, in particular, by anticipating regulatory changes;
- secure the Group's strategic and financial plans; and
- allow the Group's management and corporate bodies to have a consolidated view, regularly updated, of the major risks and their level of control.

The scope of risk control at Group level includes EDF's business (excluding RTE-EDF Transport, which has its own organization) and those of its subsidiaries in France and abroad.

The scope of risk management is identical, with the exception of subsidiaries in which EDF does not have exclusive operational control (in particular EnBW, Edison and Dalkia).

#### 4.1.1.1 Risk management and control principles

Operational and functional divisions are responsible for managing risks that are within their scope of activity.

Risks are controlled by a system implemented independently of the risk management functions. This system ensures a standard approach across the entire Group for the identification, assessment and control of risks.

According to those principles, every six months EDF establishes a consolidated mapping of the major risks related to the Group. This consolidated mapping is drawn from the mappings established by each operational or functional management team. It is approved by the TOP 4 and presented to the Audit Committee of the Board of Directors every six months (see section 14.2.3 ("TOP 4 and Executive Committee")).

The global risk mapping process backs up other processes implemented by the Group, in particular, the set-up of the Group's audit program, the Group's Insurance policy and its implementation (see sec-

tion 4.1.3. ("Insurance")), the crisis management policy, the analysis of risks concerning matters examined by the Group's decisional bodies (such as the Committee of Commitments and Holdings, the Committee for Fuel Commitments, the Comex, the UpStream – Downstream – Trading Committee, etc.). The Group's risks' control process in particular contributes to securing the Group's investment and long-term commitments process, by ensuring compliance with the risk analysis methodology principles for matters presented to the Commitments Committee.

#### RTE – EDF Transport

In relation to RTE – EDF Transport, risk management and control are organized at the two management levels concerned:

- at the national level, RTE-EDF Transport's Management Committee approves the risk mapping each year and entrusts a national manager with the responsibility of monitoring the identified risks. RTE-EDF Transport's Audit carries out the national audits sponsored by the Management Committee, to which it reports its findings and recommendations;
- at the local level, each of RTE-EDF Transport's units and functional entities is responsible for its own analysis of the risks associated with its activities, controlling these through appropriate audits, and reporting on a national level.

#### 4.1.1.2 Management and control of energy market risks

The risk factor relating to the energy markets is described in Section 4.2.2 ("Risks associated with the Group's activities") below.

In conjunction with the opening of the final customers' market, developments of the wholesale markets and on the international scene, the EDF group is exposed to price variations on the energy market which can have a significant impact on its financial results.

As a consequence, the EDF Group has set up an "energy market" risk policy (concerning electricity, gas, coal, oil products and CO<sub>2</sub> emission allowances) aimed at:

- defining the general framework within which different entities of the Group carry out their operational activities (energy generation, optimization and distribution), as well as articulating it with EDF Trading;
- consolidating the exposure of the different subsidiaries and entities of the Group in the various structured markets related to energy;
- implementing a coordinated hedging policy at Group level.

Principles of operational management of the energy market risks are based on clarifying the responsibilities for managing energy market risks and distinguishing what forms part of generation assets management on the one hand, and trading on the other hand.

Generation and distribution assets managers are responsible for

implementing a risk management strategy minimizing the impact of energy market risks on their financial results.

Within the Group, decisions relating to energy markets are mainly taken by EDF Trading, which is the trading entity of the Group. As such, EDF Trading is subject to a strict governance and control framework in line with the current practices in trading companies.

EDF Trading, which trades on organized or OTC markets through derivative instruments such as futures, forwards, swaps and options. In 2006, its commitment on the markets was subject to a VAR (Value at Risk) limit (with a confidence interval of 97.5% per day) of €22 million with a stop-loss limit of €30 million. During this same year, the VAR fluctuated between €4.3 million and €18.5 million. The stop loss has never been triggered since its institution. EDF Trading's exposure is strictly limited by daily limit monitoring, by the subsidiary's management, and by the control of energy market risk of the Group. In addition, automatic procedures which alert the members of EDF Trading's Board of Directors if loss or risk limits are breached (stop-loss limit) have been put in place.

For an analysis of the fair value of the hedging derivative instruments for the Group's raw materials, see note 32.1.4.3 to the consolidated financial statements for the year ended December 31, 2005. For details on agreements relating to raw materials which do not qualify as hedging requirements entered into by the Group, see note 32.2.4 to the consolidated financial statements for the year ended December 31, 2006.

The process for controlling energy market risks for Companies in which the Group has operational control is based on:

- a governance and market risk exposure measurement system, clearly separating management and risk control responsibilities;
- an express delegation given to each entity and formalized by risk management mandates establishing, among other things, the risk limits. These mandates allow the TOP 4 to set annually a Group risk profile consistent with the financial objectives and thus to direct operational management of energy market risks within the Group (typically for a three-year period); and
- a specific control process given its strong interactions with the decisions made within the generation and supply businesses. The process involves the Group's management and is based on a risk indicator and measure system, itself based on a control comprising in particular alert procedures in case the risk limits are exceeded.

Concerning Edison and EnBW, the "energy markets" risk policy and the control process are examined by the governance bodies of these companies.

The Group's exposure in energy market risks is presented to the COMEX on a monthly basis. The control processes are regularly re-appraised and audited.

## 4.1.1.3 Management and control of financial market risks

### 4.1.1.3.1 Financial risk management framework

EDF has implemented a financial risk management framework (see section 9.10 ("Financial risks control and management")), which sets forth the policy and principles for managing the Group's financial risks (liquidity, exchange, interest rates and counterparty risks) and is applicable only to subsidiaries that are controlled operationally,

which specifically excludes RTE-EDF Transport, EnBW, Edison and Dalkia. The Group is subject to equity risk through shares held in the framework of cash activities and through dedicated assets that are set aside to cover long-term nuclear power plant decommissioning provisions, which is subject to an ad hoc risk management framework. The above-mentioned principles are associated with monitoring indicators and limits for controlling these risks, in particular, with the objective of limiting the volatility of the Group's financial charges.

Moreover, each year, EDF's Audit Committee and Board of Directors monitor compliance with the financial risk management framework and change it if necessary, in particular, with respect to the limits and the associated target financial ratios.

Two main indicators are used: Earning at Risk ("EaR") and VaR (these terms are defined in the glossary of this *Document de Référence*). The level of the limits associated to these indicators is periodically updated.

EDF also uses stress scenarios to analyze the sensitivity of positions in extreme conditions. This allows EDF to monitor its exposure to significant "atypical" market swing risks. EDF also uses stop-loss markers, which determine the threshold at which a position must be closed.

### 4.1.1.3.2 Control organization

The Group's recent international growth led to the establishment at the start of 2002 of a dedicated organization — the Financial Risks Control Division (Département Contrôle des Risques Financiers, or "DCRF") — entrusted with the task of controlling the Group's financial risks by ensuring the correct application of financial management principles. This organization also has the task of carrying out a second level check (methodology and organization) of the Group's entities and subsidiaries which are controlled operationally, as well as an operational check of the financing activities at the parent level of the Group. Reporting to the Corporate Finance & Treasury Division (Direction Corporate Finance Trésorerie, or "DCFT") of the Financial Department, the DCRF has strong functional links with the DCRG, in order to guarantee independence between the organization that controls these risks and the risk management activities which are subject to its control.

With respect to the activities of EDF's front office, daily risk indicator monitoring reports are sent by the DCRF to the Group Treasury manager, to the head of the front office and to the manager of the DCRF. They are immediately notified to act in the event that limits are breached. The DCRF reports weekly to the DCFT's Operational Coordination Committee. The DCFT's Strategic Committee periodically monitors compliance with the limits and rules on any specific changes to the limits which may be required.

Regular internal audits also ensure that controls have been carried out properly.

### 4.1.1.3.3 Liquidity risk

The EDF Group aims to have, at any given time, adequate financial resources to finance its everyday business, the investments necessary for its future development, annual allocations to the dedicated assets portfolio to cover long-term nuclear commitments as well as to cope with any exceptional events. The objective of cash flow management is to search for resources at the best price and to ensure that they may be obtained at any given time. A description is set forth in Section 9.10.1 ("Liquidity situation and liquidity risk management").

EDF has instituted regular monitoring of the Group's liquidity risk, incorporated within the business management cycle, including stress scenarios. The Operational Coordination Committee also reviews liquidity needs on a weekly basis.

### 4.1.1.3.4 Exchange rate risk

Due to the diversification of its business and its geographic base, the EDF Group is exposed to exchange rate fluctuation risks, which may have an impact on the translation adjustments, Group balance sheet, financial charges, equity and results.

As a rule, the operating cash flows of the parent company and its subsidiaries are denominated in their local currencies, with the exception of flows associated with fuel purchases, which are mainly denominated in U.S. dollars, and certain flows associated with low-cost equipment purchases.

A description is set forth in Section 9.10.3 ("Exchange rate risk management").

### 4.1.1.3.5 Shares' risk

EDF is exposed to equity risk on securities held as dedicated assets constituted to hedge the cost of long-term commitments associated with nuclear power as well as on securities regarding its cash assets.

A description is set forth in Sections 9.10.5 ("Share risk management") and 9.10.6 ("Equity risk on EDF's dedicated assets management").

### 4.1.1.3.6 Interest rate risk

The Group's exposure to interest rate variations is divided into two types of risk: the risk of a change in the value of fixed rate financial assets and liabilities, and the risk of a change in flows associated with variable rate financial assets and liabilities.

In order to limit its exposure to interest rate variations, the Group, within the framework of its general policy, sets principles with the objective of limiting the risk of a change in the value of invested assets or the possible increase in financial charges by using VaR and EaR indicators.

A description is set forth in Section 9.10.4 ("Interest rate risk management").

### 4.1.1.3.7 Counterparty risk

Counterparty risk is defined as the total loss that the EDF Group would sustain in its operating business and on the markets if any of its counterparties defaulted and consequently failed to perform its contractual obligations. These losses can be of various kinds: bankruptcy of a counterparty may lead the Group to record unpaid receivables (settlement risk), to lose contracts that generate profits (opportunity cost), to incur an overcost to replace dishonored agreements (replacement cost), to have to pay penalties to third parties if the failure of any of the counterparties resulted in the Group's being unable to honor its own obligations, etc.

The Group's entities that have a significant activity on the energy or financial markets (EDF, EDF Energy, EDF Trading and EnBW) have implemented a method to assign limits to each counterparty according to various criteria (agency ratings, indebtedness, cash flow,

assets, equity) while taking into account the maturity and settlement dates and the nature of the transactions. Counterparty limits and their use are monitored regularly by such entities and the Group is organized for the proactive monitoring of its major counterparties to determine and update the Group's consolidated exposure to counterparty risk and for the establishment of rules and procedures to manage its consolidated exposures to counterparty risk.

In June 2004, the Board of Directors approved the Group's new counterparty risk management framework applicable to its operationally controlled subsidiaries. This new framework provides for an organization to manage and monitor counterparty risk, with reporting procedures. There are three major principles at the core of this framework: (i) the organization's responsiveness, (ii) the independence of the risk control functions from the activities which generate risks and (iii) the responsibility of the entities for the management of their exposures. It also sets a limit for the Group which is applied to each counterparty.

## 4.1.2 Management of industrial and environmental risks

### 4.1.2.1 Management of the nuclear safety risk by the Group

The risk factors relating to nuclear safety are described in Section 4.2.3 ("Specific risks relating to the Group's nuclear activity") below.

Like other operators, the Group assumes legal responsibility for the nuclear safety of its facilities. Nuclear safety includes all of the technical, organizational and human measures which are intended to prevent accident risks and to limit the effects of an accident, and which are taken at every stage of the life of a nuclear power plant (from design to operation and finally to decommissioning). The methods implemented as part of the nuclear safety regime have allowed continuous performance improvement for the protection of employees against the effects of ionizing radiation. The whole nuclear safety process is permanently controlled, both internally and externally (see Section 6.2.1.1.3.2 ("Environment, safety and radiation protection")).

The construction of the French nuclear power fleet led to the institution of safety procedures which take into account, from the design stage onwards, the risks which may arise during power plant operation, whether these are associated with the operation of the facilities or to internal and external attack. These procedures rely mainly on the application of strict operating rules and on the Group's integrated skills (nuclear engineering, Research & Development "R&D") allowing for an earlier resolution of failures, continuous equipment appraisal, regular re-evaluation of safety margins, technical monitoring and the implementation of new high-performance techniques.

Maintaining and improving safety also relies on the concept of "in-depth defense", which provides for the systematic treatment of the risk of technical, organizational and human failures by interposing successive and independent lines of defense for facilities, process and organization.

The operating quality and safety of EDF's nuclear fleet depends on multiple internal inspections (mainly carried out by the Inspector General for nuclear safety and radiation protection, who reports directly to the Chief Executive Officer of EDF), and external inspections, mainly carried out by the French Nuclear Authority (*Autorité de sûreté nucléaire* "ASN") which became an independent administra-

tive authority as of law n° 2006-686 regarding transparency and safety in the nuclear field dated June 13, 2006. Nuclear power plants must comply with a benchmark whose objectives are established and controlled by the ASN.

The crisis management organization to be implemented in the event of an accident is regularly tested through accident simulation exercises. Each year, approximately 100 exercises are organized for the entire French nuclear fleet. Approximately 10 of these are carried out at a national level.

The liability scheme applicable to European operators and the associated insurance are described in Section 6.5.4.2 ("Special regulations applicable to nuclear facilities").

## 4.1.2.2 Management of hydropower safety risk

Risk factors relating to hydropower safety are described in Section 4.2.2 ("Risks associated with the Group's activities") below.

The Group operates hydroelectric facilities under concession agreements or administrative licenses. As operator, it is responsible for their safety.

The main risks associated with these facilities or their operation are the risk of dams or related hydropower facilities bursting, the risks associated with operating the facilities during floods and the risks associated with level variations due to the operation of the facilities.

There are three strategical activities as for what concerns the management of hydropower safety: the survey of dams and related facilities, the managing of the sites during floods and the managing of flow or level variations (see Section 6.2.1.1.4.2 ("Hydropower safety")). In order to further improve the management of these risks, EDF launched in 1995 in France and in the overseas departments, quality assurance procedures for these three activities and consequently obtained their ISO 9001 certification by the end of 2003, in each of the Hydropower Operating Divisions. These certifications form the basis of a continuous progress program in hydropower safety management. They have recently been renewed by the certification authorities. In addition, the detection, analysis of any incidents, implementation of corrective and preventive actions, feedback and the sharing of experience are the basis of the improvement process of the safety level of the facilities. Following the process started in 2005 in order to identify default risks for each kind of equipment and after several failures which made some facilities unavailable in the medium term (the Tuillères dam in Dordogne, etc.), EDF decided in 2006 to engage in a new program of technical upgrading and reinforced maintenance of the sites for a total amount of approximately €500 million over the 2007-2011 period in order to renew certain facilities, maintain, on the long-term basis, a high level of hydropower safety and preserve, in the future, the technical performances of its fleet. This hydropower facilities renewal program, called Hydropower Safety and Performance (SuperHydro) will be 5-years long and will cause, during the works period, unavailabilities which will be more significant than those registered over the last few years.

Actions to make the general public aware of and to brief them on the dangers of hydroelectric facilities, implemented in 1996, are renewed and developed each year. The bursting of a dam or of a related facility may have serious consequences for persons and properties located downstream. The monitoring and maintaining of the facilities, which represent the principal measures to prevent the major risk of a

dam bursting, are carried out under the control of the DRIRE. The 68 largest dams are covered by a special action plan implemented under the authority of the French *préfet*, pursuant to the French law relating to major risks.

The Group has taken out a general civil liability insurance policy in relation to these risks (see Section 4.1.3.1 ("Civil liability insurance (not including civil responsibility for nuclear power)")).

## 4.1.2.3 Management of risks associated with the Group's transmission and distribution facilities

The risk factors relating to the Group's transmission and distribution facilities are described in Section 4.2.2 ("Risks associated with the Group's activities").

In relation to transmission and distribution works, the investments made take into account the safety of persons and property.

In addition:

- for third parties, communication actions are directed, among others, at associations of fishermen, and farmers' cooperatives to remind them of the dangers of handling tools in the vicinity of power lines;
- for operators, interventions on transmission or distribution grids are subject to authorizations that include an audit of skills, complemented by site inspections carried out by line managers and the accident prevention expert for the unit in question.

The Group has taken out a general civil liability insurance policy in relation to these risks (see Section 4.1.3.1 ("Civil liability insurance (not including civil responsibility for nuclear power)")).

## 4.1.2.4 Management of the risks associated with industrial accidents or with environmental or sanitary impacts

The Group's activities may be the source of industrial accidents or significant environmental and public health impacts.

The Group must also comply with rules relating to the environment and public health which are increasingly restrictive. The corresponding risk factors are described in Section 4.2.2 ("Risks associated with the Group's activities") below.

Since 1996, the Group has had an environmental policy which was last updated in June 2005. This policy incorporates developments on major environmental issues such as climate change, biodiversity, etc.

The operational implementation of this policy is based on the deployment of the Environmental Management System in all of the Group's entities that have a direct or indirect environmental effect. The implementation of this Environmental Management System guarantees improved control of compliance with regulations and anticipates changes to the regulations. This system was certified to ISO 14001 in April 2002 (see Section 6.4.3.1 ("The Group's sustainable development policy")). In relation to industrial accidents, the ISO 14001 standard involves taking a controlled set of systematic and planned actions, in particular, in relation to the prevention of major risks and safety management. Accordingly, the Group has taken out a general civil liability insurance policy (see Section 4.1.3.1 ("Civil liability insurance (not including civil responsibility for nuclear power)")).



Each year, follow-up audits are carried out by an authorized external entity in the entities of the EDF Group within the scope of the certification. In 2005, the renewal audit confirmed the grant, for a period of three years, of the ISO 14001 certificate for the Environmental Management System implemented by the Group.

### 4.1.3 Insurance

To limit the consequences of certain events on its financial situation, the EDF Group has taken out insurance aimed at covering its principal risks of damage to property and civil liability and personal insurance. Its nuclear power risks are covered by a special civil liability scheme as set forth below.

Insurance management is led by the Group's Insurance Division, whose task is to propose and continuously optimize the policy of managing risks that are transferable to the insurance and alternative markets. Once the Group's policy has been set and approved by EDF's Board of Directors, the Group's Insurance Division organizes its implementation through EDF Assurances, an insurance brokering subsidiary within the EDF Group, and with major operators in the insurance and reinsurance markets.

The exchange of information between the Corporate Risk Management Division (see Section 4.1 ("Risk management and control in the EDF Group") below) and the Group's Insurance Division has been standardized so that both divisions benefit from a consolidated view, and one that is as comprehensive as possible, of the Group's risks. Starting from this shared vision, the Group can search for coverage that is matched to its insurable risks and that is consistent with the principles set forth in the Group's insurance policy.

EDF has decided to set up Group insurance policies largely extended to its French and international subsidiaries that are controlled by EDF, so as first to unify risk coverage and rationalize their management and, second, to control the corresponding costs of insurance. Thus, the management of civil liability risks (including civil liability for polluting the environment) for the main subsidiaries controlled by EDF has been transferred to the Group. For the damage risk, EDF is a member of the mutual fund Oil Insurance Limited ("OIL") so as to respond to the risks of damage (other than to aerial systems) to the Group's own property or to property under concession, in particular nuclear plants (other than nuclear accidents), fossil-fired power plants, dams, step-down stations of transformation from the transmission network to the distribution network or to their interface, and computer centers. OIL is a mutual insurance fund that is specific to the needs of the energy sector and which offers its members limited coverage for physical damage. Besides this basic coverage, EDF has set up additional insurance coverage for EDF and 16 of its French and international subsidiaries, including EDF Energy.

EDF Assurances carries out regular site inspections in partnership with internal divisions and the principal insurers. These inspections allow any risks associated with the Group's business to be identified and evaluated so as to reconcile the insurance coverage constantly with these risks.

The total insurance premiums for EDF and Group policies managed by EDF Assurances, including all types of coverage was €109 million in 2006, including €95.5 million expended by EDF.

EDF considers that the policies subscribed in accordance with the Group's insurance policy are consistent with the offer capabilities of the insurance market for operators of similar size in similar businesses worldwide, in particular, in relation to limits of coverage and deduc-

tibles. The nature and coverage of insurance may be altered at any time, depending on market conditions, on insurance policy rollout rates and on the assessment by EDF's Board of Directors of the risks and the adequacy of their coverage.

Insurance policies, in accordance with market practice, include exclusions or lower limits.

#### 4.1.3.1 Civil liability insurance (not including civil responsibility for nuclear power)

**Scope:** EDF and subsidiaries controlled by EDF.

EDF has taken out a general civil liability policy covering it against the financial consequences of civil liability (excluding nuclear power) which may be incurred during its business as a result of damage caused to third parties. This specifically includes the risk of civil liability associated with a dam bursting, fossil-fired power plants, 400 kV substations in the Paris region, and other network equipment, together with those related to subsequent damage to the environment, for example by solid, liquid or gaseous waste.

These guarantees are purchased within the means available at acceptable prices on the insurance and reinsurance markets. The maximum coverage has been €1 billion. Pursuant to this policy, the share of risk kept by the Group, including Wagram Insurance Company Ltd's share, does not exceed €5 million per incident, although subsidiaries generally choose lower deductibles, better adapt to their financial capacities.

#### 4.1.3.2 Civil liability insurance for directors and chief executive officers

**Scope:** directors and chief executive officers of EDF and of subsidiaries controlled by EDF.

EDF entered into a "civil liability for directors and chief executive officers" insurance program covering them against monetary disbursements resulting from liability arising in connection with their duties as directors and officers.

#### 4.1.3.3 Damage insurance (not including nuclear assets)

##### 4.1.3.3.1 Conventional damage policy

**Scope:** EDF, EDF Energy, as well as 15 other French and foreign subsidiaries.

Wagram Insurance Company (an Irish insurance company wholly-owned by EDF), insurers and reinsurers, provide extensions of coverage to the OIL coverage (additional coverage for damage to property up to a maximum of €600 million and, depending on the subsidiary, a reduction in deductibles). For this "conventional damage" policy, the Group's retention on a claim (including the deductible and the share of the risk covered by Wagram Insurance Limited) does not exceed €20 million.

This policy includes coverage for operating losses in the event of property damage for most of EDF's subsidiaries, but not for EDF itself. The measures taken to prevent industrial and environmental risks and to limit their effects are described in Section 4.1.2 ("Management of industrial and environmental risks").

This “Damage” policy will be gradually extended to other subsidiaries controlled by EDF, as these have until now defined their own coverage policy for this type of risk.

#### 4.1.3.3.2 Storm cover

**Scope: EDF's distribution network exclusively.**

Following the storms of 1999, which had an overall impact on EDF's costs of approximately €1.5 billion, EDF wanted to obtain coverage for the consequences of property damage to the distribution network caused by storms, which represents the largest part of the exposure to risk. For this purpose, EDF entered into an innovative financial coverage agreement in December 2003 with CDC IXIS Capital Markets, which is triggered by an index tied to wind speeds recorded at Météo-France stations, weighted by the density and vulnerability of the distribution network in each region. The purpose of the agreement is to cover EDF's distribution network against the consequences of exceptional events and takes into account the expected reduction in risk exposure over the period as a result of the preventive investments made by EDF. This agreement is a flow exchange agreement where variable flows (“compensation”) are owed to EDF if an index based on the wind speed exceeds a threshold value, calibrated according to a stochastic model so as to be exceeded once every five years. For 2006, the fixed flows (“premiums”) for this agreement were €35 million. Maximum variable flows (“compensation”) are €326 million.

EDF's other subsidiaries that have operating networks, and RTE-EDF Transport, are not covered against storm risks affecting aerial networks.

#### 4.1.3.4 Special insurance for nuclear facility operations

##### 4.1.3.4.1 Civil liability

EDF's insurance policies have been taken out in accordance with the French law of October 31, 1968, as amended by the French law of June 16, 1990, which interpreted the obligations, in terms of the civil liability of nuclear facility operators, resulting from the Paris Convention (see Section 6.5.4.2 (“Special regulations applicable to nuclear facilities”)). Accordingly, in order to guarantee the availability of the funds required as a result of such obligations, EDF opted to take out insurance policies with AGF, AXA Corporate Solutions, and European Liability Insurance for the Nuclear Industry (ELINI). The amounts covered by such policies conform to the limits of liability set in the event of an incident as stipulated by the regulation, at a nuclear facility as well as during transportation. For incidents on site, the total amount covered is €91.5 million per nuclear incident, such limit being available on a maximum of two occasions on each site over a three-year period. A special insurance covers nuclear civil liability fol-

lowing incidents during transportation. The limit of coverage depends on the regulations of the country (or countries) crossed during the journey; for accidents during transportation through France, the total amount covered is €23 million.

As of the implementation of law n° 2006-686 of June 13, 2006 regarding transparency and safety in the nuclear field (see Section 6.5.4.2 (“Special regulations applicable to nuclear facilities”)), EDF will have to adjust its insurance coverage so as to comply with the new guaranteed compensation cap (€700 million for what concerns the liability of a nuclear facility's operator). To this end, EDF will seek, under this new legislative framework, possible coverage solutions (nuclear pools, mutual funds, etc.). This provision will not be applicable until two-thirds of the signatory states will have ratified the Protocols amending the Paris and Brussels Conventions regarding civil liability in the nuclear field and for nuclear damages.

EnBW operates nuclear power plants in Germany. In this country, the nuclear facility operator's liability is strict and unlimited. Under the “atomic” law, operators of nuclear power plants must put in place a financial guarantee in the amount of €2.5 billion per incident. EnBW has thus taken out a nuclear civil liability insurance covering up to €255.6 million, and entered into a “solidarity” contract with other parent companies of German nuclear installation operators (E.ON, RWE and Vattenfall Europe) providing for coverage of the remaining €2,244.4 million. This contract stipulates that in the event of an incident, and once the relevant nuclear operator and its German parent company have exhausted their own resources, the other companies will contribute to enable the operator to satisfy its obligations.

For more information on the regulations governing the nuclear operator's civil liability, see Section 6.5.4.2 (“Special regulations applicable to nuclear facilities”) below.

##### 4.1.3.4.2 Damage insurance for nuclear facilities

In addition to coverage due to EDF's participation in the OIL mutual fund, property damage related to EDF's nuclear facilities in France (including following a nuclear accident), as well as nuclear decontamination costs are covered by an insurance policy which requires the intervention of the French nuclear pool (AXA/AGF) and the European Mutual Association for Nuclear Insurance (EMANI), for a total capacity of €1,110 million above a deductible of €200 million.

EnBW enjoys, with a lower deductible, a similar coverage to that of EDF thanks to EMANI mutual fund and to the German pool.

## ➔ 4.2 - RISK FACTORS

The Group operates in an environment that is experiencing profound change, generating various risks, some of which are outside of its control and which are in addition to the risks inherent in carrying on its businesses. The risks that the Group believes are material for its businesses are described below. One or several of these risks could possibly have an adverse effect on the Group's activities and/or its results. Moreover, other risks, of which it is currently unaware, or which it believes are not material at present, may have the same adverse effect.

The risks identified below relate to:

- Risks related to the opening of European energy markets (see section 4.2.1 (“Risks related to the opening up of the European energy markets”));
- Risks related to the Group's activities (see section 4.2.2 (“Risks related to the Group's activities”));
- Risks specifically related to the Group's nuclear activities (see section 4.2.3 (“Special risks relating to the Group's nuclear activity”));



- Risks related to the Group's structure and its transformation (see section 4.2.4 ("Risks relating to the structure and changes within the Group")); and
- Risks linked to the structure of EDF share capital and the listing of its shares (see section 4.2.5 ("Risks related to the structure of EDF share capital and share listing")).

### 4.2.1 Risks associated with the opening up of the European energy markets

**The Group must face increased competition on the European energy markets, in particular, on the French electricity supply market, which is its principal market.**

#### In France

As a result of the opening up of the French electricity market, EDF must compete with other suppliers. All of EDF's customers, other than residential customers, have the option of choosing their electricity supplier and can therefore approach any of its competitors. In July 2007, the electricity market will be completely opened up to competition (see section 6.2.1.2 ("Distribution")). To sell electricity to eligible customers, EDF is now and will be in the future faced with increased competition. Although EDF is preparing to deal with this competition, it has already lost market share with respect to eligible customers and expects to further lose market share as a result of increasing competition and the extension of eligibility to residential customers in July 2007. The decrease in EDF's market share will have, at constant consumption and price levels, a negative impact on the Group's sales. Finally, to achieve its objectives, EDF could be forced to increase its marketing expenditures or reduce its margins (especially in the event of price competition), which would have a negative effect on its profitability.

#### Outside France

Through its various subsidiaries in Europe, the Group faces different competitive situations:

- in the United Kingdom, the market has been totally open since the 1990s and is very competitive;
- in Germany, the market is also totally open, even if until now the disparity and high level of distribution and transmission tariffs were slowing the growth of genuine competition;
- in Italy, the degree to which the market has opened up is comparable to that in France, and Edison is in a position to challenge the historical operator (Enel); and
- in the rest of Europe, and in particular in central and eastern Europe, the rate at which the markets open up will accelerate for the new members of the European Union.

In some countries, or in some regions within a country, the Group must pursue a defensive strategy with respect to its market share, as in France. In other countries, in contrast, it must pursue an offensive strategy to conquer market share. The type of competition, the development of this competition, and its effect on the Group's activities and its results vary from one country to another. They depend on the degree of deregulation in the country in question and on various other factors over which the Group similarly has no control.

Within this context, the Group may not be able to defend its market share or win expected market shares. It may also see its margins decrease, which would have a negative effect on its activities, its strategy and its financial results.

**The legal and regulatory framework governing the liberalization of the energy sector is recent. This framework may change in the future and become more restrictive.**

The Group's activities in France and abroad are subject to numerous regulations (see Section 6.5 ("Legislative and regulatory environment")). Moreover, and even in the European Union, where directives only define a general framework, laws and regulations may vary from one country to another.

This legal and regulatory framework, which organizes the opening up of the energy sector, is relatively recent and does not necessarily provide all of the solutions to the difficulties raised by the opening up of those markets. It is therefore likely to change, which could be unfavorable to the Group. Future changes to the legal and regulatory framework may lead to additional costs, be inconsistent with the Group's development model, or change the competitive context in which the Group operates.

**Risks associated with the fact that the Group will remain, in all likelihood for the next coming years, the largest operator in the French electricity market.**

Although it has observed a decrease in its market share in France, EDF will in all likelihood remain the largest operator in the French electricity market over the next few years, particularly in generation and supply. The transmission and distribution activities (operated by RTE-EDF Transport or by EDF) are required to be operated in a framework guaranteeing their independence from generation and supply activities in order to ensure non-discriminatory access to all users.

EDF intends to strictly comply with current regulations on competition and non-discrimination.

However, competitors may initiate lawsuits for non-compliance with these regulations, which may be decided against the Group's interests.

Furthermore, regardless of any legal action initiated by competitors, the authorities may make decisions that are contrary to the Group's economic or financial interests or to its model as an integrated and balanced operator (see, in particular, sections 6.5.1.1 ("European legislation — Opening up the market") and 6.2.1.2.1 ("Opening of the French market for electricity sales and marketing") below).

Finally, European countries may claim that the opening up of the French market is insufficient and implement measures intended to slow the Group's growth in their own countries.

This may have material, negative consequences for the Group's model, activities and financial results.

**Laws and regulations that require the transmission and distribution activities to be managed independently limit control over these activities.**

In accordance with current laws and regulations, EDF has instituted a management of its distribution network that is independent from its generation and sales activities and has transferred its transmission network activities to a wholly-owned subsidiary, RTE-EDF Transport in 2005. EDF may be affected by the loss of control over certain operational decisions, which may have an impact on its operating costs,

which is a significant element in the profitability of its transmission and distribution activities in France. At the same time, EDF will continue to bear the risks associated with transmission and distribution activities, liabilities to third parties and factors that may affect transmission and distribution assets.

Such risks may also be present in countries where the Group owns or operates transmission or distribution networks where it is subject to similar regulatory restrictions.

## 4.2.2 Risks associated with the Group's activities

**The Group operates facilities that may cause significant harm to the natural or human environment or for which accidents or external attacks may have serious consequences.**

The risks specific to nuclear facilities are described separately in Section 4.2.3 ("Specific risks relating to the Group's nuclear activity") below.

With respect to hydropower facilities, even if it is not the owner but a licensee, the Group is responsible as the operator for the safety of the facilities. The main risks associated with hydropower facilities and their operations are the risk of dams or associated hydropower facilities bursting, risks associated with operating the facilities during floods, and the risk associated with flow or level variations due to the operation of these facilities. To these risks are added those associated with attacks or ill-intentioned acts of any kind.

The Group takes, during the construction and operation of hydroelectric facilities, and mainly with the collaboration of public authorities, measures for accident prevention and safety (see Section 6.2.1.1.4.2 ("Hydropower safety")). Nonetheless, the Group cannot guarantee that such events will never occur or that the measures taken will be fully effective in all cases, in particular, to deal with external events (in particular floods, negligence of third parties).

Regarding electricity transmission and distribution facilities, persons working in or near this type of facility may be exposed, in the event of an accident, error or negligence, to the risk of electrocution. In this field, the Group also implements accident prevention and safety measures. However, the Group cannot guarantee that these measures will prove sufficient in all cases.

Questions with respect to the risks to human health as a result of exposure to electromagnetic fields ("*Champs Electromagnétiques*", or CEM), in particular, from power lines operated by the Group, are being raised both in France and abroad. Based on numerous studies completed over the past 20 years, numerous international health organizations (the World Health Organization, including its International Agency for Research on Cancer, the American Academy of Sciences, the National Institute of Environmental Health Sciences, the English National Radiation Protection Board) consider, given currently available scientific information, that the existence of health risks as a result of exposure to CEM has not been proven. As a precautionary measure, the European Commission has established guidelines relating to exposure of the public and of workers to electromagnetic fields, with which the Group complies. The possible risks as perceived by the public or any element that demonstrates the existence of health risks could lead to the implementation of regulations imposing more stringent security measures for the operation or construction of public transmission or distribution networks.

Finally, and more generally, the Group operates or has operated facilities which, as currently operated, could be or have been the source of industrial accidents or environmental and public health impacts (such as inadequately controlled emissions, leakages in electricity supply lines insulated with oil under pressure, a failure of decontamination facilities, pathogenic microorganism, asbestos polychlorobiphenyls ("PCB"), etc.). In particular, large quantities of hazardous materials (mainly explosive or inflammable, such as gas and fuel oil) are stored in certain facilities. These facilities may be located in industrial areas where other activities experiencing similar risks are operated.

The Group implements in the framework of standards ISO 14001 (see section 4.1.2.4. ("Management of risks related to industrial accidents and environmental and health consequences of Group's activities")) measures both for accident prevention and repairs with respect to industrial accidents or harm to the environment caused by the facilities that it operates. These measures are intended, in particular, to protect the Group both against the risk of an accident (such as explosion, fire, etc.) occurring in its own facilities and against the risk of such an accident occurring in an adjoining facility.

However, the Group cannot guarantee that these measures will prove fully effective upon the occurrence of one of the events referred to above.

An accident of the type described in the preceding paragraphs would have serious consequences for persons and property and the Group could be found liable. The civil liability and damage insurance coverage taken out by the Group may prove to be significantly inadequate (see Section 4.1.3.1 ("Civil liability insurance (not including civil responsibility for nuclear power)"). Further, the Group cannot guarantee that it will always maintain a level of coverage at least equal to that currently in place and at a cost that would not be higher.

Furthermore, such accidents may lead to the shutdown of the facility in question and, potentially, similar facilities that may be considered to present the same risks.

Facilities operated by the Group may be targeted by external attacks or ill-intentioned acts of any nature. In addition to the safety measures provided for during the design of the facilities and sites and the protective measures implemented by the Group, safety measures were reinforced following the terrorist attacks of September 11, 2001, in collaboration with the public authorities. Nonetheless, like any safety measures intended to counter an outside threat, the Group cannot guarantee that these will prove fully effective in all cases, including upon the occurrence of one of the events mentioned above.

An attack or ill-intentioned act committed on these facilities could have similar consequences to those of any of the accidents described above: (i) damage to persons and property, (ii) the Group's liability being sought on the basis of measures that are judged inadequate, or (iii) interruption to operations.

Any one of these events may have material, negative consequences on the Group's activities, results and financial situation.

**A significant part of the Group's revenue is generated from activities subject to regulated tariffs, the level of which may have an impact on the Group's results.**

In France, a significant part of EDF's revenue depends on regulated tariffs, either as set by decree, upon proposal by or after consultation with the French Energy Regulation Commission (Commission de Régulation de l'Énergie, or "CRE"), or as set by the CRE itself, after review by the Ministers of Economy and of Energy (the integrated tariff and the TURP, see Section 6.2.2.4 ("Tariffs for Using the Public Electricity Transmission and Distribution Networks (Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité, or "TURP")")). Tariffs are also set by regulatory authorities in other countries where the Group operates, including in Great Britain, Germany, China, Hungary and Slovakia.

These tariffs are negotiated regularly between operators and authorities. Public authorities and the regulator may decide to limit or even block tariff increases, with no change to the quality of service. These authorities can also change the requirements to benefit from such regulated tariffs (for what concerns France, see sections 6.5.1.2 ("French legislation") relating to law n° 2006-1537 concerning the energy sector).

Even if regulated tariffs were revised in favor of the Group, it cannot guarantee that such tariffs will always be set at a level which would allow it to improve or maintain its profitability margins and its rates of return on investments, or at a level which would be compatible with an effective opening up of the markets. This could have a material, negative impact on the Group's activities and financial results.

In addition, in France, the provisions of law n° 2006-1537 of December 7, 2006 concerning the energy sector in particular provide for the implementation for a period of two years, of a transitory regulated tariff for market adjustment ("TaRTAM") for the final customers who will apply in writing to their supplier before July 1, 2007. Pursuant to an order dated January 3, 2007, the TaRTAM is of the same amount as the regulated tariff (no taxes included), plus an increase of 10%, 20% or 23% depending on the characteristics of the final consumer choosing the TaRTAM. EDF cannot guarantee that the laws and regulations regarding the TaRTAM will not have a material adverse effect on the Group's activities and results higher than the one which EDF is currently able to estimate (see section 12.3 ("Effect of the transitory regulated tariff for market adjustment")), nor that the possibilities taken into account for such estimation will not change, in a manner that will significantly increase the adverse effect of the implementation of such tariff on the Group's activities and results.

**EDF is responsible for certain commitments, namely public service commitments, paid for by mechanisms which could fail to provide complete compensation of excess charges incurred, or which could be questioned.**

The new public service contract entered into by the French State and by EDF on October 24, 2005 outlines the public service commitments that EDF must provide and sets out compensation mechanisms in respect of EDF as regards these commitments (see Section 6.4.3.4 ("Public Service")).

EDF cannot ensure that the compensation mechanisms provided for by the laws and regulations applicable to it regarding its public service commitments and the implementation of regulated tariffs will provide for full compensation of the costs incurred by the Group in order to respect such commitments and/or implement such tariffs. EDF cannot guarantee either that these compensation mechanisms will not be called into question.

If any of these events should occur, it may have a negative impact on the Group's activities and its financial results.

**The Group's activities require various administrative authorizations that may be difficult to obtain or whose grant may be subject to conditions that may become significantly more stringent; some activities are subject to special taxation.**

The operations and development of the Group's industrial activities — generation, transmission and distribution — require various administrative authorizations, at local and national levels, both in France and abroad. The procedures for obtaining and renewing these authorizations can be drawn out and complex. Obtaining these authorizations is not routine and the conditions attached to obtaining them are not always unchanging or predictable. The EDF Group may accordingly be required to pay significant amounts to comply with the requirements associated with obtaining or renewing these authorizations (for example, the costs of preparing the application for the authorizations or investments associated with installing equipment required before the authorization can be issued). Its industrial activities may also be penalized. Delays, extremely high costs or the suspension of its industrial activities due to its inability to obtain, maintain, or renew authorizations, may have a negative impact on the Group's activities and profitability. The Group may also have invested resources without obtaining the necessary permits and authorizations and therefore have to cancel or withdraw from a project, which may have a negative impact on its business or development.

Some of the Group's activities, for example, its nuclear, fossil fuel and hydropower generation activities in France, are subject to special taxation, which could increase. That would have a negative impact on the Group's financial results.

**In some cases, the Group operates its generation, transmission or distribution activities within the context of concessions governed by public law and it is not always the owner of the assets it operates.**

The Group does not always own the assets that it uses for its activities and frequently operates them under a concession governed by French public law.

Accordingly, in France, EDF does not own the distribution networks but operates them under concession agreements negotiated with local authorities (see Section 6.2.2.2.2 ("Concessions")). Pursuant to the French law of April 8, 1946 and the French law of February 10, 2000, only EDF can be appointed by local authorities to operate their distribution networks, except networks operated by local distribution companies ("LDCs"). Therefore, when renewing a concession agreement, EDF does not compete with other operators. Nonetheless, the Group cannot guarantee that such provisions will not be modified by law in the future or will not be challenged before the European Court of Justice or viewed to be in violation of European law. In addition, EDF could obtain the renewal of these contracts on worse economic terms.

In France, RTE-EDF Transport is the public transmission system operator according to standard concession specifications, which are currently being developed and which must be signed by the Minister of Industry (decree n° 2006-1731 of December 23, 2006) (see Section 6.5.2.2 ("French legislation")). The Group cannot guarantee that these concession specifications will not change in the future to contain obligations that are more restrictive for RTE-EDF Transport, in particular, obligations of a financial nature, than the obligations that are currently applicable.

Hydropower generation facilities of 4.5 MW or more are also operated under concessions awarded by the French State. Renewal of these concessions is now subject to a procedure of invitations to tender and the outgoing licensee, under current rules, is not indemnified (see Section 6.2.1.1.4.4 ("Current and future hydropower generation issues")). The EDF Group cannot guarantee that it will be able to obtain the renewal of the concessions that it currently operates, or that such renewal will not be obtained on worse economic terms, which may have a negative impact on its activities and financial results.

The Group also operates under electricity distribution or generation concessions in other countries where it is present (including in the United Kingdom, Germany and Italy). Depending on the conditions in each of these countries, these concessions may not be upheld or renewed in its favor, or may be renewed on worse economic terms, which would have a negative impact on the Group's activities and its financial results.

**The Group must comply with increasingly restrictive environmental and public health regulations that are the sources of costs and potential liabilities.**

The Group's activities are subject to regulations for the protection of the environment and public health, which are increasingly numerous and restrictive. These regulations relate to the Group's industrial activities, energy generation, transmission and distribution, as well as to energy supply and energy-related services, which must, for example, incorporate the concept of demand-side management in their offers (for a description of environmental, health and safety regulations applicable to the Group, and future regulations likely to have an impact on its activity, see Section 6.5.4.4 ("Other regulations relating to the environment, nuclear facilities, health, hygiene and safety")).

In France, French law n° 2005-781 of July 13, 2005, which defines energy policy guidelines (*Loi de Programme fixant les Orientations de la Politique Énergétique*, or "LPOPE") (see Section 6.5.2.2 ("French legislation")), as amended and completed by the regulations in effect, contains certain energy saving provisions. The objective is to reduce, by an average of 2% each year by 2015, the final energy intensity, which is the ratio between energy consumption and the GDP. EDF has chosen to implement a program of several energy efficiency actions in all its markets and aiming to allow EDF to comply with all of its legal and regulatory obligations. However, at this stage, EDF cannot assure that such actions carried out by the Group in favour of the management of energy demand will be sufficient to reach the goals settled by public authorities, nor that the legal and regulatory requirements will not be reinforced, namely for what concerns energy saving obligations. That could have an adverse financial effect on the Group.

Regulations relating to air quality and to emissions of major combustion facilities could become more restrictive. In particular, the CAFE strategy ("Clean Air For Europe") developed by the European Union sets up very ambitious objectives regarding main air emissions (see Section 6.5 ("Legislative and regulatory environment")). The adoption of this strategy during the first half of 2006 will open the work on redrafting the "Quality of Air" (deadline by 2010) and "National Emission Ceilings (NEC: deadline by 2007 to assure implementation by 2020)" Directives. New upper limits will also be created for some polluting products (NO<sub>x</sub>, SO<sub>2</sub>, etc.). Those revisions will most likely lead to additional environmental constraints, which may have an adverse effect on availability, competitiveness, renewal, or development on the Group's thermal generation fleet.

The Group may also be required to make significant investments to comply with the implementation of the European directive relating to the greenhouse gas emission quota system. Regulations transposing this directive have been adopted or are being prepared in European countries. The quotas allocated to the Group, a breach by the company of the CO<sub>2</sub> emission quotas allocated to it and any purchase of supplementary quotas could lead to significant additional unplanned expenditures by the Group. The risk involves more particularly EDF's European subsidiaries and holdings outside France for the period until the end of 2007, and all of the Group's assets in Europe from 2008 since restrictions are expected to be increased for the period between 2008 and 2012. Accordingly, the National Allocation Plan concerning the second stage (2008-2012) addressed by the end of December 2006 by France to the European commission, reduces the number of quotas awarded from 155.6Mt to 132.8Mt a year, as well as the number of quotas awarded to the energy sector by 24%. After 2012, the evolution of this system remains uncertain. Differences between the regulations applicable in the various countries in Europe for the allocation of quotas could also lead to distortions in competition, to the Group's detriment.

A law concerning water and aquatic environments published on December 30, 2006, is expected to affect the tax regulation and the operation conditions of EDF's facilities (see section 6.5.4.4 ("Other regulations relating to environment, nuclear facilities, health, hygiene and safety")).

Finally, the Group is also subject to regulations concerning polychlorobiphenyls (PCB) and polychloroterphenyls (PCT) in different countries where it carries out its activities, namely in Europe and Latin America (see section 6.5.4.4 ("Other regulations relating to the environment, nuclear facilities, health, hygiene and safety")).

Other current and future regulations in the environmental and health areas concerning Group's activities or assets may also have a material financial impact on the Group.

The Group may be found liable, even if it has not committed any fault or breached existing rules, as a result of the fault or breach committed by entities which were not part of the EDF Group at the time of damage, if the Group has since taken over their facilities.

Current rules, and future changes to such rules, have resulted and are likely to continue to result in an increasing level of operating expenses and investments in order to comply with such rules. The Group may even be required to close facilities that cannot be made compliant with new rules. Furthermore, other rules, which may be more restrictive or which may apply to new areas, and which are not currently foreseeable, may be adopted by the relevant authorities and have a similar effect.

**The growth of an integrated European electricity market may be slowed by a lack of cross-border transmission system interconnections.**

As described in Section 6.3.1 ("Europe"), the growth of an integrated European electricity market is inhibited by a lack of cross-border interconnections. This situation limits exchange capacity between operators in different countries, namely the capacity to rapidly adapt the supply to the demand ("black-out risk"), and is allowing price differences to exist which would not be present in an efficient integrated European market. It is contributing to a slowdown in the emergence of efficient operators with a European dimension as it limits the

options for synergies between companies within a same group located on different sides of a border.

Although there are currently several projects to develop interconnections, their construction has nonetheless been delayed, mainly by environmental, financial, regulatory and local acceptability considerations.

Therefore the absence of adequate interconnections between countries where the Group is based or their slow development may limit industrial synergies which the Group intends to achieve between its various entities or cause network interruptions in countries in which the Group is established, which could have a negative impact on its results, its business and prospects.

**Widespread blackouts in France or in an area served by a Group subsidiary, in particular, if they are attributable to the Group, may have consequences for its activities, results and image.**

Italy, Great Britain, Denmark, Sweden and a large part of the United States and Canada experienced significant blackouts in 2003. In France, the last event of this seriousness occurred in 1978. The causes of these blackouts vary: local or regional imbalance between electricity generation and consumption, accidental interruption to the power supply, cascaded interruptions (more difficult to overcome in a market with cross-border exchanges), interconnection problems at borders, lack of investment and difficulty in coordinating operators on an open market.

The Group may be, or may be found, responsible for a blackout, even if the event that caused it occurred on another network or is attributable to another operator. Accordingly, on November 4, 2006, following an incident for which the source was in the German network, a large breakdown in the electricity supply concerned several European countries. Nevertheless, it was possible to avoid a European "blackout" and the electricity supply breakdown lasted less than one hour in France.

Such electricity supply breakdowns (full-scaled or not) first have an impact on the Group's sales. They may also result in repair costs for reconnecting the network and lead to investment expenditures if it were decided, for example, to install additional generation or network capacity. Finally, they would have a negative impact on the Group's image with its customers, in particular, if the blackouts proved to be attributable to it.

**Natural disasters, significant climatic changes, or any major event on a scale that is difficult to predict, could have a material negative impact on the Group's industrial and commercial activities.**

In France, the storms of December 1999 and the heat wave in the summer of 2003 led to additional costs for EDF. In addition to these events, other natural disasters (floods, landslides, earthquakes, etc.), other significant climatic changes (droughts, etc.), or any other event on a scale that is difficult to predict (large epidemic diseases, etc.) could affect the Group's activities.

Based on its experience with the above events, the EDF Group implements measures, which allow it to limit the consequences should such events be repeated. Accordingly, following the storms of December 1999, EDF initiated a program to secure its transmission

and distribution networks. Following the heat wave in the summer of 2003, EDF drew up an "Unforeseen Climatic Events" plan in order to anticipate and prevent the consequences of such situations (as it was the case for the heat wave of summer 2006). The adoption of such measures can lead to costs in addition to those related to the cost of repairing the damage caused by the natural disaster and the loss of earnings corresponding to the interruption to supply.

In addition, after the storms of December 1999, EDF set up specific coverage against storm risk for its distribution network (see Section 4.1.3.3.2 ("Storm cover")). The Group cannot guarantee that this specific coverage will always be available or that its cost will not increase above its current level or that it will succeed in maintaining this coverage. Other than this specific coverage concerning the distribution network, the Group's aerial networks, including those owned by RTE-EDF Transport, are not covered for "damage to property". Owing to the absence of coverage, any damage to these aerial networks could have a negative impact on the Group's financial situation.

Finally, in the event of a wide-spread sanitary epidemic, EDF created and tested, in 2006, a plan which aims to assure the continuity of electricity supply, depending on the intensity of the crisis, and at the same time guarantee the safety of the facilities and reduce the sanitary risks to which employees are exposed.

Despite the implementation of all such measures, the Group cannot guarantee that the occurrence of a natural disaster, a significant climatic unforeseen event, or any other event on a scale that is difficult to predict will not have significant negative consequences on its activities, its profits and its financial situation.

**Risks associated with climatic conditions and seasonal variations in the business.**

Electricity consumption has a seasonal nature, and depends namely on climatic conditions. Accordingly, electricity consumption is generally higher during winter months. In addition, available generated electricity may also depend on climatic conditions: low hydrolicity, heat waves which restrained generation due to the obligation to respect certain temperature limits for rivers in the downstream of the facilities.

The Group's profits consequently reflect the seasonal character of the demand for electricity and may be adversely affected by significant climate variations since the Group would be able to compensate the reduction in the availability of economical generation means by using other means with a higher generation cost or by having recourse to wholesale markets at high prices.

**Technological choices implemented by the Group may be outperformed by new technologies.**

The Group's activities are based on a certain number of technological choices, which may be outperformed by new technologies, which may prove more efficient, more profitable and even more reliable. The use of these technologies by the Group's competitors may have the effect of reducing the competitive advantage, which the Group has through some of its technologies, and thus have a negative impact on its activities, financial results and prospects.

**The occurrence of work-related illnesses or accidents cannot be excluded.**



Although the Group does its best to comply with the laws and regulations concerning health and safety in the different countries in which it operates, and considers to have taken measures intended to ensure the health and safety of its employees and those of its subcontractors, the risk of work-related illnesses or accidents cannot be excluded. The occurrence of such events may lead to lawsuits against the Group and the payment of damages, which may prove material.

For a description of the measures taken by the Group with regards to ionizing radiation, see Section 6.2.1.1.3.2 ("Environment, safety and radiation protection").

Regarding asbestos, the Group has taken measures to treat materials containing asbestos, provide information and install protection, as described in Section 17.7 ("Health and safety"). For a description of ongoing legal proceedings, see Section 20.6 ("Legal and arbitration proceedings").

## **The Group is exposed to risks on the wholesale energy and CO<sub>2</sub> emission allowances' markets.**

The Group operates on deregulated energy markets (mainly in Europe) as part of its generation, marketing and distribution activities. As such, the Group is exposed to price fluctuations on wholesale energy markets (electricity, gas, coal, oil) as well as on the CO<sub>2</sub> emission allowances market.

The Group manages its risks exposure by buying and selling on the wholesale markets and through long-term contracts. Apart from the oil products markets, these are new markets that are still developing. Therefore, a shortage of products or lack of depth can limit the Group's capacity to hedge its energy market risks exposure. In addition, these markets remain in part partitioned by country, as a result, among other things, of the lack of interconnections. They may thus experience significant increases or decreases in price movements and liquidity crisis that are difficult to predict. Such fluctuations may have either a favorable or an unfavorable impact.

The management of energy market risks is in line with the energy market risks policy adopted by the Group (see Section 4.1.1.2 ("Management and control of energy market risks")). The Group hedges its positions on these markets through derivative products such as futures, forwards, swaps and options negotiated on organized or over-the-counter markets. However, the Group cannot guarantee total protection, in particular, against significant price movements, which could have a material negative impact on its financial results.

## **The Group is exposed to variations in the prices and in the availability of materials or services (other than fuels) which it buys for the carrying out of its activities.**

The Group could have to face an increase in the costs of certain products or services: increase of the price of certain raw-materials, such as copper which is in the composition of intermediary goods acquired in large quantities by EDF (cables, transformers, etc.). Moreover, this increase could lead to a reduction of the offer if certain suppliers were forced to reduce their profit margins. Certain products or services are increasingly demanded, which could have an effect on their availability, in particular, products used for gas-fired combined cycles, wind turbines and products and services in the nuclear field.

## **The Group is exposed to financial risks.**

Because of its activities, the EDF Group is exposed to financial risks:

- Interest rate risk for the holdings financing activity and assets value
- Exchange rate risk related to holdings in subsidiaries operating in currencies other than the euro, or to supply, notably of fuel and material, denominated in these currencies
- Risk on dedicated assets, in particular related to the shares held as part of the management of dedicated assets constituted to hedge long-term commitment costs of EDF's nuclear activities and on shares held in the framework of cash activities
- Liquidity risk
- Counterparty risk inherent in contractual relationships

The organization and management principles of these risks are described in Section 4.1.1.3 ("Management and control of financial market risks") and their measures of control are described in Section 9.10 ("Financial risks management and control") of this document. However, the Group cannot guarantee total protection, including in the event of significant movements in exchange rates, interest rates and equity markets.

## **4.2.3 Specific risks relating to the Group's nuclear activity**

The EDF Group is the leading nuclear operator in Europe. Nuclear electricity represents over 80% of its generation in France and the nuclear share in the EDF electricity mix is a major competitive advantage. Any event negatively affecting the nuclear business is likely to have greater consequences for the Group's activities, productivity, financial situation and results, than for those of its competitors, which generate proportionally less electricity from this source of energy.

### **A serious nuclear accident in a foreign country may have material consequences for the Group.**

Certain of the world's nuclear power plants do not meet the same level of safety, supervision and protection as those belonging to the Group. Whatever precautions are taken during their design or operation, a serious accident cannot be excluded and could result in public rejection of the nuclear business and lead to public authorities deciding to tighten noticeably operating conditions of power plants, or to cease the generation of electricity through nuclear means. The Group cannot guarantee that such a decision would not be taken, even outside the context of an accident. This would have a material, negative impact on the economic model, strategy, business, profit, financial situation and prospects of the Group.

### **Due to its nuclear activities, the Group is exposed to substantial liability risks and possibly significant additional operating costs.**

Even if the Group has implemented risk control strategies and procedures corresponding to higher standards for its nuclear activities, such activities, by their nature, still present risks. Therefore, the Group may face considerable liability as a result of, among others, incidents and accidents, breaches of security, ill-intentioned acts or terrorism, air crashes, natural disasters (such as floods or earthquakes), equipment

malfunctions or mishandling in storage, handling, transportation, treatment or conditioning of substances and nuclear materials. Such events could have serious consequences, especially in case of radioactive contamination and irradiation of the environment, for persons working for the Group and for the general population, as well as a material, negative impact on the Group's activities and financial situation.

A nuclear operator assumes liability for the nuclear safety of its facilities. The liability scheme that applies to European nuclear facilities operators, and the associated insurance, are described in Sections 6.5.4.2 ("Special regulations applicable to nuclear facilities") and 4.1.3.4.1 ("Civil liability"). This scheme is based on the principle of strict liability for the operator. If there is an event which causes damage, the Group would be automatically liable within the limits of a financial ceiling established by French law, regardless of the source of the event that caused the damage. The implementation of safety measures does not exonerate the Group from this type of liability.

The Group cannot guarantee that, in countries where it operates nuclear facilities, the liability ceilings established by law will not be increased or removed. For example, the Protocols amending the Paris Convention and the Brussels Convention, currently being ratified, provide for these ceilings to be raised. In addition, the Group cannot guarantee that the insurance policies covering this liability will always be available, or that their cost will not increase from their present level, or that the Group will always succeed in maintaining these insurance policies.

Finally, damage to EDF's nuclear facilities is covered by an insurance policy (see Section 4.1.3.4.2 ("Damage insurance for nuclear facilities")).

Despite this coverage, any event that causes significant damage to an EDF nuclear facility could have a negative impact on the Group's business, financial results and financial situation.

### **Nuclear activity is subject to particularly detailed and restrictive regulations that may increase in severity.**

The nuclear activity is subject to particularly detailed and restrictive regulations, with a scheme for the monitoring and periodic re-examination of operating authorizations, which primarily takes into account nuclear safety, environmental and public health protection, and also national safety considerations (terrorist threats in particular). These regulations may be subject to significant tightening by national and European authorities (for a description of the "nuclear package" and the French law relating to transparency and safety in the nuclear field, see Section 6.5.4.2 ("Specific regulations applicable to nuclear facilities")). This could result in increased costs of the Group's nuclear fleet, which would have a negative impact on its financial situation.

### **For its nuclear activity, the Group depends on a limited number of contractors.**

Even though the Group operates a supplier diversification policy within its nuclear business, it is currently dependent on a limited number of contractors.

This situation:

- limits competition between suppliers; and
- creates a risk of exposure to failure of one of these suppliers.

This could have a negative impact on the Group's results and financial situation.

### **The Group is exposed to variations in the prices of uranium and conversion and enrichment services.**

Nuclear fuel purchases are part of the Group's operating costs.

EDF purchases uranium, conversion services and enrichment services through long-term contracts containing hedging mechanisms against price movements allowing it to reduce the impact of the price fluctuations. The main supplier is the Areva group, but EDF is pursuing a policy of diversification by buying supplies from other producers (see Section 4.3 ("Dependency factor") and Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues")). Prices for uranium and conversion and enrichment services are subject to fluctuations resulting from factors, mainly political and economic which the Group cannot control.

The Group cannot guarantee that the protection mechanisms in place in its supply contracts and its diversification policy will protect it completely against drastic or significant price increases. The Group cannot guarantee that when these long-term contracts expire, it will be able to renew them, in particular, at price conditions that are equally favorable. Notwithstanding the moderate role that uranium supply costs play in the generation costs for nuclear power and the delay of several years between buying uranium and using it in a power plant, drastic and significant variations in the price of uranium may have a negative impact on the Group's financial results.

### **Risks relating to the transportation of nuclear fuel.**

The transportation of new or used nuclear fuels is an operation that requires special and restrictive safety measures. Several factors that are outside of the Group's control (such as opposition by local residents or anti-nuclear associations, for example, in the form of demonstrations to prevent waste from being moved) may slow these operations. The operation may also be interrupted, in particular, in the event of an accident. As a result, EDF may be required to slow or interrupt some or all of the generation on the sites in question, due to either the abstention of deliveries of new fuel assemblies, or the saturation of storage facilities on the sites, which could have a negative impact on the Group's financial results.

### **The nuclear fleet operated by the Group is highly standardized. As a result, any defect in design or construction of a facility may have to be corrected on the other units.**

The fleet of nuclear facilities operated by the Group in France is highly standardized (see Section 6.2.1.1.3.1 ("EDF's nuclear fleet")). This represents an advantage for the Group: it allows the Group to achieve economies of scale in equipment purchases and engineering, to apply improvements made to its newest power plants to its entire fleet and to anticipate, in the event of a malfunction in a facility, the measures to be taken in the others.

This standardization carries the risk of a malfunction that is common to several power plants or series of power plants. The Group cannot guarantee that it will never be confronted with burdensome or costly repairs or modifications, to be carried out on all or part of the fleet, or that an event will not occur which may have an impact on the operation of the fleet, bringing about a temporary outage or closure of all or part of the fleet.

Such an event may have a negative impact on the Group's financial results and its activities.

## **EDF may not be able to operate its nuclear power plants over a period of at least 40 years.**

EDF estimates that a lifespan of 40 years is now technically achievable due to the measures taken and resources used to achieve this objective. EDF follows a high-level R&D policy relating to the long-term behavior of materials. In addition, the maintenance policy has been adapted to improve the degree to which it takes into account risk and knowledge of ageing phenomena. Operation over an even longer period is feasible for certain power plants using similar technology, in light of the extended lifespans agreed to by the competent authorities in the United States. The extension of lifespans concerns nuclear facilities of similar technology (PWR).

However, EDF's ability to operate its nuclear facilities over a period of 40 years or longer subject to authorizations by safety authorities, in particular, at the time of in-depth safety inspections every 10 years. The Group cannot guarantee that it will obtain the necessary authorizations at the appropriate time, or that the authorisations will not be obtained, subject to the conditions requiring the Group to carry out further expenses or investments.

Nonetheless, the Group has based its assumptions for calculating accounting items linked to the lifespan of its nuclear fleet on a lifespan of 40 years (including depreciation and amortization and provisions, etc.). If the safety authorities opted for the closure of some units or power plants within 40 years, this would require accelerated replacement of the corresponding generation capacity by additional investments or recourse to electricity purchases on the market. It would also be necessary to review the depreciation and amortization plan to reappraise the residual lifespan of the power plants in question. This would have a material adverse impact on the Group's financial results and financial situation.

## **Construction of the EPR could encounter problems or not be completed.**

The Group is involved in the carrying out of the construction of the European Pressurized water Reactor (EPR) in Flamanville (see Section 6.2.1.1.3.5 ("Preparing for the future of the nuclear fleet")) in order to renew its fleet of nuclear generating facilities. However:

- the Group might not obtain the necessary authorizations required to begin the construction and operation of the EPR or may see them called in to question by a court ruling;
- with regards to a first-of-a-kind reactor, technical difficulties or other difficulties could occur during its development and construction and during the early stages of its operation. These difficulties could slow or hinder the construction of the EPR and its commissioning, increase its overall cost or affect its performance.

The EPR program for renewal of the fleet of generation facilities is strategic for the Group's future. Any event leading to delay or blockage of this program, or affecting, the construction, of the first-of-a-kind EPR or subsequent units would thus have a material adverse impact on the Group's activity and financial situation.

## **The Group remains liable for all radioactive waste from its nuclear power plants, especially long life, high-level waste from burnt fuels.**

The nuclear fuel cycle is described in Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues"). In France, as described in this section, as an operator and producer of waste, EDF is legally responsible for burnt fuels from the moment they leave the power plant, during their processing operations and during their long-term management, and it assumes this responsibility in accordance with guidelines set forth by public authorities and under their control.

In particular, as a nuclear operator or producer, the Group may incur liability resulting from regulation of waste in the event of an accident and damage to a third party or the environment through these burnt fuels or waste, even if they are handled, shipped, warehoused or stored by operators other than EDF (especially the Areva group and ANDRA), in particular in the event of failure of such operators. If EDF were acknowledged as responsible for damages caused to third parties and/or the environment, the specific civil strict liability scheme applicable to nuclear operators would apply, within the ceilings specified by this scheme (see Section 6.5.4.2 ("Special regulations applicable to nuclear facilities")).

In France, long-term radioactive waste management was the subject to several initiatives undertaken in the framework of the French "Bataille" law, and the passing of program law n° 2006-739 dated June 28, 2006 relating to the sustainable management of radioactive materials and waste (see Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues")). The Group cannot guarantee that all long-life high and medium activity waste will constitute "ultimate radioactive waste" in the sense of Article 6 of the law n° 2006-739, and that as a consequence this waste will be directly stored in deep geological layers. The Group cannot guarantee either the time required for the public authorities to authorise such a storage, which continues to result in ongoing uncertainties with respect to waste, liability and the resulting costs for EDF. The occurrence of any of these events would have a negative impact on the Group's financial results and financial situation.

## **The provisions made by the Group for burnt fuel processing operations and long-term waste management could prove insufficient.**

The Group has made provisions for burnt nuclear fuel processing operations (see note 29.2 to the consolidated financial statements for the year ended December 31, 2006) using the price and volume conditions in the agreement signed with Areva in August 2004 which covers the period from 2001 to 2007. The amount of provisions currently made to cover the period from 2007 onwards could prove insufficient if the renewal conditions of this contract over this period proved more onerous than those currently applicable.

EDF had made provisions for long-term waste management based on an assumption of geological storage, and the conclusions reached in 2005 by the working group comprising ANDRA, public authorities and producers of nuclear waste (see note 29.2.2 to the consolidated financial statements for the year ended December 31, 2006 and Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues — B. Downstream")). If the program law n° 2006-739 of June 28, 2006 relating to the sustainable management of radioactive materials and waste reinforces, without excluding other fields of complementary research, that the "ultimate radioactive waste" must be stored in deep geological layers, the Group cannot guarantee that all long-life high and medium waste will be considered as such and nor the length of time in which this type of storage, if it was held, could be carried out. In consequence, the final cost of long-term waste mana-



gement of the Group could exceed the provisions made in its accounts. EnBW has also made provisions to cover its long-term nuclear commitments. The Group cannot guarantee that the amount of these provisions will be sufficient.

The evaluation of these provisions is sensitive to the assumptions made in terms of costs, inflation rate, long-term discount rate and payment schedules. Given these sensitivity factors, changing the parameters may lead to significant revision of the provisions accounted for.

If such was the case, the inadequacy of the provisions for these commitments may have a material negative impact on the Group's financial results and financial situation.

**Decommissioning of the existing fleet of nuclear facilities may present currently unforeseen difficulties or be much more costly than currently expected.**

The decommissioning of the EDF and EnBW nuclear fleets are described in Section 6.2.1.1.3.6 ("Decommissioning of nuclear power plants") and 6.3.1.2.3.1 ("Electricity businesses"). Given the size of the Group's nuclear fleet, its decommissioning represents a highly technical and financial challenge.

While the Group has evaluated the challenges, in particular technical, which this decommissioning brings (particularly the decommissioning of first generation power plants) and has identified the solutions to be developed, it has never dismantled nuclear power plants similar to those currently in service. The Group has made provisions to cover the costs associated with decommissioning.

EnBW must also decommission its power plants and has made provisions for this.

However, the Group cannot guarantee that the provisions made will be sufficient. Their insufficiency would have a negative impact on the Group's financial results and financial situation.

**Dedicated assets reserved by the Group to cover the costs of its long-term commitments in the nuclear business (such as radioactive waste and decommissioning) may prove insufficient.**

As of December 31, 2006, the fair value of dedicated assets for EDF was approximately €6.3 billion, against €3.3 billion on December 31, 2005 (see Section 6.2.1.1.3.6 ("The decommissioning of nuclear power plants - Assets available to cover long-term nuclear power-related commitments (operating cycle excluded)")). These assets are built up gradually on the basis of spending estimates and the time-frame which the Group will have to meet.

In September 2005, EDF decided to speed up the building of these dedicated assets to cover the whole basis in 2010. The law of June 28, 2006 relating to the sustainable management of radioactive materials and waste supported this decision, since it imposes a total cover of long-term nuclear commitments on nuclear operators, (excluding operating cycle) within a 5-year period of time after the law came into force. Furthermore, each operator is obliged, in 2007 and every 3 years following, to transmit a report supporting in particular the expenses relating to the decommissioning of nuclear power plants, the calculation methods of said provisions and the constitution of consequent dedicated assets to the relevant administrative

authority. In addition, the decree dated February 23, 2007 and the order of March 31, 2007 have specified the process for financial securitization of the nuclear expenses by establishing an indexation of the totality of such charges, by distinguishing those relevant to the operating cycle, setting a framework for their evaluation as well as the discount rate retained by nuclear plant operators to calculate provisions pertaining to it. These texts set the rules of investment and management for the dedicated assets and organize the role of the Group's management, as well as the control plan to be implemented by the nuclear plant operators (see Section 6.2.1.1.3.6 ("The decommissioning of nuclear power plants - Assets available to cover long-term nuclear power-related commitments (operating cycle excluded)")).

EDF's dedicated assets may, nonetheless, be judged insufficient according to the June 28, 2006 law's implementation regulations or by the administrative authority, after analysis of EDF's report, and lead to adjustment measures (and notably a complementary allocation for the dedicated assets). These dedicated assets can also, prove to be insufficient at the moment of actual payment, if actual costs are appreciably different or if the disassembly and storage costs schedule is modified. This would have a material, negative impact on the Group's financial situation. Moreover, stricter national (in particular those which could have an impact of the basis of the dedicated assets to be constituted by EDF) or European regulatory constraints may lead to increasing demands for the constitution of dedicated assets and have an effect on EDF's financial situation.

Finally, these assets are constituted and managed in accordance with strict, prudential rules (see Section 6.2.1.1.3.6 ("The decommissioning of nuclear power plants - Assets available to cover long-term nuclear power-related commitments (operating cycle excluded)")). The Group cannot, however, guarantee that variations in the financial markets will not have a material negative impact on the value of these assets (see Section 9.10.6 ("Financial risk on EDF's dedicated assets management portfolio") for a sensitivity analysis).

### 4.2.4 Risks relating to the structure and changes within the Group

**The various changes required by the opening up of the market may have operational and financial consequences for EDF.**

The opening up of the market results mainly in a major re-organization of the joint structures through which EDF and Gaz de France manage their sales, billing, customer services and distribution networks.

This re-organization may have an impact on the way these activities are carried out, in particular:

- on relationships with residential customers or those who have not exercised their right of eligibility;
- on relationships with eligible customers that have chosen a supplier other than EDF and to whom EDF, in its capacity as a distributor, must act neutrally;
- on relationships with local authorities through concession contracts.

It could also generate major costs, mainly relating to the adaptation of information systems and organizations.

Finally, European regulations require the legal separation of distribution activities by July 1, 2007. This may have a material adverse impact on the Group's activities and financial results.

### **EDF must adapt its skills to face total opening to competition on July 1, 2007.**

Preparation for the total opening up of the markets in July 2007 requires a greater re-deployment of skills than the modifications that were required for the opening up of the market in professionals and small and medium-sized companies in July, 2004. The Group cannot guarantee that EDF will be able to successfully carry out this preparation which could have a negative impact on the Group's activities, financial results and financial situation.

### **It is possible however that the Group's development strategy cannot be implemented in accordance with the goals defined by the Group.**

In particular, the implementation of the gas strategy may face significant problems.

Development of the Group's gas business is a major issue, both for what concerns the use of gas in electricity generation and the development of dual gas/electricity offers.

Demand for gas in Europe is growing and there are significant quantities of untapped reserves throughout the world. However, sources of supply are remote and capacities for gas transport (by gas pipeline or by liquefied natural gas (LNG) tanker), LNG terminals and capacities for storage are still limited. To satisfy its gas needs, the Group must not only have access to competitive sources of supply, but also to logistical infrastructures (such as storage, gas pipelines and LNG terminals) to move its gas within a perimeter close to its points of consumption and to produce synergies between its different entities (including those which it does not control) while coordinating and interconnecting its positions.

The Group cannot guarantee that it will be able to either access these gas assets, or acquire them or participate in their development, or achieve the expected synergies, under acceptable financial conditions.

Any one of these factors could slow the development of the Group's gas strategy, which would have a negative impact on its activities, its financial results and its prospects.

The Group intends to develop and consolidate its offer of service integrated solutions, notably its energy efficiency services, to increase sales per customer as the energy market in Europe opens up to competition and to deal with issues relating to energy efficiency and sustainable development.

The energy-related services market is very competitive, and the energy efficiency market, though still an emerging one, possesses a strong potential for development. The Group cannot guarantee that its energy-related services offer will continue to grow successfully.

If the Group cannot implement its development policy in the area of energy-related services, this may have a negative impact on its financial results and prospects.

The Group intends to continue its development in the electricity industry in France and abroad, in line with its industrial project, depending on its business model in each area and in light of any relevant experience (upstream/downstream balance, commercial strategy, development in renewable energy or in other production methods: nuclear, hydropower, coal, combined-cycle, etc.). It is thus implementing programs for re-organization, increasing profitability, (see risk factor below entitled *"The Group has implemented programs to improve its operating and financial performance and to reinforce its financial flexibility"*), development and disposals.

The Group may be confronted with an unexpected change in the regulatory economic and competition framework which may render its decisions inadequate, or may encounter difficulties in implementing or changing its strategy. The Group may also find that it has been unable to make the disposals it expects to make, or that it has made them at a price different to that desired, due in particular to financial, regulatory or contractual constraints, or even political acts outside France. The Group may acquire or develop some assets which in the end could prove not to be as profitable as expected. This may have a negative impact on the Group's financial results, financial situation and prospects.

### **Risks relating to information systems.**

The Group operates multiple and highly complex information systems (such as servers, networks, applications and databases) which are essential for the everyday operations of its commercial and industrial business. A problem with one of these systems may have material, negative consequences for the Group. In particular, if the information systems required for the implementation of the opening up of the market in July 2007 are not available on time, or are available but with inadequate performance, this may have material, negative consequences for EDF.

Finally, as a general matter, the Group cannot guarantee that the policy of reinforcing information back-up systems will not meet with technical difficulties and/or delays in implementation, which could — in the event of a serious incident — have a material, negative impact on the activity, financial results and financial position of the Group.

### **EDF is controlled by the French State, which is its principal shareholder.**

Pursuant to the Law of August 9, 2004, the French State is EDF's principal shareholder and must remain the holder of more than 70% of its share capital. Under French law, a majority shareholder controls most corporate decisions relating to the company, including those that must be passed by the shareholders' meeting (in particular, appointment and dismissal of members of the Board of Directors, distribution of dividends and amendments to the by-laws). In addition, the legal dilution limit for the French State holding may limit EDF's capacity to resort to the capital markets or carry out external growth operations.

### **Much of the Group's workforce belongs to organizations common to EDF and Gaz de France; the Group therefore depends in part on management mechanisms implemented in these common structures.**

Currently, approximately 58,500 people employees employed by the Group belong to organizations common to EDF and Gaz de France (almost all belonging to EDF Gaz de France Distribution's management). Some decisions made in the context of these common organizations may accordingly have an impact on EDF, in particular on wages and on the management of its human resources. Moreover, EDF and Gaz de France may have divergent interests concerning these common organizations. Such constraints may have a negative impact on the Group's financial results and financial structure.

**The Group does not own a controlling majority of some of its strategic subsidiaries and holdings, or must share control of these entities with other shareholders.**

As described in Section 6.3.1.2.2 ("Detail of EDF's holding in EnBW"), the EDF Group shares control of EnBW with OEW. This shared control is exercised through a shareholders' agreement. The Group cannot, however, guarantee that it will always be in agreement with OEW on its policy towards EnBW.

This may also be the case with respect to Edison, where the two shareholders, EDF and AEM Milano and its partners, have joint control, and whose relationships are governed by a shareholders' agreement entered into on May 12, 2005 (see Section 6.3.1.3.1.2 ("Joint takeover of Edison by EDF and AEM Milan")). In addition, advantages which must result from the joint takeover of Edison by EDF and AEM Milan, in particular as regards the Group's gas strategy, depend, in part, on the possibility to combine successfully and effectively Edison's activities with those of the Group.

Other Group businesses are, or will be in the future, exercised within other entities in which the Group shares control, or in which the Group is a minority shareholder. In these situations, the Group may find itself confronted with an impasse when partners disagree or decisions are made which are contrary to its interests.

This may limit the Group's ability to implement defined strategies and may have a material adverse impact on its business, financial situation or prospects.

**Shareholders in some of the Group's subsidiaries and holdings have put options allowing them to require a buyback of their shares by the Group, which, accordingly, may be forced into re-purchasing these shares at an unfavorable time or under unfavorable conditions.**

The structure and conditions of the put options that the shareholders, in particular, of EnBW and EDF Energies Nouvelles, have over the Group are described in Section 6.3.1.2 ("Germany — EnBW") and 6.4.1.2.1.2 ("EDF Energies Nouvelles").

Furthermore, at the time of EDF Energies Nouvelles' initial public offering in November 2006, the other historical shareholder along with the EDF Group in EDF Energies Nouvelles, transferred shares to the EDF Group, the payment of which may be made no later than December 31, 2010, based on an average market price.

If put options are exercised, the Group may be forced to purchase the underlying securities at prices, set by the terms of the agreements in force, which could exceed their market value. In addition, the finan-

cing of these purchases could interfere with other Group acquisition or investment expenses, delay them, or oblige the Group to seek financing under less favorable conditions, which could have a negative financial impact on the Group.

**The Group may find itself forced to launch a tender offer for the acquisition of listed companies in which it has holdings.**

The Group has holdings in a number of listed companies for which current legislation may require, under certain conditions, a shareholder exceeding certain thresholds to launch a tender offer to purchase all of the existing share capital. The Group may, therefore, be forced to launch such an offer under unfavorable conditions, especially with respect to price, which may have a negative impact on its financial situation.

**Risks due to the international dimension of the Group's activities.**

Some Group investments and commitments are exposed to the risks and uncertainties associated with doing business in countries which may have, or have recently had, a period of political or economic instability. Several countries in which the Group operates have less developed legal regulations providing less protection, maintain or could initiate controls or restrictions on repatriation of profits and capital invested, fix or could fix taxation and fees affecting the Group's activities, and impose or could impose restrictive rules with regards to the business of international groups. In these countries, the electricity sector is also subject to sometimes rapidly changing regulations which could be influenced by political, social or other considerations, which may have an effect on activities or financial results of the Group's subsidiaries and thus not be in its interest. The occurrence of any of these events may have a negative impact on the Group's activities, financial results and financial situation.

Finally, the Group has developed or built a portfolio of "Independent Power Plants" (IPP) in different parts of the world, especially in Mexico, Brazil, Vietnam, Laos and China, in which it plays one or more roles (engineering, project management, project manager, investor or operator). In these different capacities, the Group may find itself liable or the Group's financial performance may be affected, especially if the return on capital employed for the IPP is lower than expected, if long-term electricity contracts or "pass-through" clauses are questioned, or in the event of major changes to electricity market rules in the country concerned.

**EDF will also be required to renew much of its workforce and transfer experience and skills to new employees.**

In France, a large number of EDF employees will soon be of retirement age. For example, in nuclear generation and network maintenance, approximately 45% of the workforce will retire between now and 2015. The renewal of this workforce requires to anticipate the knowledge transfer.

The Group cannot guarantee that EDF will be able to renew these staff and skills in time or under satisfactory conditions, which may have an impact on its generation capacity, quality of service and productivity.

**EDF may be required to satisfy significant obligations related to pensions and other employee benefits.**

In France, the financing of the pension system for the electricity and gas industries ("IEG") was reformed by French law n° 2004-803 of August 9, 2004 (the "Law of August 9, 2004") (see Section 17.8 ("Pension system and complementary healthcare benefits system") and notes 29.5.2 to 29.5.6 to the consolidated financial statements for the year ended December 31, 2006).

The main features of the reform of the financing of the special pension system for the IEG came into force on January 1, 2005.

The provisions for the special pension system correspond to specific rights of agents linked to services not covered by the general system.

Therefore, the following are included in the pensions' provision:

- Specific rights of agents of deregulated or competitive activities,
- Specific rights acquired by agents since January 1, 2005 for regulated activities of the IEG branch – transmission and distribution (former rights are financed by the CTA levy (*Contribution Tarifaire d'Acheminement*, or "CTA")),
- Specific rights of agents benefiting from retirement at an earlier age than the general system's legal retirement age.

The evaluation also takes into account the portion of CNIEG management fees for which the company is responsible, the CNIEG carrying out the management and payment of pensions to the inactive population.

As of December 31, 2006, the pension provision amounted to €8,874 million.

Outside of France, the main pension obligations relate to EDF Energy and EnBW. On the basis of the last actuarial survey carried out on December 31, 2006, the pension funds established by EDF Energy have been considered insufficient by approximately £311 million. EDF Energy pays additional contributions in order to compensate for the shortage of funds (see Section 6.3.1.1.3 ("Financing and Pensions")). EnBW's commitments are fully provisioned.

In addition to these pension obligations, there are also commitments related to post-employment benefits (benefits in kind (electricity/gas), retirement gratuity, exceptional additional pension, and bereavement benefits) and long-term benefits for employees currently in service (annuities following industrial accidents and work-related illness, long-service awards, invalidity benefits, etc.) (see notes 29.5.2 and 29.5.3 of the consolidated financial statements for the year ended December 31, 2006).

The amounts of these obligations, the provisions and, for EDF Energy, the additional contributions to compensate for the shortage of funding for its pension scheme are calculated on an estimated basis using certain hypotheses, in particular, actuarial forecasts and a discount rate, which may be modified in relation to market conditions as well as by regulations governing retirement benefits paid out by the general system and those paid out by the Group. These hypotheses and rules may be adjusted in the future and may increase the Group's obligations, leading to an increase in the corresponding provisions (and additional contributions by EDF Energy). This could have a negative impact on the financial situation or the financial results of the Group.

Furthermore, the Law of August 9, 2004 imposed joint and several liability among the companies in the IEG branch in regards to financing the specific rights for which they are responsible. In the event that one company in the IEG branch fails to pay, EDF may be forced to finance a portion of the obligations of such company. This may also have a negative impact on the financial situation and the financial results of the Group.

## **The special healthcare benefits regime for current and former IEG employees is still to be secured over the medium and long-term.**

Branch negotiations are continuing and aim at:

- protecting and securing the special social security system related to health insurance for active and inactive personnel in the electricity and gas industry;
- improving global health coverage by making it similar to that provided by other major French groups.

If a satisfactory agreement is not reached, IEG branch employers, including EDF, may find themselves in a situation where they have to finance some, or even all of the plan's shortfall, which could have a negative impact on the Group's financial situation.

## **Employee conflicts could have a negative impact on the Group's activity.**

The Group cannot exclude a deterioration of its employee relationships or the occurrence of employee demonstrations. Strikes, stoppages, claims or other social problems may harm its business. The Group has not taken out any insurance for losses due to interruptions to business caused by employee demonstrations. As a result, its financial situation and operating results may be adversely affected by employee unrest.

## **The Group has implemented programs to improve its operating and financial performance and to reinforce its financial flexibility. The objectives set for these programs may not be achieved.**

The Group has implemented programs to improve its operating and financial performance and to reinforce its financial flexibility, such as the Altitude program.

The Group cannot guarantee that these programs will produce the expected results within the established timeframe. This may have a material adverse impact on the Group's financial results, financial situation and outlook.

## **Risks due to changes to the IFRS standards applicable by the Group.**

EDF consolidated financial statements for the year ended December 31, 2006 have been prepared, as for the year ended December 31, 2005, in accordance with international accounting standards approved by the European Union (see note 1.2 to the consolidated financial statements for the year ended December 31, 2006).

These references are evolving and new standards and interpretations are currently in the process of being drafted and/or approved by the qualified international bodies. The Group is studying the potential impact of standards or interpretations in the process of being approved or authorized by the qualified international bodies (notably IFRIC 12, see note 2.12.1 to the consolidated financial statements for the year ended December 31, 2006) on its financial situation. In relation to standards or interpretations in the process of being drafted by the qualified international bodies, the Group does not know of the possible evolutions that these standards or interpretations could entail, or the impact that they could have on its financial statements.

### 4.2.5 Risks related to the capital structure of EDF and the listing of its shares

#### 4.2.5.1 Significant volatility of the market price of shares

Stock markets have experienced significant fluctuations in recent years, which have not always been related to the performance of the specific companies whose shares are traded. Such fluctuations may materially affect EDF share price.

EDF share price may also be materially affected by a number of factors, including factors relating to the EDF Group, its competitors, general economic conditions and, in particular, the energy industry.

#### 4.2.5.2 Fluctuation in exchange rates

The shares will be quoted only in euros and any future payments of dividends on the shares will be denominated in euros. The share price and any dividends paid to an EDF shareholder in other currencies could be adversely affected by a depreciation of the euro.

#### 4.2.5.3 Risks related to future sales of shares by the French State

As of January 30, 2007, the French State was holding 87.3% of EDF's share capital. If the French State decided to reduce further its holding in EDF capital, such sales by the French State, or the perception that such sales could occur, could adversely affect EDF share price.

## → 4.3 - DEPENDENCY FACTOR

In 2006, EDF (excluding RTE-EDF Transport) had 22,915 suppliers (29,965 in 2005). EDF's five most important suppliers accounted for 16% of the total amount committed by EDF<sup>1</sup>, and the 10 most important accounted for 21.9%.

Some suppliers and subcontractors of goods and services purchased by the Group in connection with its business cannot be replaced. The issue of EDF's dependency on its suppliers is principally related to the nuclear power sector and, to a lesser extent, the computing and telecommunications sector.

The EDF Group has developed a skill as the architect-assembler of its generation plants and as a nuclear fuel cycle integrator, which gives EDF a technical expertise independent of that of its suppliers.

The EDF Group has very important commercial relations with the Areva group, which participates in each phase of the nuclear fuel cycle. The Areva group also participates in the construction and equipment sector, together with maintenance of the nuclear fleet.

The Areva group is EDF's main supplier in the nuclear sector. In this respect, EDF considers itself in a situation of interdependence with Areva. Relations between EDF and the Areva group, with respect to the fuel cycle, are governed by contracts which are most often multi-annual, and which are being renegotiated in light of their renewal. The renegotiated commercial terms of the contracts may be less favorable than the terms that are currently applicable.

With respect to the upstream nuclear fuel cycle (see Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues — B. Downstream")), EDF still relies to a large but decreasing extent upon the Areva group, which accounted for approximately 80% of EDF's purchases in the upstream cycle in 2005, and 78% in 2006:

- the Areva group supplies an important part of EDF's natural uranium needs. However, EDF is pursuing a policy of diversifying its sources of supply in order to balance market shares between the Areva group and other suppliers;
- in relation to the nuclear conversion process, a large majority of EDF's needs is met by the Areva group's Comurhex factory, in competition with other worldwide suppliers;
- in the enrichment area, EDF relies predominantly on the Areva group, in particular, through the enrichment services of its Georges Besse I factory. In 2006, EDF and Areva extended their contractual relationship concerning the use of George Besse I. They are currently negotiating conditions for the continuation of this relationship for 2007 and subsequent years. In the coming years, these negotiations will continue without any set time frame. If no agreement is entered into, the services are insured by amendments concluded every year. EDF also buys enrichment services from other suppliers that have already mastered ultracentrifuge technology;
- in relation to uranium reprocessing (URT), EDF relies on the Areva group for certain types of services and on foreign suppliers (Tenex and Urenco) for other types, notably enrichment;
- EDF uses two suppliers for the manufacture of fuel assemblies: the Areva and Westinghouse groups.

<sup>1</sup> Excluding RTE-EDF Transport and fuel purchases.

With respect to the downstream nuclear fuel cycle, see Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues — B. Downstream").

All operations for treatment of burnt fuel are carried out in the Areva group's factory at The Hague. These operations are carried out in accordance with the terms of a protocol entered into in 2001, covering the period from 2001 to 2015, and an agreement signed in 2004 for the period from 2001 to 2007. The commercial terms for renewal of this agreement are currently being negotiated.

### **Power plant development and maintenance**

In recent years, the Areva group has been EDF's main supplier with regard to power plant development and maintenance. In particular, the Areva group supplies nuclear boilers and their spare parts, plus a significant part of the boiler equipment, pipe work and plumbing for the nuclear island. A diversification program has been undertaken for several years, in particular, with Westinghouse and Mitsubishi, for the replacement of major components (steam generators in particular).

In order to prepare for the renewal of its generation facilities, EDF has chosen to rely on EPR technology, developed with the Areva group, by launching a first-of-a-kind project. In relation to this first-of-a-kind project, EDF has signed a contract with Alstom concerning the turbo-generator group and its general auxiliaries (see Section 6.2.1.1.3.5 ("Preparing for the future of the nuclear fleet")). Following the conclusion of this contract, the Alstom group consequently became EDF's most important supplier in the area of power plant development and maintenance in 2006.

In addition, for the maintenance of certain components of nuclear and fossil-fired power plants, EDF also maintains relations with the Alstom group. Goods and services supplied to EDF by Alstom are particularly important with respect to the maintenance of the nuclear power plants' turbo-generators and of certain large-sized components of the fossil-fired generation facilities. EDF does not consider itself in a situation of dependence on the Alstom group.

Finally, the EDF Group does not believe that, overall, it is in a situation of dependence with any given customer.



## 5.1 HISTORY AND DEVELOPMENT OF THE COMPANY

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## 5.2 INVESTMENTS

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## ➔ 5.1 - HISTORY AND DEVELOPMENT OF THE COMPANY

In this document, the references to the articles of association refer to those of the Company as approved by the French Decree n° 2004-1224 of November 17, 2004, and pursuant to French law n° 2004-803 of August 9, 2004 relating to the public electricity and gas service and to electricity and gas companies (the "Law of August 9, 2004"), and as modified by the ordinary et extraordinary Shareholders' meeting of February 14, 2006.

### 5.1.1 Name and registered head office

The name of the Company is: "Electricité de France". The Company may also be legally named solely by the "EDF" acronym.

The Company's head office is located in Paris (8th arrondissement): 22-30, avenue de Wagram.

### 5.1.2 Commercial registry, APE code

The Company is registered with the French *Registre du Commerce et des Sociétés de Paris* (Commercial and Corporate Registry of Paris) under the number 552 081 317.

Its APE code is 401 E.

### 5.1.3 Date of incorporation and duration of the Company

Pursuant to French law n° 46-628 of April 8, 1946, EDF was created in the form of a Public Industrial and Commercial Establishment (*Etablissement Public industriel et commercial*, or "EPIC").

EDF was transformed into a French *société anonyme* by the Law of August 9, 2004 and the French Decree of November 17, 2004. The duration of the Company is set at 99 years starting from November 20, 2004, except in the case of early dissolution or of extension.

### 5.1.4 Legal form and applicable legislation

Since November 20, 2004, EDF has been a French *société anonyme* with a Board of Directors governed by the laws and regulations applicable to commercial companies, in particular the French Commercial Code, insofar as these are not derogated from more specific laws, such as French law n° 46-628 of April 8, 1946, French law n° 83-675 of July 26, 1983, French law n° 2000-108 of February 10, 2000, the Law of August 9, 2004, the law of December 7, 2006 relating to the energy sector and by its articles of association.

### 5.1.5 History

The following elements describe the major stages of the Group's development.

EDF was created in 1946. Before 1946, the electricity sector had

developed around numerous local companies across France. At the end of the 1930s, there were approximately 200 generation companies, with approximately 100 transmission companies and 1,150 distribution companies. This multitude of private companies, in addition to some 250 local utilities, was responsible for approximately 20,000 distribution concessions. A certain number of large groups emerged from this apparent fragmentation in the fields of generation and distribution.

In 1946, the electricity and gas sectors were nationalized. The French law of April 8, 1946 created EDF in the form of an EPIC and created a special status for the personnel of the Power and Gas Industries (*Industries Electriques et Gazières*, or "IEGs"). The law nevertheless left in existence a certain number of non-nationalized distributors (local distribution companies, "LDCs").

The industrial base was developed over the period from 1946 to 2000. Initially, there was a fleet of fossil-fired generation facilities using coal then oil, and hydropower facilities, in particular with the construction of the dams of Tignes in 1952 and Serre-Ponçon in 1960. In 1963, following the French State's decision to guarantee France's independence in the energy field through nuclear power, EDF put into service the first commercial-scale nuclear generation unit at Chinon (70 MW), the first of a series of 6 generation units of the Uranium Natural Graphite Gas ("UNGG") family, the construction of which was staggered until 1972. The oil shocks of 1973 and 1979 resulted in an acceleration of the replacement of fossil-fired power with nuclear power. In 1969, the UNGG was abandoned in favor of the Pressurized Water Reactor ("PWR") family, which was used for new power plants: 34 generation units of 900 MW with construction staggered until 1988, then 20 generation units of 1,300 MW with construction staggered until 1994, then with 4 N4 generation units of 1,450 MW entering into service in 2000 and 2002.

Beginning in the 1990s, EDF embarked on a significant expansion abroad. In 1992, the Group obtained an interest in the share capital of Edenor, a distribution and supply company in Argentina. This shareholding was later increased to 90%. In May 1996, EDF acquired 11.34% of the share capital of the Brazilian electricity company Light, a distribution and supply company located in the State of Rio de Janeiro. As of December 31, 2004, EDF held 94.8% of the share capital of this company. In December 1998, EDF acquired 100% of London Electricity (renamed EDF Energy on June 30, 2003). This policy was pursued in 2001 with the acquisition of 34.5% of EnBW and the acquisition of shareholding interests in the Italian company Edison by the IEB consortium (63.8%), of which EDF held 18.03%, and in 2002 when London Electricity acquired 100% of the share capital of EPN Distribution plc and of Seaboard plc, two distribution companies located in the east and the south-east of England.

In France, the major development of recent years has been the opening of the market under the impetus of European regulation. In February 1999, sites where electricity consumption exceeded 100 GWh

per year, some 20% of the market, became entitled to choose their supplier. The eligibility threshold was then progressively lowered. In May 2000, 30% of the market was thus opened to competition, then 37% in February 2003. In July 2004, the totality of the market for non-household customers, equivalent to 69% of the entire market, was opened. In July 2007, the market will be fully open to competition and will include residential customers.

In parallel, the structures necessary for effectively operating a competitive market were put into place. The French Electricity Regulation Commission (which became the French Energy Regulation Commission — Commission de Régulation de l’Energie, or “CRE”) was created in May 2000. In the same year, in order to guarantee non-discriminatory access to all operators in the market, EDF created the Electricity Transmission Network (Réseau de Transport d’Electricité, or “RTE”, which became a wholly-owned subsidiary of EDF in 2005 as “RTE-EDF Transport”), an independent internal entity responsible for managing the high voltage and very high voltage public electricity transmission network. A similar reorganization of distribution took place on July 1, 2004. In 2000, the Group formed the trading company, EDF Trading, with the trading specialist Louis Dreyfus. It became a wholly-owned subsidiary in 2003. In 2001, Euronext and various industrial and financial operators on the electricity market, including EDF, created Powernext, the French electricity exchange. In 2002, in exchange for the shareholding in EnBW obtained by EDF, the European Commission requested EDF to implement a system of power supply capacity auctions (Virtual Power Plants, or

“VPP”) to facilitate access to the market for competitors. In 2003, the EDF Group sold its shareholding in the Compagnie Nationale du Rhône to Suez.

On November 20, 2004, in accordance with the French Law of August 9, 2004, EDF was transformed into a French *société anonyme* with a Board of Directors.

On May 12, 2005, EDF and AEM Milan entered into agreements relating to their decision to take joint-control of Edison. Following the launch of a takeover bid on October 4, 2005, this joint takeover was completed on October 26, 2005, when the offer was closed.

Starting in 2005 and continuing in 2006, the EDF group implemented its strategy of refocusing on Europe by selling its controlling interest in its subsidiaries Edenor and Light.

Finally, EDF was listed on the stock exchange during the second half of 2005. This operation was made possible by the company issuing 196,371,090 new shares and by the French State selling more than 34.5 million shares to employees and former employees of EDF and of certain subsidiaries.

By the end of November 2006, EDF Energies Nouvelles, a subsidiary of which the EDF group held 50%, became listed on the stock market. This operation involved the issuance of 18,946,854 new EDF Energies Nouvelles shares, 4,798,464 of which were reserved to the EDF Group.

## 5.2 - INVESTMENTS

For a description of the main investments made by the Company for the period 2006/2005, see Section 9.9.1.2 (“Net cashflows related to investment activities”) of this document. As regards the Group’s investment policy in the future, see Section 6.1.4 (“Investment Policy”) below.



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The EDF Group is an integrated energy supplier operating in a wide range of electricity-related businesses: generation, transmission, distribution, sale and trading of energy. It is the main operator in the French electricity market and holds strong positions in the other three principal European markets (Germany, the United Kingdom, Italy) making it one of the leading electricity groups in Europe, and a recognized actor in the gas market. With an installed capacity of 123.7 GW in Europe (128.2 GW world-wide) it holds, among the major European energy specialists, the largest production fleet and the one emitting the least CO<sub>2</sub>, owing to the share of nuclear technology and hydropower in its generation mix. The EDF group supplies electricity, gas and associated services to more than

37.8 million customers throughout the world and in Europe (more than 28 million of whom are in France). The EDF Group has built a business model balanced between France and the international markets, and between deregulated and regulated operations.

In 2006, the Group recorded consolidated sales of €58,932 million, net income (Group share) of €5,605 million, and it achieved earnings before interest, taxes, depreciation and amortization of €13,930 million.

From July 1, 2007, the EDF group will carry out its trading activities in a European energy market fully open to competition.

## → 6.1 - STRATEGY

At the European level, the Group's market share of electricity generation is of 19% (market share expressed in TWh generated in the European Union – source: EDF) and the Group aims to build on and continue the consolidation and strengthening of its existing positions in order to stabilize its electricity and gas market shares at this level. The EDF Group therefore intends to implement a gradual integration of certain activities (purchases, upstream/downstream optimization, gas and services and sharing of "best practices") in its main European markets (France, the United Kingdom, Germany and Italy).

### 6.1.1 Industrial and commercial objectives in France

The Group EDF intends to pursue its ambition of being an integrated operator, by relying, in particular, on a balance between regulated (transmission and distribution) and deregulated activities (generation and supply).

With regard to regulated activities, EDF intends to be an exemplary and transparent operator in particular at the time of implementation of the legal separation of distribution activities. In addition, it intends to further improve its operational efficiency and continue its strong investment policy, with a particular focus on maintaining a high level of quality in transmission and distribution services, which are already among the best in Europe, and take part in the development of interconnections. With regard to non-regulated activities, with the complete opening of the market on July 1, 2007, the Group emphasizes a differentiated marketing strategy according to customer groups, in order to protect and increase the value of its customer portfolio. This strategy relies upon the EDF brand and includes developing multi-services and bi-energies (electricity and gas) offers, in particular for residential customers, and new services with a higher value-added. In terms of generation, EDF has set itself the objective of increasing the average operating time of current PWR ("pressurized water reactors") nuclear plants to above 40 years. In addition, in May 2006, EDF decided to launch the construction of a leading EPR facility at Flamanville, to be able to control this market in the future and permit the renewal of the present nuclear power plant. In the context of the regular growth in the electricity market and increased tensions in the supply-demand ratio, the Group intends to continue strengthening its mid-term peak capacities through reactivating its oil-fired plants (total addi-

nal capacity of 2,600 MW by 2008) and developing combustion turbines (total additional capacity of 500 MW by 2008-2009). A project to transform the Martigues site oil-fired plants into two gas-fired combined cycles running on mid-merit is being studied. EDF intends to maintain its hydropower generation capacities during the concessions renewal process that is now open to competition. EDF has thus set itself the objective of obtaining the renewal of concessions which is necessary for its generation fleet's balance. The Group also intends to continue developing other renewable energies, principally through its subsidiary EDF Energies Nouvelles.

### 6.1.2 The Group's industrial and commercial objectives in its European positions

The EDF Group established solid positions in the three main European energy markets, outside of France.

In the United Kingdom, the Group will continue to pursue the deployment of its vertically integrated model within EDF Energy, and intends to:

- develop its generation asset portfolio in order to improve the upstream-downstream balance;
- improve the generation-supply gross margin through more integrated management;
- generate more value from its customer base by improving loyalty by ensuring the competitiveness of its product offers; and
- achieve higher productivity gains than those targetted by the last tariff review in "networks" activity.

The Group is ready to participate in various investments, notably in the nuclear field, within the context of the new guidelines set forth in the "Energy Review" carried out by the British government in Spring 2006 (see section 6.3.1.1.2.1 ("EDF - Energy – Generation")).

In Germany, the leading energy market in Europe, the Group would like to continue its development through its shareholding in EnBW. EnBW's strategy is based on a double objective:

- to consolidate its position in its core market (in Baden- Württemberg) through the renewal of its generation facilities, and by managing concession contracts that will expire;

- to pursue its development in Germany as well as in countries with a higher growth rate (central, eastern and south east Europe).

In Italy, through its shareholding in Edison, the Group expects to participate in a market that offers growth opportunities not only in the electricity sector but also in the gas sector.

Edison aims to continue to strengthen its generation electricity capacities.

Edison is involved in the exploration and production (E&P) of natural gas, foreseeing investments principally in the Mediterranean area, and also participates in the development of gas infrastructures.

In terms of marketing, Edison intends to develop significantly its electricity and gas sales:

- to major industrial customers;
- in other customers sectors (principally residential customers) that contribute to the consolidation of its downstream position.

In addition, in Switzerland, located in the heart of European energy exchange, the EDF Group participated, in 2006, in the capital restructuring of Motor Colombus and its subsidiary, Atel, the company in which it already held an ownership interest through Motor Colombus. With this transaction, the Group consolidated its position and its role as an industrial shareholder next to its partners, and participated in creating the leading energy pole in Western Switzerland. In addition, the Group intends to strengthen its access to peak Swiss generation facilities, thus complementing the Group's existing fleet.

## 6.1.3 Development

### Development in the gas sector

The Group has the ambition of becoming a prominent gas operator by strengthening its activity in this area with the double objective of:

- developing its presence on the consumer market: the sale of natural gas in order to increase the value of its customer portfolio by proposing a bi-energy offer and the use of gas in its new electricity generation units (gas-fired combined cycles);
- securing in the long-term its supply sources: a broad and competitive portfolio of long-term contracts, including natural gas reserves, and taking a position on transport and storage capacities (investments and/or contractual reservations of rights) to meet its gas requirements in the different markets, while hedging against the price risk, including through the assessment of upstream projects;

In the French market, EDF's medium-term target is the number two position in natural gas sales. On a European level, the Group aims to handle an overall gas annual volume between 450 and 500 TWh over the medium term.

### Geographical development

In the context of the progressive building up of the European energy market and convergence of electricity prices, the Group is contemplating growth opportunities on different European markets close to France.

The Group is planning to rationalize its current positions in central and eastern Europe countries around a core constituting a basis for

development and on participating in expected privatization programs and in the renewal of/growth in generation fleets.

Outside of Europe, the Group intends to enhance and maintain its engineering skills at the highest level by participating internationally in new projects related to the development of generation capacities, relating to the nuclear, fossil fuel power, (high yield coal and gas) and hydropower fields, especially in China and in the Mekong region (Vietnam, Thailand and Laos). The relaunching of new worldwide nuclear power projects offers the Group new opportunities, in particular in the United States of America where the new energy policy provides for incentives for the development of new nuclear facilities (Energy Policy Act, EPACT).

### Development in renewable energies

The Group also intends to strengthen its generation capacity in wind power, which represents a high-growth market, mainly through its subsidiary EDF Energies Nouvelles which became listed on the stock market at the end of November 2006. The Group plans to reach approximately 3,300 MW of installed power by 2010/2011, whether by itself or through partnerships.

### Development in energy-related services

Finally, by relying on the EDF brand awareness and technical expertise, the Group plans to develop, in the context of the market marked by the search for improvements in energy efficiency and the development of renewable energies. It intends to develop its energy-related services activities with the objective of offering all of its customers a broader range of global, integrated and efficient solutions which are adapted to each customer group.

## 6.1.4 Investment policy

At the time of its listing on the stock exchange at the end of 2005, EDF announced as part of its industrial project of renewal and organic growth, development and external growth investments of approximately €40 billion over the period 2006-2010, including €26 billion over the 2006-2008 period.

The investments for renewal and organic growth are intended to maintain the industrial equipment, enhance and strengthen the flexibility of the generation fleet, build capacity in line with growth in the European market and generate value from network assets.

Investments in development and external growth projects are intended, in particular, to selectively and profitably complete the Group's core activities by, in particular, strengthening its gas, wind power and service activities primarily in Western Europe.

These investments will be made in accordance with strict corporate governance rules and rigorous investment criteria focused on value creation:

- Net present value/investment ratio exceeding 10%; and
- Accretive impact on net income within 3 years.

In 2006, EDF Group's investments amounted to €6.6 billion against €5.3 billion in 2005<sup>2</sup> and €5.1 billion<sup>3</sup> in 2004<sup>4</sup>.

<sup>2</sup> This amount does not include investments related to the joint takeover of the Edison group, which was already close to completion when the Group communicated on its investment policy.

<sup>3</sup> This amount does not include the repurchase from EnBW of EnBW treasury shares, pursuant to the agreements entered into in 2004 between EDF, OEW and EnBW.

<sup>4</sup> 2004 investments' amount is described in Section 9.5.1.2 ("Net cash flow used in investing activities") of the 2005 *Document de Référence*.

In 2006, the EDF Group saw the relaunch of renewal and organic growth investments: these investments amounted to €5.9 billion, up 14.8% compared to 2005 (see section 9.9.1.2 ("Net cashflows linked to investment activities")). In France, generation and network investments amounted to €3.8 billion in 2006 compared to €3.1 billion in 2005, up 21.5%. In 2006, the generation investments increased by 53% compared to 2005.

Abroad, investments amounted to €2.1 billion in 2006.

In addition to €5.9 billion of renewal and organic growth investments, the Group spent €0.7 billion on external growth investments.

For the period 2007-2009, EDF intends to invest nearly €31 billion, of which nearly €17 billion in France.

## ➔ 6.2 - PRESENTATION OF THE EDF GROUP'S ACTIVITY IN FRANCE

### 6.2.1 Deregulated activities in France

The deregulated activities of EDF in France (activities open to competition), include the generation and supply of electricity. EDF is implementing an integrated model for the joint operational management of its portfolio of assets upstream (generation and procurement of energy and fuels) and downstream (wholesale and retail) to guarantee supply to its customers through the best possible management of operational and market risks and with a view to maximizing gross profit.

#### 6.2.1.1 Electricity generation

EDF groups together its main electricity generation activities in France within its Generation and Engineering Division which has all of the skills and performance levers necessary to operate the largest European electricity generation fleet and to manage its development and continuity.

As of December 31, 2006, the Generation and Engineering Division had 35,233 employees. It is organized around three major businesses: nuclear power, hydropower and fossil-fired power.

Its engineering team provides technical and industrial skills to the entire Group.

##### 6.2.1.1.1 General presentation of EDF's generation fleet

###### 6.2.1.1.1.1 Composition and characteristics of installed capacity

With a total installed capacity of 96.4 GW in mainland France<sup>5</sup> as of December 31, 2006, EDF has the largest generation fleet in Europe, accounting for approximately 16% of the total installed capacity of the main European countries (the 22 member countries of the UCTE — Union for the Coordination of Transmission of Electricity in Europe — which includes, in particular, Germany, Italy, Spain and the United Kingdom). In 2006, EDF's generation facilities represented 485.2 TWh.

As of December 31, 2006, the capacity of EDF's generation fleet in metropolitan France was as follows:

- 58 nuclear units based on pressurized water reactors ("PWR") (a unit is defined as a generation unit including a reactor, steam generators, a turbine, a generator and the related equipment):
  - these units are spread out over 19 sites;
  - they have various capacities: 34 units have a power capacity of 900 MW each, 20 units have a power capacity of 1,300 MW each and 4 units have a power capacity of nearly 1,500 MW each; and
  - they have an average age of 21 years (between 5 and 29 years)<sup>6</sup>.
- 30 functioning fossil-fired units, including 13 coal-fired units, 8 oil-fired units, 2 steel-manufacturing gas generation units and 7 combustion turbines; these units have an average age of approximately 35 years; in addition, there are 8 units which were shut down, including the last three oil-fired units put in reserve that EDF decided to reactivate by 2008.
- As of December 31, 2005, 2 coal-fired units and 2 oil-fired units were permanently shut down in 2006 following a decision of the Board of directors' meeting of May 25, 2005.
- 447 hydropower plants with an average age of about 50 years.

There were also:

- the wind power generation capacity of EDF Energies Nouvelles (see Section 6.4.1.2.1.2 ("EDF Energies Nouvelles")) and the incineration plants of the TIRU group (see Section 6.4.1.2.3.2 ("TIRU group") below); and
- 64 hydropower plants attached to the operational perimeter of the Generation/Engineering Division but held by the Group's subsidiaries: SHEMA (100%), FHYM (65.7%) and FHYT (49.5%), representing a total of 66.5 MW of installed capacity in 2006 and 218 GWh possible generation.

###### 6.2.1.1.1.2 Evolution of the installed capacity and generation over the last three years

The table below shows the evolution of installed capacity over the last three years:

Installed Capacity <sup>(1)</sup>	As of December 31, 2004		As of December 31, 2005		As of December 31, 2006	
	In MW	%	In MW	%	In MW	%
Nuclear power	63,130	64	63,130	65	63,130	65
Hydropower <sup>(2)</sup>	20,049	20	19,990	21	20,062	21
Fossil-fired <sup>(3)</sup>	16,177	16	13,920	14	13,206	14
<b>TOTAL</b>	<b>99,356</b>	<b>100</b>	<b>97,040</b>	<b>100</b>	<b>96,398</b>	<b>100</b>

(1) Expressed in MW of power connected to the network.

(2) Excluding Corsica and the French overseas departments, 371 MW in 2006.

(3) Excluding Corsica and the French overseas departments, 1,407 MW in 2006.

<sup>5</sup> For Corsica and French overseas departments see Section 6.2.2.3 ("Island energy systems").

<sup>6</sup> Arithmetic mean based on industrial commissioning.

The table below shows the evolution of the generation from EDF's installed capacity over the last three years:

Generation <sup>(1)</sup>	As of December 31, 2004		As of December 31, 2005		As of December 31, 2006	
	In TMh	%	In TMh	%	In TMh	%
Nuclear power	427.1 <sup>(4)</sup>	88	429.2 <sup>(4)</sup>	88	428.1	88
Hydropower <sup>(1)(3)</sup>	43.9	9	37.5	8	40.2	8
Fossil-fired <sup>(2)</sup>	16.5	3	21.4	4	16.9	4
<b>TOTAL</b>	<b>487.5</b>	<b>100</b>	<b>488.1</b>	<b>100</b>	<b>485.2</b>	<b>100</b>

(1) Excluding Corsica and the French overseas departments, 1.4 TWh in 2006.

(2) Excluding Corsica and the French overseas departments, 4.2 TWh in 2006.

(3) Gross generation excluding the necessary electricity consumption for the functioning of energy transfer pumping stations (stations de transfert d'énergie par pompage, or STEP) (7.5 TWh in 2006)

(4) From 2005 onwards, nuclear generation is recorded on the RTE-EDF Transport meters whereas before it was recorded on the meters of EDF as producer, which results in a —0.9TWh difference approximately.

### 6.2.1.1.2 Strengths of the generation facilities' fleet

With a total installed capacity of 96.4 GW as of December 31, 2006 in mainland France, EDF has the largest fleet of generation facilities in Europe. This fleet has significant assets:

- **A competitive generation mix with variable generation costs and limited exposure to hydrocarbon market fluctuations thanks to nuclear and hydropower facilities.**
- **A variety of generation means enabling adequate cover of EDF's "downstream" portfolio needs (final customers, VPP, sales on the wholesale markets, etc.).** Utilization of the fleet's various components is managed by giving priority, at any given time, to the generation type offering the lowest variable costs. Run-of-river hydropower plants are used for base generation. Nuclear plants, because of their low variable generation costs, are used for baseload and mid-merit generation. Adjustable hydropower generation (coming from dams) and fossil-fired plants are used for mid-merit and peak generation.
- **A significant standardized fleet of nuclear facilities, the control over the full life cycle of which gives EDF competitive advantages.** Moreover, EDF is working towards extending the lifespan of its power plants and improving their technical performances.
- **A fleet generating at over 95% without CO<sub>2</sub> emissions** owing to the predominance of nuclear and hydropower generation facilities, representing a competitive advantage in an increasingly restrictive regulatory context.
- **A geographical position at the junction of electricity exchanges between the continental platform and the electric peninsulas** (Italy, Spain, the United Kingdom).

### 6.2.1.1.3 Nuclear generation

The electricity generated by EDF from its fleet of nuclear power plants represents, as of December 31, 2006, 88% of its total electricity generation. The characteristics of this fleet are set forth below.

#### 6.2.1.1.3.1 EDF's nuclear fleet

EDF's PWR model is divided into three series of available electrical power:

- 900 MW series consisting of 34 units of approximately 900 MW (i.e., a total power capacity of 30,770 MW);
- 1,300 MW series consisting of 20 units of approximately 1,300 MW (i.e., a total power capacity of 26,370 MW); and
- N4 series, the newest, consisting of four units of approximately 1,500 MW (i.e., a total power capacity of 5,990 MW); totaling 58 units in service spread over 19 sites, with a total installed capacity of 63,130 MW as of December 31, 2006;

The first unit of the 900 MW series power plant was commissioned at Fessenheim in 1978. The most recent unit was commissioned at Civaux in 2002. This fleet of reactors has accumulated an experience equivalent to more than 1,200 reactor years of operation (arithmetic sum of the years of operation of EDF's PWRs). EDF's nuclear fleet has reached maturity, but is still young, with an average age of approximately 21 years for an estimated technical lifespan in excess of 40 years.

The EDF Group owns 50% of the Tihange plant in Belgium and holds shareholdings in German power plants through its interest in EnBW.

EDF owns nuclear facilities' sites, which is an advantage when it comes to the renewal of its fleet, because EDF already has the sites needed to build new units.

The EDF power plants from first-generation technology have been gradually shutdown and are being decommissioned.

#### Generation allocation contracts

EDF has developed an industrial cooperation with European operators in the nuclear industry, in the form of generation allocation contracts related to units of EDF's French nuclear fleet. Thus, EDF's fleet includes four power plants (up to 1.4 GW) jointly-owned with the following European electricity companies:

- Fessenheim 1-2: EnBW (17.5%) and the consortium of Swiss electricity companies, CNP (15%);
- Bugey 2-3: Electricité de Laufenbourg in Switzerland (17.5%);
- Tricastin 1-4: Electrabel (12.5%); and
- Cattenom 1-2: EnBW (5%).

The purpose of these generation allocation contracts, for each unit concerned, is to make available to each partner the proportion of energy generated which is actually due to them — in return for payment of their share of the construction costs, annual operating costs (including the cost of the fuel), local taxes and taxes specific to nuclear energy, and the costs relating to decommissioning. In these operations, the partners shared the industrial risks with EDF during the development of the power plants (involving three firsts-of-a-kind) and assume the risks associated with the operation of the power plants. They have, however, no operational role.

Furthermore, EDF signed a second type of generation allocation contract (for a total of 2 GW) enabling its partners to benefit from a proportion of electricity generation from a given fleet. These contracts concern the following power plants:

- Chooz B1-B2 (first-of-a-kind N4): Electrabel and the Belgian company SPE (25%);

- Cattenom 3-4: Electricité de Laufenbourg in Switzerland (7.8%) and a consortium of Swiss electricity companies CNP (21.8%).

### 6.2.1.1.3.2 Environment, safety and radiation protection

#### A. Environmental safety

EDF is making great efforts to reduce the volume and the environmental impact of the liquid and gas emissions by its nuclear power plants. From 1990 to 2002, while already much lower than the regulatory limits, EDF reduced its liquid emissions by a factor of 30 (excluding tritium and carbon-14). The reduction of liquid emissions has since continued, having been reduced by more than 50% between 2002 and 2006. These emissions have now reached a very low limit.

With regards to the management of operating low and average activity ("FAMA" waste) waste, steps have been taken to limit its storage on all nuclear sites. In addition, since 2004, very low-level waste is sent to the very low-level waste storage center (CS-TFA) of the French National Agency for the Management of Radioactive Waste (*Agence Nationale pour la Gestion des Déchets Radioactifs*, or "ANDRA") at Morvilliers.

For a description of nuclear waste processing downstream of the cycle as well as decommissioning, see Sections 6.2.1.1.3.4 ("The nuclear fuel cycles and related issues – B. Downstream") and (6.2.1.1.3.6 "Decommissioning of nuclear power plants"), respectively, below.

An ISO 14001 certification procedure (see Section 6.4.3.3 ("The sustainable development policy - organization and methods of implementation") below) was undertaken in 2002 for all units of the Nuclear Operations Division. In 2004, all of the units were certified. The certification was renewed in 2005.

In 2006, all the nuclear sites were made compliant with the standards defined by the order relating to General Technical Environmental Regulations (*Règlementation Technique Général Environnement* – or "RTGE" order of December 31, 1999 modified by the order of January 31, 2006) applicable to basic nuclear installations (limitation of noise nuisance and other pollution risks, non-use of toxic products, etc.)

#### B. A global nuclear safety policy

EDF, in its capacity as a nuclear operator, assumes responsibility for nuclear safety and reaffirms nuclear safety as its main priority in a framework of constant evolution (market competition, environmental matters, etc.)

The implementation of the French nuclear electricity program led EDF to establish safety measures which:

- take into account, from the design stage, the risks that might arise during the operation of the power plants, whether relating to the actual operation of the installations or to internal or external attacks;
- are based both on the application of strict rules of operation, and on the cautious and inquiring attitude of the technical teams encouraged through training and the establishment of a true "safety culture";
- are based on the cumulative experience of a standardized fleet of 58 reactors (i.e., almost 1,200 reactor years of operation); and

- benefit from integrated nuclear engineering and R&D within the Group in order to anticipate the correction of failures, maintain the installations in good working order, develop materials/equipment on an ongoing basis, reassess safety margins, monitor technology advances as well as the implementation of more effective new technologies and the managing of decommissioned sites.

Nuclear safety is subject to numerous controls, both internal and external. The external control of the safety of nuclear facilities in France is carried out by the Nuclear Safety Authority (*Autorité de Sûreté Nucléaire* or "ASN").

EDF is subject to the following external audits:

- At the national level:
  - regulatory inspections carried out on sites by ASN, randomly or on a scheduled basis (approximately 400 inspections per year);
  - a safety re-examination process conducted on a 10-year basis has also been in place since 1990. It aims to improve compliance with safety standards and to reassess these standards based on feedback and new knowledge. The standards reassessed in this way are then set until the next re-examination. The objectives are established by the ASN (which monitors compliance) while EDF proposes solutions to meet them, implementing them after obtaining the approval of the ASN. The first safety re-examination was undertaken in the context of the second 10-year inspections: the reassessment of safety standards was completed in 2004 for the 900 MW series. In October 2006, following their safety re-examination, the ASN agreed to the continued operation by EDF of 1,300 MW series power plants until they reach the age of 30 years. The safety re-examination relating to the third 10-year inspections for the 900 MW series, as well as the re-examination relating to the first 10-year inspections for the 1,500 MW series, are currently being carried out by the ASN. The 10-year safety re-examination is an important step in extending the lifespan of power plants (see Section 6.5.4.2 ("Specific regulations applicable to nuclear facilities" below).

Controls, verifications and modifications to be made on the units according to the reassessed safety standards are performed at the 10-year inspection. By the end of 2006, the second 10-year inspections had been performed on 30 units of the 900 MW series, from a total of 34. Inspections have begun for the 1,300 MW series and will continue until 2014.

- At the international level, regular inspections are held making it possible to benefit from the experience gained worldwide:
  - the OSART (Operational Safety Review Team) of the IAEA (International Atomic Energy Agency) performs reviews at the request of the ASN with the objective of formulating recommendations and promoting good working practices; and
  - the international "Peer Review" inspections carried out by WANO (World Association of Nuclear Operators) and organized at the request of EDF perform the assessment of safety performance and also help promote best international working practices.

EDF has also implemented internal audit procedures, such as:

- every three to four years, EDF performs overall safety assessments for each power plant, which take place over a three-week period and involve approximately 30 inspectors;



- the General Inspector for nuclear safety and radiation protection, reporting to and appointed by EDF's Chairman, performs audits to assess the overall safety of the nuclear fleet on an annual basis and to suggest improvements to the company's management.

In relation to the condition of its facilities, EDF would like to reach a level comparable to the best international operators, which requires continued improvement of behavior and practices on maintenance sites, as well as investments focused on the renovation of premises and equipment. At the end of 2006, a program specially developed to improve the conditions of the facilities ("*Obtenir un état exemplaire des installations*") was implemented in order to bring all nuclear sites up to best international standards regarding the running of facilities. This investment and maintenance programme involves several hundred millions of euros of investment over a period of 5 years.

The regulatory context for the operation of nuclear power plants changed in 2006 following the promulgation of the law of June 13, 2006 relating to nuclear transparency and safety (see Section 6.5 ("Legislative and regulatory environment")). This law reforms in particular the governance of safety and radiation protection by guaranteeing access to information concerning health and the environment to all individuals, and by formalizing transparency relating to nuclear safety.

### C. Implementation of a warning system

In the event of an accident, a crisis plan is in place to limit impacts on the environment and on people. To ensure the safety of the installation and the protection of people, the system is based on two closely coordinated plans, designed for both local and national use. These are the Internal Emergency Plan (*Plan d'Urgence Interne*, or "PUI"), prepared by EDF, and the Special Intervention Plan (*Plan Particulier d'Intervention*, or "PPI"), prepared by the French "*préfectures*" in collaboration with the French State and EDF. In order to provide greater effectiveness and thus, improved protection of people, these plans have recently been revised, in particular, to take into account the risk of malicious mischief.

The relevance of the system for warning, informing and protecting people is regularly assessed through accident simulation exercises, which make it possible not only to ensure the correct operation of the crisis plan, but also to improve upon it, in particular, by clarifying roles and validating all of the required physical and human resources. Each year, approximately 100 exercises are organized for the entire French nuclear fleet, *i.e.*, approximately one drill every three days. Approximately 10 exercises are on a national level, under the management of the ASN and involve EDF, the *préfectures* and public authorities.

### D. Major events concerning safety

Events are classified on a scale of 1 to 7, with 7 being the most serious (INES scale — International Nuclear Event Scale). Those of no consequence for nuclear safety are classified as "discrepancies" or level 0 events.

Since the establishment of a scale of this kind in France in 1987, no level 3 event (serious incident — very low external emission, and exposure of the public representing a fraction of the regulatory limits) or above has occurred regarding the French nuclear fleet. Since 2002,

a maximum of one level 2 event (incident provoking major breach of safety regulations and/or significant contamination or over-exposure of a worker) has been declared each year for the entire French nuclear fleet, as a result of failures to comply with safety regulations (before 2002, an average of two incidents were recorded every year). Each year, an average of approximately one level 1 event (non-compliance with the approved rules of operation occurring due to equipment failure, human error or shortcomings in the procedures) for each reactor has been reported. The number of events classified each year for the nuclear fleet is therefore approximately one per reactor.

In 2006, no level 2 event was recorded. The average number of level 0 and above events in 2006 is 10.2 per reactor and the average number of classified events (level 1 and above) is 1.2 per reactor. Overall safety results over the last five years are stable.

### E. Radiation protection

The mobilization of all actors has enabled the continuous improvement of performance in terms of protecting personnel from the effects of ionizing radiation. Thus, the average annual collective dose of all workers, both employees of EDF and outside companies, has been halved in less than 10 years. In 2006, the average collective dose was 0.69 man-sieverts (mSv) per reactor per year, which is a comparable level to the average values recorded by German, Japanese and American operators for reactors using the same technology, *i.e.*, pressurized water.

EDF continues its efforts to lower the number of individual doses of exposure to radiation above the regulatory limit. Accordingly, the number of workers, whether from EDF or from an outside company, having received a cumulative dose over 12 months of between 16 and 20 millisieverts (annual regulatory limit) is 17 in 2006 (against 29 in 2005), and none of these doses were over 18 mSv. In the coming years, given the levels already achieved, efforts will have to be focused on power plants with the worst dosimetric results, in particular by cleaning their circuits.

Continued improvement in radiation protection involves raising the quality of the radiation protection culture to the same level as the safety culture. This ambition leads to, in particular, the reinforcement of the teams of radiation protection specialists in the field in terms of both number and skills.

#### 6.2.1.1.3.3 Performance of the nuclear fleet

The nuclear generation variable cost, mainly made up by the fuel costs, is low since it represents less than 30% of operating costs<sup>7</sup>. Therefore, the main competitive levers of the nuclear fleet are the amount of generated energy and the optimization of fixed operating costs. The levers relating to the fuel cycle are further discussed in Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues"). All things being equal, EDF is seeking to increase its nuclear-generated production and to cut its non-fuel operating costs.

### A. Operation methods of the nuclear fleet

#### Generation Cycle

PWR facilities alternate between cycles of several months of production and shutdowns so that part of the fuel charged into the core can be replaced.

<sup>7</sup> The operating costs are cash costs and are defined as follows: fuel costs (including downstream expenses), operating expenses (outside services and purchases, employees) and maintenance costs (expenses and investments). They do not include investments related to construction, decommissioning expenses, or depreciation and provisions.

At the end of each generation cycle, there is an alternation between two types of programmed shutdowns:

- A shutdown for refueling only (*Arrêt pour Simple Rechargement*, or "ASR"), during which, refueling is the only operation performed. This shutdown lasts in average around 35 days;
- Partial Inspection (*Visite Partielle*, or "VP"), devoted to refueling and maintenance, lasting in average around 55 days

Every ten years, the power plant is shut down for an average period of 100 days in order to carry out a 10-year Inspection (*Visite Décennale*, or "VD"), when an in-depth examination of the main components is performed by EDF.

### Operation of EDF's nuclear fleet

Owing to their low variable cost, nuclear generation means are first and foremost used as baseload generation means, after run-of-river hydro-power. The variations in consumption of EDF's final customers during one year (summer-winter, day-night) and the current restrictions in fluidity of the wholesale markets due to limited interconnections, lead to nuclear power also being used for mid-merit generation. Strong variations in seasonal consumption in France (in 2005, a factor of 1.6 was observed between respective monthly consumptions in August and December) and variations in levels of consumption during the winter months (for a drop in temperature of 1°C in winter, consumption in France rises by 1,500 MW) require a concentration of programmed nuclear fleet shutdowns during the summer months and also lead to mid-merit generation of nuclear power. Following the 2003 heat wave, the programming of unit shutdowns in summer takes into account a maximum of 20% of "seaside" ("bord de mer") units, the cooling method of which does not depend on rivers and smaller water streams.

In order to reconcile those issues concerning the strong variations in seasonal consumption in France, the availability of power plant units, and the efficient use of reactor fuel, EDF now divides its fleet of power plants into operating cycles of 12 and 18 months. At the end of 2006, they were divided as follows:

- 28 units of the 900 MW series and the four N4 units have an operating cycle of 12 months;
- 6 units of the 900 MW series and the 20 units of the 1,300 MW series have an operating cycle of 18 months.

### B. Generation and technical performances

In 2006, the nuclear fleet's generation amounted to 428.1 TWh, slightly less (- 0.3% or 1 TWh) than in 2005. The decrease in generation is essentially due to globally milder temperatures in 2006 compared to 2005. In the current context of operating a nuclear fleet on base and mid-merit generation, annual production of nuclear-generated power depends on random climatic and hydrological factors.

The production rate of the French nuclear fleet (defined as the generated energy compared to the maximum theoretical energy, the latter

notion corresponding to the constant operation of the installed capacity throughout the year, also known as the "load factor" ("Kp"), reached 77.4% in 2006. This rate is accounted for by an availability factor (ratio ("Kd")) of the available energy<sup>8</sup> over the aforementioned maximum theoretical energy of 83.6%, an improvement on the 2005 figure, and a utilization factor (ratio ("Ku")) of the generated energy over the available energy of 92.6%.

- Between 2001 and 2005, the Kd improved by 2.2 points due essentially to a reduction in the duration of shutdowns. In 2006, actions continued, contributing to a further increase in the Kd.

In addition to an increase in the availability of the nuclear fleet since 2001, shutdowns have been better planned on a seasonal basis, with a clear decrease in the number of power plant shutdowns programmed in winter (a maximum of 2 shutdowns programmed during the winter period since 2004 compared with nearly 6 shutdowns during winter 2001-2002) in order to meet continued significant demand during this period.

The technical operating performances of the nuclear installations can still be improved. In order to achieve this objective, the following performance levers are still to be achieved:

- full implementation of the plan to reduce shutdown periods;
- change to operating cycles of 18 months instead of 12 months for the 4 units of the 1,500 MW series, starting in 2007 and expected to be fully in place by 2010.

The effects of these levers will however be tempered by heavier shutdown programmes over the coming years due to an increased annual number of 10-year inspections and significant plants maintenance operations aiming to ensure a longer lifespan for the power plants.

The target for the availability factor remains to reach 84% on a long-term basis. However, a discrepancy in compliance was detected at the end of 2006 concerning steam generators in several production units. This defect is corrected during the power plants' programmed shutdowns. The default already affected the Kd in 2006, and will probably continue to do so in 2007 and 2008. In variation compared to 2006, the impact on the Kd could be approximately 0.5 points.

A number of efficient foreign nuclear power fleets (Germany, the United States) have achieved an availability factor of nearly 90% (Source: CEA Elecnu "Nuclear plants around the world"). Operational specificities of the French fleet justify most of this difference in performance, such as:

- the regulatory requirements applicable in France, notably employment legislation;
- a production cycle of 12 months for half of the French fleet (compared with production cycles of 18 to 24 months in the United States);
- a load-follow operation mode i.e., matching the load curve, more demanding on equipment and leading to unavailabilities.

<sup>8</sup>The available energy is equal to the maximum theoretical energy minus production losses for technical reasons inherent to the power plants: planned shutdowns, unplanned outages due to failure or for safety requirements, as well as regulatory tests.

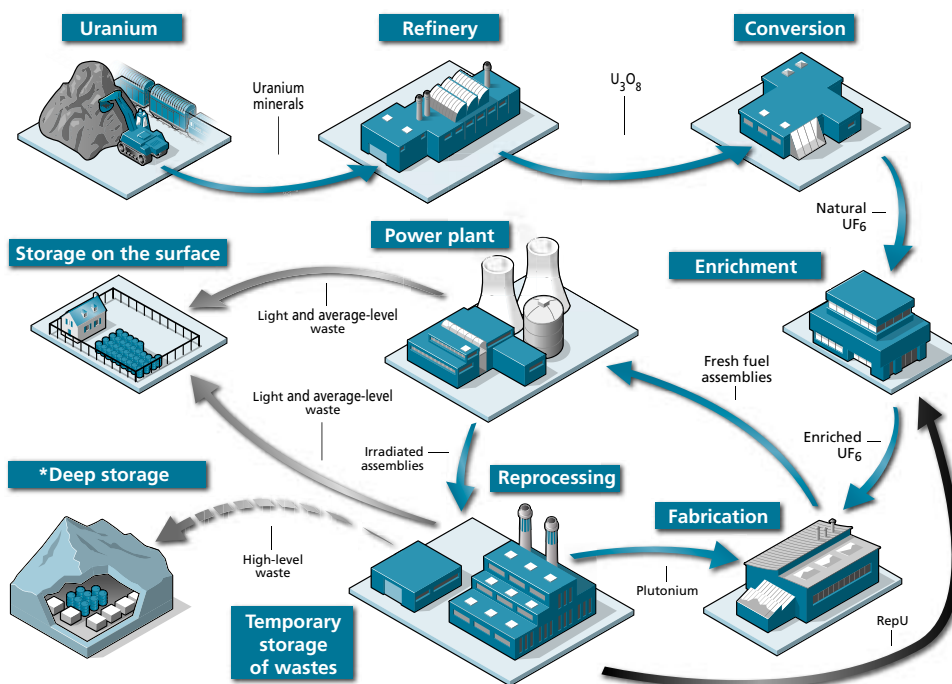
- The utilization factor (Ku) has been established over recent years as approximately 93% owing to:
  - constraints linked to environmental regulations (heating and flow of water streams, etc.);
  - optimization choices made by EDF for the operation of its fleet:
    - EDF's nuclear fleet contributes to the provision of "services" to the electricity network corresponding to the provision of a power reserve in the event of a network incident;
    - beyond the standard duration of a production cycle, EDF's nuclear fleet operates at reduced power ("stretch") in order to fully optimize its nuclear fuel management;
    - Unlike most foreign fleets, EDF's nuclear fleet does not operate solely in baseload, but also operates in a load-follow mode.

EDF considers that there is long-term potential to improve the "load factor" (Kp) notably through the development of interconnections at a European level, which would enable the French nuclear fleet to find further outlets.

## 6.2.1.1.3.4 The nuclear fuel cycle and related issues

French nuclear energy production represented 428.1 TWh in 2006, which corresponds to a volume of approximately 1,200 tons of fuel consumed (tons of heavy metal, uranium and plutonium) a year, including approximately 1,080 tons of UO<sub>2</sub> fuel (fluorinated and then enriched natural uranium), 100 tons of MOX fuel (fuel generated from reprocessed plutonium) and 20 tons of RepU fuel (reprocessed uranium).

The diagram shows the different stages of this cycle:



\* As for what concerns the in-depth-storage of long-life high-level waste, see Section "Storing conditioned ultimate waste" below.

The nuclear fuel cycle includes all of the industrial operations conducted in France and abroad which make it possible to deliver fuel for energy generation in the reactor, then to discharge and process it. The cycle is completed in three stages:

- upstream (more than two years): the processing of concentrates from uranium ore, the conversion, enrichment and fabrication of fuel assemblies;
- the heart of the cycle corresponding to the use of fuel in the reactor (three to five years): receipt, loading, operation and unloading; and
- downstream: storage in pool, processing of burnt fuel, conditioning of radioactive waste and recycling of recoverable material, temporary storage of conditioned waste before long-term management, as provided for by law n° 2006-739 of June 28, 2006 concerning the long-term management of radioactive material and waste ("the law of June 28, 2006").

EDF ensures the coherence of all of the operations in the fuel cycle. Generally speaking, upstream and downstream operations are carried out by subcontractors, generally on the basis of multi-year contracts. EDF carries out the heart of the cycle operations and acquires most of the raw materials at the extraction stage, with the rest being purchased in the form of more developed products, at the conversion or enrichment stage. EDF owns the fuel and is responsible for it throughout all the fuel cycle stages.



The cost of fuel is divided into approximately two-thirds upstream and one-third downstream. Upstream, the raw materials (including conversion), the enrichment and the fuel fabrication represent each approximately one-third of the fuel cost.

### A. Upstream

In order to ensure the continuity and reliability of the supply for its reactors, EDF retains overall control of the operations at each stage in the cycle, and manages a portfolio of contracts for the long term.

Through stock build-up at each upstream stage of the fuel cycle (natural uranium, converted or enriched uranium, stored fresh fuel assemblies), EDF seeks to avoid resorting to the short-term market in case of production fluctuations in the mines or the cycle plants. These stocks provide guarantees in terms of security of supply and price, in a high-pressure upstream materials and services market.

#### Natural uranium supply

Most of EDF's uranium supplies are guaranteed in the long term by contracts (of 7 to 15 years) already signed or by reciprocal commitments that will be confirmed in the long-term by definitive contracts (options guaranteeing access to volumes subject to conditions of price negotiation). The primary objective of this long-term supply policy is to guarantee the long-term security of EDF's supplies and it also contributes to partial hedging of the price risk.

A significant part of the supplies is provided by Areva from various geographic sources, in particular, Canada and Niger. As of 2004, again in order to reinforce the security of its supplies, EDF adopted a diversification policy which led it to increase the use of suppliers other than Areva, and enabling access to geographic areas with high potential (in particular Australia and the Commonwealth of Independent States).

These long-term supply contracts were concluded by EDF between the end of 2004 and the beginning of 2006 on the basis of prices lower than current spot and long-term market prices. These prices are revised according to formulae generally including, in variable proportions:

- a fixed basic price, revalued or not depending on the case, according to inflation rates;
- a variable portion tied to various indexes (including the price index published by EURATOM, representative of European electricity providers' supply prices), mostly stemming from previously concluded long-term contracts ;
- in certain cases, floor and ceiling prices.

In time, these indexation formulae limit and smooth out the variations in the rise in market prices while enabling to benefit from potential falls in price.

#### Conversion

A significant part of EDF's needs are covered by the Comurhex plant (Areva group), as well as other international producers, such as Cameco in Canada, Converdyn in the United States and Tenex in Russia.

These relationships are undergoing a process of renegotiation. EDF believes that the financial risks related to this stage of the cycle are limited. The costs associated with the conversion stage account for a small part of the cost of fuel.

#### U-235 enriched uranium

The majority of the enrichment services procured by EDF come from the Eurodif-Georges Besse I plant (Areva group), which uses gas diffusion technology. The Areva group has decided to replace the existing Eurodif plant at the beginning of the next decade with a new installation (Georges Besse II), which will use ultracentrifugation technology, a more modular technology that requires less electricity.

EDF and Areva are currently negotiating the conditions whereby EDF will be supplied by a portion of the future enrichment capacity from George Besse II. Moreover, in 2006, EDF and Areva extended their contractual relationship relating to the use of George Besse I and are negotiating conditions for the continuation of this relationship.

In parallel, in order to improve the competitiveness of its supply as rapidly as possible through use of ultracentrifugation enrichment services, EDF secured significant coverage of its needs from Urenco and Tenex, starting in 2006.

#### RepU reprocessing

RepU reprocessing makes it possible to use uranium from processing burnt fuel. It provides one to two reloads per year, which are carried out at two units of the Cruas power plant. The annual quantity that is not used is stored in a stable form in order to be used at a later stage, depending on market trends for natural uranium. The increase in the price of natural uranium has led EDF to examine the financial benefit of extending this procedure to other reactors.

#### Fabrication of fuel assemblies

Contracts with fuel producers cover all requirements over periods of three to five years and include provisions relating to product developments.

The contract signed with Areva NP in December 2002 covers  $\text{UO}_2$ , RepU and MOX products and covers most of EDF's requirements. For MOX, the contract was entered into pursuant to the protocol of August 2001 with Areva NC relating to processing of burnt fuel.

EDF's other supplier for  $\text{UO}_2$  is Westinghouse.

#### Strengthening competitiveness by improving the fuel energy output

EDF is implementing a strategy aiming at gradually increasing the efficiency of nuclear fuel for its different series. The aim is to increase fuel energy efficiency by increasing the combustion rate and optimizing operating cycles in order to increase the availability of the nuclear power stations, while enabling outage profiles that are consistent with the seasonal variation of demand. The average combustion rate of  $\text{UO}_2$  has risen from 33 GWj/t at the start of the 1980s, to 45 GWj/t today.

### B. Downstream

EDF takes responsibility for the use and processing of its burnt fuel and associated waste. Areva is responsible for processing and ANDRA is responsible for long-term management operations for the storage of ultimate waste, in accordance with the law of June 28, 2006 concerning the long-term management of radioactive material and waste.

EDF's strategy, in agreement with the French State, adopted with regards to the fuel cycle, is to process burnt fuel and to recycle the

plutonium separated in the form of MOX fuel. Given options available, this means that approximately 850 tons of burnt fuel are processed each year, out of approximately 1,200 tons of fuel consumed each year. This strategy, combined with an improvement in fuel output (enabling a reduction in the quantities of burnt fuel for the same energy generated), makes it possible to ensure, with existing industrial flexibility, that the quantities of burnt fuel awaiting reprocessing in the meantime remain in line with the capacities of storage pools.

### Processing burnt fuel from EDF's nuclear power stations

Burnt fuel awaiting processing is temporarily stored under water in cooling pools, under conditions that are recognized as being safe over time periods of several decades. At the end of a period of approximately 15 years after they have been unloaded from the reactor, spent UO<sub>2</sub> fuels are processed at Areva NC's The Hague site in order to separate the products that can be recycled from the waste. The waste is subsequently conditioned and temporarily stored at this site in specific premises.

The relationship between EDF and Areva NC concerning the transmission, processing and recycling of burnt fuel for the 2001-2015 period was formalized by a protocol signed in August 2001.

This protocol was principally implemented by a contract dated August 24, 2004, applicable for the period 2001-2007. This contract organizes the transmission, processing and conditioning activities with a view to recycling spent nuclear fuel from EDF's power plants until the end of 2007. It specifies:

- the handling and transmission of spent nuclear fuel from EDF's power plants to The Hague reprocessing plant;
- the separation of the fuel materials that can be recycled (uranium, plutonium) from high-level waste for 5,250 tons of burnt fuel, *i.e.*, an average of 850 tons per year with effect from the date the 2001 protocol was signed;
- the conditioning of radioactive waste contained in burnt fuel; and
- the intermediate storage of the conditioned waste pending their discharge to a long-term management center.

According to this agreement, EDF and Areva have reaffirmed their shared long-term prospect analyses for the downstream nuclear fuel cycle, as well as their willingness to share and maintain a coherent vision of the use of existing industrial structures. EDF and Areva are working on an agreement for the period after 2007.

### Storing conditioned ultimate waste

Radioactive waste, depending on their nature, level of radioactivity and the lifetime of their constituent radionuclides, have been classified into different categories: from high-level waste to low- and medium-level waste to very low-level waste. They are called "long life" when their period of activity lasts for more than 30 years, and "short life" otherwise.

- Long-life high-level waste ("HAVL")

French law n° 91-1381 of December 30, 1991, said "loi Bataille", has specified research initiatives concerning the various possible options for managing long life, high-level waste, and has specifically identified three solutions for the future of this waste (see Section 6.5 ("Regulatory and legislative environment) below).

- separation — transformation (which involves separating long life radioactive elements and transforming them into shorter-lived elements);
- storage in deep geological layers; or
- improvement of the long-term storage and conditioning processes.

On the basis of the works carried out in the context of the "loi Bataille", the law of June 28, 2006 defines a research programme for the long-term management of long-life, high-level waste.

It establishes a national plan for the management of radioactive materials and waste and provides that "[...] *following temporary storage, ultimate radioactive waste that cannot be stored at surface level or at a shallow depth for nuclear safety or radioprotection reasons, is to be stored in deep geological layers.*" It indicates notably that: "*in order to ensure [...] the management of long-life high- or medium-level radioactive waste, research and studies relating to this waste are being carried out [...] and notably reversible storage in deep geological layers [...] in order to choose a site and create a storage center so that the request for its authorization [...] be examined in 2015 and, subject to this authorization, the center be put into operation in 2025.*"

The treatment of burnt fuel enables the vitrification of long-life, high-level waste, which ensures very high-quality conditioning under a reduced volume. All of the long-life, high-level waste produced in this way, corresponding to the operation of the natural uranium graphite gaz ("UNGG") and to 40 years of operation of the PWR facilities, will represent a volume of 6,700 cubic meter. While awaiting decisions concerning storage in deep geological layers in the context of the law of June 28, 2006, conditioned long-life high-level waste is temporarily stored at the Hague site in specific premises.

- Long life medium-level waste

The structures of the assemblies (shells and nozzles, clad pieces, etc.), which also result from processing of burnt fuel, constitute activated waste. Unlike long life, high-level waste, these types of waste do not give off heat and constitute long life medium-level waste. They are currently compacted and conditioned in stainless steel containers. Other long life medium-level waste is produced by research or the fuel manufacturing cycle. Their volume, including the waste resulting from the operation of the Uranium Naturel Graphite Gaz facilities and that resulting from 40 years of operating the PWR facilities, will be approximately 60,000 cubic meter, of which approximately one-half represents the part of EDF. They are suitable for faster storage than long life, high-level waste because the lack of heat emission does not require a long cooling off period before storage. As with long-life high-level waste, long-life medium-level waste is temporarily stored at the Hague site in specific premises, awaiting decisions to be taken in the context of the law of June 28, 2006 concerning storage in deep geological layers.

- Low and very low-level waste

Short life, low-level waste comes from nuclear installations (gloves, filters, resins, etc.). It is stored on the surface at the Aube storage facility managed by ANDRA. For long life, low-level waste, such as radiferous waste and graphite waste, dedicated storage facilities are being stu-

died (see Section 6.2.1.1.3.2 ("Environment, safety and radiation protection") below). The law of June 28, 2006 provides for *"the finalizing of storage solutions for graphite and radiferous waste, in order that the storage center may be commissioned in 2013."*

Very low-level waste is waste whose radioactivity is very close to natural radioactivity. Mainly arising from the decommissioning of nuclear installations, it results mainly from rubble (concrete, scrap, lagging, piping, etc.). On February 21, 2005, EDF, Areva NC, CEA and ANDRA signed a contract regarding the acceptance by the latter of very low-level waste produced in order to store it at the Morvilliers facility for 30 years with effect from September 26, 2003. An application protocol was also signed to specify the responsibilities of the parties for the period 2003-2008.

### **Acceptance of future charges relating to the processing of burnt fuel and storage of radioactive waste**

Each year, EDF makes provisions for the downstream of the nuclear fuel cycle in France (see notes 29.2.1 and 29.2.2 to the consolidated financial statements for the year ending December 31, 2006).

The cost of storing short life radioactive waste can be determined on the basis of contracts entered into with ANDRA. These costs are recorded as the waste is stored. Consequently, this waste is not subject to special provisions in the consolidated financial statements. However, the cost of storing waste arising from the decommissioning of the power plants is an integral part of the decommissioning provisions.

The future management costs of long life, medium- and high-level waste resulting from the processing of burnt fuel are provisioned. In order to estimate the amount of the provisions to ensure coverage of the future charges relating to the long-term management of this waste, EDF used deep geological storage of waste as an assumption, in line with the choice of other countries (Sweden, Finland and Belgium).

Upon the initiative of public authorities, a working group including the public authorities, ANDRA and the nuclear waste producers (EDF, AREVA, CEA) worked from June 2004 through the first half of 2005 to evaluate the cost of geological storage for long life, medium- and high-level waste in order to establish a common benchmark on the subject. In 2005, EDF established a reasonable evaluation based on this work and ensured its consistency with international data. This evaluation takes into account the share of waste for which EDF is responsible and the volumes produced up to the end of the relevant accounting period (see note 29.2.2 to the consolidated financial statements for the year ended December 31, 2006).

The law of June 28, 2006 (see notes 5.1.1.3 and 29.2.2 to the financial statements for the year ended December 31, 2006) established the obligation for producers of waste to proportion their provisions taking into account the possibility of storage in deep geological layers.

In accordance with the provisions of the aforementioned law, EDF increased the amount of its provisions, taking into account notably the new time limits set by the law, the expressed financing needs of ANDRA, and public interest groups (*"Groupements d'Intérêt Public"*) from Haute-Marne and Meuse, as well as its own accompanying territorial projects (such as these needs and projects are evaluated at December 31, 2006) (see notes 5.1.1.3 and 29.2.2 to the consolidated financial statements for the year ended December 31, 2006).

Decrees specifying how the law should be enforced (*"décrets d'application"*) and ministerial orders (*"arrêtés ministériels"*) are currently being elaborated.

### **6.2.1.1.3.5 Preparing for the future of the nuclear fleet**

EDF believes that nuclear energy provides a lasting and economically efficient solution for future energy needs, in a context of decreasing fossil resources where proven worldwide reserves of fossil energy are limited, based on consumption in 2004, at approximately 40 years for oil, 65 years for natural gas and 165 years for coal (AIE — World Energy Outlook 2004). According to the same sources, the estimated uranium reserves will last for approximately 100 years at the current level of nuclear production. The development of a new generation nuclear reactor (called the fourth generation, see below) will enable to reduce significantly the level of consumption of natural uranium and increase the level of these energy reserves to several thousand years. Furthermore, nuclear energy has the advantage of not emitting greenhouse gases.

The Program law of energy policy guidelines of July 13, 2005 (LPOPE) (see section 6.5 ("Legislative and regulatory environment")) provided for the rapid launch of an EPR in France, confirming the preservation of the nuclear option. For EDF, preparing for the future of the nuclear fleet depends on two strategic factors:

- extending the lifespan of the nuclear power plants beyond 40 years; and
- preparing for their renewal, with the development of a first-of-a-kind EPR unit.

These two aspects of the preparation for the future of the nuclear fleet are complementary:

- Apart from the economic issues related to the lifespan of the existing units, EDF's target of extending the lifespan of its power plants beyond 40 years will allow it to optimize the renewal rate for the nuclear fleet and to smooth the related costs. EDF intends to spread the renewal of its fleet over at least 20 years.
- The construction of a first-of-a-kind EPR will make it possible to achieve a tested and trusted solution for renewal and will strengthen industrial capacity, which will benefit the operation of the existing fleet, over time, by continually improving safety levels.

### **A. Lifespan of EDF's PWR installations**

Studies carried out by EDF have shown that a 40-year lifespan is technically achievable for the existing units, without EDF being able to foresee whether formal approval will be given, plant by plant, by the ASN. By mobilizing its R&D, its engineering and adapting its maintenance policy, EDF has set itself the target of increasing the lifespan of its nuclear generation units beyond 40 years.

R&D efforts and the technical progress make it possible to consider the use of the power plants for a period of more than 40 years (in particular, for the vessel of the reactor and containment facilities, which are considered to be non-replaceable). In the United States, the operating licenses of numerous power plants have also already been extended from 40 to 60 years: at the end of 2006, 47 licenses had been extended in this way (including 31 for pressurized water reactors) and 8 were still being prepared (Source: US Nuclear Regulatory Commission). In Sweden, the process has also begun.

There appears to be no legislative or regulatory text limiting the lifespan of the power plants to 40 years. Nonetheless, authorization for the operation of a power plant must be validated by the ASN every 10 years at the time this authority re-examines safety.

## B. The European Pressurized Reactor ("EPR") and associated challenges

### 1. EPR: a major industrial challenge

In anticipation of the industrial development of new-generation reactors (fourth-generation: sodium fast reactors, gas high-temperature reactors, gas or lead-bismuth cooled reactors, etc.), which will not appear industrially on the market before 2040, most of the leading nuclear contractors and nations are developing intermediate generation reactors (3 and 3+ generation) which are an improvement (in terms of cost and safety) on the existing reactors and which will be available on the market in the shorter term, such as the Russian AES 92, Westinghouse's AP 1000, the ESBWR of General Electric and the EPR.

EDF has opted for EPR technology to prepare for the renewal of its nuclear fleet in service. This reactor is the result of the joint experience of operating the two biggest European nuclear fleets — the French and German fleets — and its safety standard has been examined by the German and French safety authorities.

As part of the renewal of European generation facilities, EDF wishes to maintain the comparative advantage it acquired in the 1970s and 1980s, with the development of a standardized and industrially controlled nuclear fleet.

The decisions governing the renewal of EDF's nuclear fleet will be made at the earliest by 2015 with commissioning after 2020, in particular with regards to extending the lifespan of the existing fleet.

Therefore, EDF has decided by undertaking the role of architect-assembler, the construction of a first-of-a-kind EPR in France, with the Flamanville 3 project, in order to be ready in industrial terms for the renewal of its power plants:

- by managing a reactor model that has been technically proven and that complies with the requirements of the ASN;
- by providing an operational industrial organization, established during the construction of the first model; and
- by acquiring sufficient experience operating a first-of-a-kind unit, before launching construction of a possible series.

Once commissioned in 2012, this reactor will deliver basic competitive energy, which can be used to address evolutions in demand. The total cost<sup>9</sup> of Flamanville 3 stood in 2006 at 46 euros / MWh (in 2005 euros).

### 2. The EPR industrial project

The EPR is a 1,600 MW reactor developed from the early 1990s by Areva NP (Areva group with a 66% interest and Siemens with a 34% interest), in partnership with EDF and German electricity companies, who participated in financing its development and contributed the technical know-how acquired through the operation of their nuclear fleets.

Like other reactors in use in France, the EPR is a pressurized water reactor. It has already been studied by the safety authorities, and benefits from technological and operational advances that have been incorporated into the most recent French and German reactors.

The breadth of the EPR industrial project also presents ambitious goals, relating to:

- safety;
- environmental protection;
- technical and economic performance;
- optimized organization of project management in this nuclear unit.

*Safety.* The development of the new kind of EPR reactor encourages EDF to increase the safety of its nuclear fleet by reducing the likelihood of a serious accident and limiting its potential consequences. These safety goals were determined since the reactor's conception in order to limit, as much as possible, the consequences of such an accident.

*Environmental protection.* Through its participation in the EPR project, EDF continues to maintain its commitment to environmental protection, by significantly improving its performance in comparison with its existing fleet, through continual progress using feedback obtained from its experience.

Compared to the current 1,300 MW units, the EPR project is accordingly intended to achieve:

- a 30% reduction in radioactive waste (reduction of the quantities of radiation materials in the reactor: uranium and structure waste);
- a 30% reduction of radioactive liquid emissions per MWh produced (aside from tritium and carbon 14); and
- a 30% to 40% reduction of radioactive gas emissions per MWh produced (aside from carbon 14).

In terms of radiation protection, the targeted annual collective dose is one-half the amount of the average figure for units operating in France.

*Technical and economic performance.* The EPR project's performance goals are the following:

- obtaining a thermal power capacity between 4,300 and 4,500 MW for a net electric power capacity of approximately 1,600 MW;
- a 91% availability factor thanks to certain design principles derived from the German reactors and allowing generation while maintenance operations are being carried out;
- using fuel in the best possible way (60,000 MW per day and per ton);
- reaching a technical lifespan of 60 years.

The new EPR, replacing the current PWR fleet should allow some reductions in operating expenses per kW and per kWh thanks to its technical performances and its size effect currently noted between the PWR 900 and the PWR 1,300 series.

<sup>9</sup> Equal to the present value of estimated costs in euros per MWh, including construction costs, interim interest charges, decommissioning costs, operating, tax costs and maintenance costs, including costs relating to the downstream cycle.

### *Project management for the first-of-a-kind unit.*

In renewing its fleet, EDF intends to maintain direct control of:

- the design and operation of its power plants;
- the organization of development projects;
- schedule and costs of construction;
- its relations with the ASN; and
- the direct integration of operating feedback.

This control defines the role of architect-assembler and corresponds to the position adopted by EDF during the development, renovation or decommissioning of its generation assets, and is based on its internal engineering capabilities.

The EDF Group's integrated engineering skills are an important asset for the management over the long term of the performance and safety of its nuclear, hydropower and fossil-fired generation assets.

### **3. Progress made on the project**

*Launching an EPR nuclear generation unit.* In 2004, EDF's Board of Directors decided to undertake the process of building an EPR nuclear generation unit in France located in Flamanville.

This project has been the subject of a public debate organized by the National Commission for Public Debate (*Commission Nationale du Débat Public* or "CNDP") from October 2005 to February 2006. The construction of the associated very high voltage line is the subject of a separate, but related, public debate organized by the CNDP. Following this debate, neither the project's technical options nor its localization have been called into question, and EDF is committed to:

- as regards the Flamanville 3 project, continue implementing a transparency and openness policy and advance even further to facilitate access to information;
- as regards project support, play an active role together with the local players in developing the surrounding territory.

After the publication on April 11, 2006 by the Chairman of the CNDP of a report on the public debate on the construction project for a first-of-its-kind EPR reactor, EDF's Board of Directors decided on May 4, 2006 to launch the construction of the EPR reactor in Flamanville. The Development Authorization Decree for the Flamanville nuclear facility was published in the *Journal Officiel* on April 11, 2007. EDF continues taking other steps necessary for the construction and operation of Flamanville 3. The goal is to have the reactor commissioned in 2012. Construction should begin at the end of 2007. Preparatory work, essentially earthwork, began in 2006.

*Feasibility studies.* The design studies have been completed. Feasibility studies are associated with the choice of suppliers. Accordingly, detailed studies are being carried out by SOFINEL (subsidiary held 55% by EDF and 45% by Areva) concerning the nuclear field. These studies aim to produce the necessary working documents for the construction of Flamanville 3 (civil engineering plans, installation of piping system, electric cable plans, etc.).

The comprehensive study program requires that, at a minimum, 40% of the studies should be completed when construction begins, in order to minimize risks during construction; the construction itself will take approximately 54 months.

*Supply and work contracts.* With respect to the first-of-a-kind EPR's Nuclear Steam Supply System, EDF entered into an agreement with Areva NP in July 2005, defining the scope of its supply requirements, its cost and the timeframe that will allow for its realization.

In 2006, EDF attributed, following international invitations to tender, the main contracts relating to the construction of Flamanville 3. Amongst these contracts are the civil engineering contract and the turbo-generator and related equipment contract. The main civil engineering contract was awarded to Bouygues Group and includes the studies and the comprehensive civil engineering work to be carried out on the site for the construction of the industrial buildings (buildings for the reactor, fuel, building for auxiliary nuclear equipment and protection, pumping station, framework of the main machinery room, etc.) The contract for the machinery room was awarded to the Alstom Group and includes studies and the supply of the machinery room (turbo-generator and related equipment).

In total, approximately 150 contracts will be awarded to big international groups and regional companies. From the beginning of 2007 approximately 80% of the total amount of contracts had been awarded.

Based on the 2005 economic conditions, the investment cost for the first-of-a-kind EPR in Flamanville 3 is evaluated to be €3.3 billion.

*Safety report and authorizations.* In addition to the Development Authorization Decree for Flamanville 3, several other authorizations are required to be able to work on the site (in particular, building permit, water and effluents pipe and sewage permission, an authorization to occupy maritime public domain).

Some of the authorizations obtained for preparatory works have been subject to judicial appeals filed by associations (see Section 20.6 ("Legal and arbitration proceedings")).

In accordance with its commitments following the public debate, EDF has acted to ensure a better level of transparency. In September 2006, EDF circulated a public version of the preliminary Safety Report and on November 6, 2006 signed an agreement with the CLI-Flamanville (Commission locale d'information) and the national association of CLI (ANCLI) allowing experts from these organizations to have access to the project technical information and be able to analyse it.

*Site works.* Since the summer of 2006, EDF has undertaken preparatory works on the construction site of the power plant. These works include principally earthwork and the carrying out of digging works (tunnels, structural walls, etc.)

The principal civil engineering works will start at the end of 2007, after the "Development Authorization Decree" and planning permission have been obtained.

*Industrial partnership.* The development of new nuclear capacities is a challenge contributing to guaranteeing the security of supply and the energy independence of the European Union.

In this context, Enel confirmed its interest in the EPR project launch by EDF in 2004, by declaring its intention to participate in the investment of the first-of-a-kind Flamanville 3 project.



In accordance with a partnership agreement, EDF and Enel have defined the conditions of an industrial partnership:

- Enel has invested in Flamanville 3 up to 12.5% of the construction and operation costs as well as decommissioning costs and long-term management of nuclear waste;
- Enel places a group of engineers at the disposal of the project management team in order to acquire the required nuclear competency;
- Enel receives in return 12.5% of the electricity generated by Flamanville 3, over the time of its operation, delivered in France on the RTE-EDF Transport transmission network;
- EDF remains the nuclear operator, assuming full nuclear responsibility and will ultimately make all of the decisions.

Enel considers investing in the five following EPRs that may be built in France by EDF, under the same conditions as that of the Flamanville 3 first-of-a-kind project and has been granted options for that purpose.

Enel has also undertaken to give EDF a right to participate, on the same terms and conditions as those for the Flamanville 3 first-of-a-kind project, in the construction of EPRs which Enel may develop in Italy or elsewhere in Europe, or, if necessary in other investment projects of the same type.

Prior to the effective realization of these investments, EDF offered Enel the possibility to progressively acquire, since January 1, 2006, energy generated by its existing nuclear facilities up to a total capacity of 1,200 MW.

The terms of the memorandum of agreement have been finalized, and Enel and EDF have confirmed their interest for this partnership but at present the memorandum has not yet been signed.

Finally, in connection with the disposal of EDF's (18.75%) and Charbonnages de France's (16.25%) shareholdings in the SNET, Enel hoped to participate in the competitive bidding process, which has been set up, as a purchaser. This process was delayed following the launch of public offers on Endesa, SNET's principal shareholder holding 65% of the share capital.

### 6.2.1.1.3.6 Decommissioning of nuclear power plants

EDF takes full financial and technical responsibility for the decommissioning of its nuclear power plants. For EDF, the issue is to demonstrate, through the decommissioning process, its control of the entire life cycle of the means of nuclear power generation.

The decommissioning of nuclear power plants involves three levels, according to a classification defined by the IAEA in 1980:

- Level 1: shutdown of the plant, fuel unloading, draining of circuits (99.9% of radioactivity is eliminated), followed by final shutdown: dismantling of non-nuclear facilities that are permanently decommissioned, with limited access;
- Level 2: dismantling of non-nuclear buildings and nuclear buildings excluding the reactor building, packaging and evacuation of wastes to storage facilities, isolation — containment — the section of the facility surrounding the reactor is kept under surveillance;
- Level 3: complete dismantling and removal of the reactor building, and of materials and equipments that are still radioactive; surveillance is no longer necessary, and the site may be re-used.

In practice, the operations leading from Level 1 to Level 2 are conducted consecutively over a period of time of approximately 10 years after the reactor ceases production. A waiting period may occur between the end of operations leading to Level 2 and the beginning of operations leading to Level 3, in order to allow the radioactivity in the irradiated materials to decay. The length of this waiting period may vary, depending on the comparative interest of radioactive decay and the length of time the facility must be monitored and can depend on the re-use envisaged for the site. At the end of this waiting period, the length of time spent on operations leading to Level 3 is estimated to be approximately 10 to 15 years.

### 1. Decommissioning of first-generation power plants that have been shut down

EDF has chosen to completely dismantle power plants that have been shut down (one PWR: Chooz A, one heavy-water reactor (HWR): Brennilis, the Creys-Malville fast neutron reactor and the six UNGG-type reactors) by 2025. The sites remain the property of EDF, and they will remain under its responsibility and monitoring. With regards to the PWR power plants, decommissioning options have not yet been finally decided.

Given its role as responsible owner, EDF will act as the contracting authority for the decommissioning.

The regulatory framework for decommissioning was established and the authorization process was completed in 2003. The authorization received is granted by a single decree, following the ASN agreement allowing for complete decommissioning, and by key meetings to be held with the ASN and an internal authorization procedure for the operator between each meeting, independently of the operations personnel and audited by the ASN (see section 6.5 ("Legislative and regulatory environment")).

The year 2006 was marked by the signing of the first decrees for total decommissioning of EDF reactors, involving the Brennilis and Creys sites. With regard to the UNGG sites, the applications for the total decommissioning of Saint-Laurent and Chinon A3 were submitted as well as the Safety report for the dismantling of Bugey 1, which took into account the detailed draft project studies carried out. In 2006, public enquiries were carried out at Chooz A and Bugey 1.

The decommissioning of the nine shutdown EDF's first-generation units will produce 1,000,000 tons of primary waste materials, which breaks down in the following manner: 2/3 of standard waste material, no high-level waste, 1/3 of very low to medium-level waste including about 7% waste requiring new dedicated storage facilities.

The following waste evacuation procedures are currently being implemented:

- The Premises for Conditioning and Temporary Storage of Active Waste project which was launched at the Bugey site. The public survey conducted in summer 2006 received a favourable opinion. Technical training by the ASN is underway. An invitation to tender for the design and realization is also underway.
- The Graphite Storage Center, which is written in the law of June 28, 2006 concerning the long-term management of radioactive material and waste, to be put into operation in 2013.



### 2. Decommissioning costs and assets constituted in order to cover long-term commitments

#### Decommissioning costs

Since the beginning of operations at its power plants, EDF has made provisions to cover decommissioning operations, engineering, surveillance and maintenance of facilities, site security, as well as conditioning, transportation and storage (by ANDRA) of decommissioning waste materials (see note 29.3.3.1 to the consolidated financial statements for the year ended December 31, 2006). The allocated amounts correspond to EDF's estimate for decommissioning costs incurred in order to reach Level 3.

With respect to PWR-type reactors, the provisions were made on the basis of an estimated amount of €294 (2006 euros) per kW<sup>10</sup> installed, or approximately 15% of the total cost of investment of the nuclear portion of the facilities. This estimated decommissioning cost, initially assessed by the Peon Commission (1979), was confirmed by detailed studies carried out in 1999 on the basis of a representative example: the Dampierre site (a site with four reactors). Furthermore, an international comparison conducted by the OECD in late 2003 showed that EDF's estimates are consistent with the estimates made by other countries. EDF's estimates are approximately 25% above the estimates made for Spanish power plants and 15% below estimates made for German power plants. With respect to Germany, the difference with EDF's estimate may be explained by the use of a different policy for managing very low-level waste, long-life very low-level waste and long life medium-level waste (reprocessing and storage in Germany — storage in France).

Unlike the PWR facilities that are in operation, shut down first-generation reactors are of different types, and the estimated decommissioning costs have been established reactor by reactor.

- Third-party installations: The Hague

In the extension of the contract signed on August 24, 2004 on fuel reprocessing (see Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues")), EDF and Areva NC (ex Cogema) wanted to clarify their respective responsibilities by negotiating the legal and financial conditions of the transfer to Areva NC of EDF's financial contribution to the dismantling of the installations of The Hague and to the recovery and conditioning of older waste. The inflation and discount rates, the base rate, EDF's share of estimated expenses as well as the repayment schedule, were agreed between EDF and Areva NC at the end of September 2003. The negotiations of the terms of this agreement concluded on the principle of a compensatory discharge payment made to Areva NC according to terms yet to be fixed (see note 29.2.1 to the consolidated financial statements for the year ended December 31, 2006).

#### Assets available to cover long-term nuclear power-related commitments (operating cycle excluded)

In accordance with a decision made in June 1999 by EDF's Board of Directors, the Group's dedicated assets were progressively built up by EDF beginning in the 2000 financial year through annual allocations. As of December 31, 2006, they represented a fair value of €6.3 billion (see note 2.2.3.2.1 to the consolidated financial statements for the year ended December 31, 2006).

On September 5, 2005, EDF's Board of Directors agreed to accelerate the rhythm for the establishment of dedicated assets, in order to cover all of its commitments by the end of 2010:

- relating to the decommissioning of the nuclear plants of the operating PWR facilities (€8.1 billion) and of the non-operating plants (€2.1 billion as of December 31, 2006);
- relating to permanent waste storage (€4.4 billion as of December 31, 2006); and
- relating to the processing of burnt fuel and storage of waste connected with the non-consumed part of the plants' last core (€0.4 billion as of December 31, 2006).

The total amount of the provisions that need to be covered through constituting dedicated assets totals €15 billion at the end of 2006.

Some provisions have been excluded from the dedicated covering assets because they correspond to costs considered to be directly relevant to the operating cycle (see order of March 31, 2007):

- the provision for reprocessing (provision of €10.2 billion as of December 31, 2006), which is comprised of:
  - the provision for reprocessing of burnt fuel. This provision is subject to allocations and draw-downs each year and may be classed as an item of the operating cycle, like other such items (fuel inventory for example). Confirming EDF's analysis, the law of June 28, 2006 specifically excluded operating cycle items from the dedicated covering assets. The texts implementing article 20 of this law ("*textes d'application*") (decree n° 2007-243 of February 23 and order of March 31, 2007), which clarify the notion of "operating cycle", could however lead EDF to reintegrate a fraction of the provision for processing of burnt fuel into the dedicated covering assets, from 2007 onwards.
  - the provision for EDF's share in decommissioning third-party facilities (The Hague), in respect of which Areva and EDF agreed that a one-time payment should be made to fund the supplier.
- a portion of provision for the last core, which corresponds to the non-consumed fuel that is inside the reactor at the time of its permanent shutdown, which is already funded (see note 29.3.5 to the consolidated financial statements for the year ended December 31, 2006).

The decision of EDF's Board of Directors of September 5, 2005 to accelerate the establishment of dedicated assets was reinforced by the law of June 28, 2006 concerning the long-term management of radioactive material and waste insofar as the latter requires nuclear operators to fully cover the provisions connected to long-term nuclear commitments (the operating cycle excluded), within a maximum of 5 years after the promulgation of the law<sup>11</sup>, namely the end of June 2011. This law also imposes the obligation on nuclear operators to exclusively allocate assets necessary in order to cover these provisions, and to account for them distinctly<sup>12</sup> (see section 6.5.4.2 ("Specific regulations applicable to nuclear installations")). Pursuant to the terms of the law, EDF is bound to submit a report to the competent administrative authority in June 2007, then every three years, describing notably the evaluation of costs related to the decommissioning of its nuclear power plant fleet, the storage of radioactive waste produced, the methods applied for the calculation of provisions relating to these costs, and the choices made concerning the composition of dedicated assets. If the aforementioned administrative

<sup>10</sup> Compared to €288 (2005 euros)/kW, €282 (2004 euros)/kW and €277 (2003 euros)/kW. The mention of "€277 (2005 euros)/kW" appearing in the EDF Group's 2005 *Document de Référence*, and the mention of "€280 (2004 euros)/kW" appearing in the EDF Group's *Document de Base* constitute two printing errors that should be corrected by the preceding data.

<sup>11</sup> Article 20 III paragraph 5 of the law.

<sup>12</sup> Article 20 II of the law.

authority notices an insufficiency in the evaluation of costs, the calculation of provisions or the amount, composition or management of assets allocated to these provisions, it may stipulate measures necessary in order to rectify this situation.

The aforementioned decree of February 23, 2007 and order of March 31, 2007 principally clarified the plan for securing the financing of nuclear costs by creating a nomenclature of these costs, distinguishing those relevant to the operating cycle, controlling their evaluation and the discount rate used by nuclear operators for the calculation of related provisions. These texts also determine investment and management rules for dedicated assets and organize the role of company's direction and management, as well as control processes to be put into place by nuclear operators.

The net allocation to EDF's asset portfolio for 2006 totalled €2,845 million (see note 22.3.2.1 to the consolidated financial statements for the year ended December 31, 2006). In accordance with the Board of Directors' decision of September 5, 2005, EDF should pay €2.35 billion (2005 euros), over the period 2007-2010, for each of the four years included in this period. This payment schedule, which will not be modified in 2007, could however be adapted in the future to take into account possible impacts on the dedicated assets to be constituted by EDF, prompted by the decree of February 23, 2007, the order of March 31, 2007 and any other regulatory texts that could be adopted in the future, specifying how the law of June 28, 2006 should be enforced.

### 6.2.1.1.4 Hydropower generation

Electricity generated by EDF from its hydropower plants represented 8% of its total electricity production in 2006.

#### 6.2.1.1.4.1 EDF's fleet of hydropower generation facilities

EDF's fleet of hydropower facilities in mainland France comprises 447 power plants.

- Approximately 10% of the power plants have a unitary capacity that exceeds 100 MW; they represent approximately 50% of total output;
- Approximately 50% of the power plants have a unitary capacity that is below 12 MW; they represent approximately 10% of total output.

The fleet's average age is approximately 50 years and 25% of the installations are over 75 years.

The power plants are mainly located in mountainous areas in the Pyrénées, the Alps, the Massif Central and the Jura, as well as on the Rhine. In total, they represent an installed capacity of approximately 20 GW (excluding overseas departments and Corsica), or 20% of EDF's fleet, for annual producible (i.e. maximum) energy of approximately 46 TWh, which makes France the leading generator of renewable electricity in the European Union.

The various hydropower infrastructures were designed to optimize the uses of water resources in the valleys. As a result of the size and variety of its fleet, EDF has systems that are capable of responding to all types of demand, whether "baseload" or "peak", and that offer optimization leverages through their flexibility of use:

- "Run-of-river" facilities like those on the Rhine do not have storage capabilities and produce energy depending on the supply of water available at any given time. They represent a total capacity of 3,400 MW and a producible energy of 17.1 TWh;

- EDF has one tidal power plant on the Rance: it uses the rising and falling movement of the tide to create the vertical drop that is essential to the generation of energy, and which produces electricity in a very reliable manner. This station represents a total capacity of 240 MW and a productibility of 540 GWh;
- Pondage power stations are associated with small reservoirs along a river, and are used according to a schedule during the week or during the day, to cover peaks in demand. It represents a total capacity of 3,300 MW and a producible energy of 10.6 TWh.
- The pumped storage power plants comprise an upstream reservoir and a downstream reservoir. During periods of low demand, water is pumped up from the downstream reservoir to create a store of water, which will be used to generate electricity during peak load periods (the water is then "turbined" from the upstream reservoir to the downstream reservoir). They represent a total capacity of 4,300 MW, which enables the pumping of more than 7 TWh and the turbinning of approximately 6 TWh, as well as output of 1.1 TWh, by means of natural water supplies in the upstream reservoir of certain pumped storage power plants.
- The "reservoir" facilities located in the mountainous regions (Alps, Massif Central and Pyrénées) represent a total capacity of 8,800 MW and a producible energy of 16.5 TWh. They are used for their large storage capacity from season to season. Depending on demand, they can also make use of favorable periods to fill their reservoirs in order to be available during periods of high consumption or in order to ensure balance in the electrical system. In order to ensure the balance and optimization of its upstream/downstream asset portfolio in France, EDF, through their storage capacity, therefore holds an optional share in over thirty significant "reservoir" installations.

#### 6.2.1.1.4.2 Hydropower safety

Hydropower safety includes all the measures taken at the time of the conception and management of hydroelectric plantings and its purpose is to manage risks that the presence or operation of hydropower facilities may create for people, property and the environment (see Section 4.1.2.2 ("Management of hydropower safety risk")). It involves three main activities:

- the management of variations in levels or flows on the upstream of sites;
- operations during flood periods, in order to ensure safety with respect to facilities and inhabitants; and
- the prevention of a major risk, such as the rupture of a hydropower site, by means of monitoring and maintenance of existing structures under the control of public authorities, namely the Regional Divisions for Industry, Research and the Environment (*Directions Régionales de l'Industrie, de la Recherche et de l'Environnement*, or "DRIRE"). Among the most important dams, 68 are being subject to a specific supervision procedure ("*Plan Particulier d'Intervention*") implemented by the relevant *préfet*.

EDF carries out regular monitoring and maintenance of its dams, namely by their constant testing. Real-time analysis and reports for each site of several parameters (settlement, pressure and outflow measures monitoring, associated with a visual inspection of concrete or the control of the mechanical parties) allow EDF to prepare on a constant basis reports on the condition of its dams. In Grenoble and Toulouse, EDF's teams can analyse at distance the most important or the least attainable dams, thanks to a series of sensors.

Finally, a complete check-up of each of the 150 most important dams

is carried out every ten years, as well as a drain down or a structure inspection through sub-aquatic equipment. These monitoring operations are carried out under the control of State's services (DRIRE and the STEEG – Electric Power and Important Dams Technical Service ("*Service Technique de l'Energie Electrique et des Grands Barrages*"), both reporting to the Economy, Finance and Industry ministry). In 2006, EDF carried out 7 of these ten-year visits in its sites.

Hydropower safety is an absolute priority for hydropower generation, and has been the catalyst for the substantial development in operating practices and policies adopted over the last few years. It is a determining factor in influencing decisions relating to the maintenance of EDF's assets.

#### 6.2.1.1.4.3 Performance of the fleet of generation facilities

##### Highly-automated facilities

In order to take advantage of the flexibility of its hydropower generation facilities, for some years now, EDF has been initiating ambitious programs involving automation, remote control of hydropower plants and centralized management of the valleys.

EDF's 100 largest hydropower plants, representing more than 75% of the installed hydropower capacity, are remote-controlled from four control centers able to mobilize 14,000 MW in less than 20 minutes.

The importance of EDF's flexible and reactive hydropower potential was demonstrated on November 4, 2006. Although an incident occurring in the German electrical network caused an acute power shortage, the immediate introduction of 5,000 MW of hydropower was of great assistance in re-establishing the electricity supply of 50% of the French customers affected by the incident within less than 30 minutes, and 100% within less than an hour.

##### The fleet's technical performances

The year 2006 was another globally dry year (hydraulicity lower than normal) with a production of electricity from hydropower sources (not taking into account a deduction of the 7.5 TWh of electricity consumption necessary for the functioning of the pumped storage power plants) of 40.3 TWh.

Prone to uncertainties concerning water resources, hydropower production varies from year to year: during the dry period in 2005, EDF estimates having suffered a loss in hydropower production of 13 TWh compared with a normal year.

The overall availability of the hydropower fleet, *i.e.*, the percentage of time over the year during which the power plant is available at full power, was approximately 92% on average, over the last few years.

The residual unavailability of EDF's hydropower fleet (approximately 8%) is due to facility maintenance (5% to 6%) and unplanned unavailability due to the extension of maintenance projects and defaults (2% to 3%).

The demand response rate, *i.e.*, the rate of success in responding to start-up or shutdown orders received by the power plants, exceeds 99% since several years, in the context of an increasing demand for hydropower generation sites. As an example, facilities built to be able to respond to 5 starting-shutdown sequences are often solicited over five times a day.

Continuing the procedure initiated in 2005 for identifying risks of faults by kind of material and in a context marked by some instances of default leading to the medium-term unavailability of installations (Tuillères dam in Dordogne, etc.), EDF decided, in 2006, to implement a programme to upgrade the technical standard and reinforce

maintenance of works for a global amount of approximately €500 million over the 2007-2011 period in order to renovate certain installations, to maintain a lasting high level of hydropower safety, and to preserve the long-term technical performances of its fleet.

This 5-year renovation programme for hydropower assets entitled "Hydropower Safety and Performance" (SuperHydro) will, for a transitional period during the work, entail longer outages than those recorded in recent years. EDF is currently refining the programme's realization sequence in order to attempt to limit consequences for hydropower production.

Beyond this transitional period, EDF has set a target of maintaining an availability rate of 92%.

#### 6.2.1.1.4.4 Current and future hydropower generation issues

The hydropower fleet faces the following issues:

##### Concessions renewal

Hydropower generation facilities are operated through:

- concessions granted by the Minister of Industry, for facilities exceeding 100 MW, or by the *préfet*, for facilities whose capacity is between 4.5 MW and 100 MW; and
- permits granted by the *préfecture* for facilities of less than 4.5 MW.

EDF holds the majority of the hydroelectric concessions in France.

The concessions had an initial term of 75 years, pursuant to the French law of October 16, 1919, with respect to hydropower, and are in general renewed for terms of 30 to 40 years, based on the relevant specifications. The renewal of these concessions may be an opportunity for development of the specifications, which may include new requirements in relation to water resource management.

Because of its "*Société Anonyme*" status, and pursuant to the Sapin law (1993) (see Section 6.5.4.3 ("*Regulations applicable to other generation methods used by the EDF Group*")), EDF is now subject to open competition as regard the renewal of its hydropower concessions. EDF believes that this new regulatory framework should not have immediate, significant consequences. The average residual term of the concession contracts is approximately 22 years. Those concessions which are set to expire by 2020 (it should be noted that the renewal process must begin 11 years prior to expiry of the concession) represent less than 20% of EDF's total installed capacity in France (around 15% of the generation). The renewal process is already underway for some of them. Finally, 50% of the existing hydropower installed capacity in France relies on concessions whose expiry date falls between 2020 and 2045.

Under current regulations, if a concession is not renewed, the former concession holder does not receive any compensation. Upon expiry of the concession, all of the facilities belonging to the French State (installations from the dam to the turbine) must be in "good condition". The amended finance act for 2006 provides for the reimbursement of unamortized expenses related to modernization works or works allowing for the expansion of generation capacity. The amended finance act for 2006 also provides for, concerning hydropower concessions, at the time of the renewal, the establishment of annual payments limited to 25% of the revenue of the electricity sale originating from the operation of granted hydropower generation facilities, paid to the State and partly assigned to departments. The decrees of the implementation of such 2006 amended finance act are currently being elaborated.

EDF will seek to obtain the renewal of the concessions which constitutes a stake for the balance of its fleet of generation facilities.

### Managing access to water

The 220 dams operated by EDF in France enable the storage of 7.5 billion cubic meter of water, *i.e.*, 75% of national surface storage reserves.

The hydropower installations have positive effects on both economic development and the environment. EDF has a proactive management policy in relation to its hydropower resource, which it enforces in cooperation with various stakeholders. EDF has entered into agreements with local elected officials, farmers, fishermen, managers of tourist sites and manufacturers.

EDF gives preference to consultation with local users. This process aims first at measuring the real effects of hydropower operations on the environment and on other uses, before attempting to minimize these effects when technically possible and financially reasonable.

As a result, 700 million cubic meter of water are released each year from the dams for use other than the generation of electricity (supplies of drinking water, to supplement periods of low flow, irrigation, production of artificial snow, water sports, etc.).

The law on water and aquatic environments of December 30, 2006, contains provisions relating to the management of water resources (in particular, the value of reserved flows<sup>13</sup> and the flexibility of hydropower plant operations). EDF estimates that these new ratified provisions will have medium-term consequences for its hydropower activities (see section 6.5 ("Legislative and regulatory environment")).

### Development

In Europe and more particularly in France, 95% of potential hydropower is currently being operated.

The development of EDF's hydropower activities is currently based on the Gavet power plant's fitting-out. This involves replacing six hydropower plants at the end of their life cycle installed on the Romanche, with a single plant, the Gavet power plant, with a capacity of approximately 90 MW and output of approximately 540 GWh.

Projects are underway or under study in the following areas:

- generation from reserved flows. The purpose is to equip a certain number of dams in order to process the reserve flow by means of the turbines and recover a portion of the associated energy. EDF completed four projects in 2006 and plans to continue at a rate of approximately 5 projects per year;
- the development of the "Small Hydro" (power plants whose capacity is less than 12 MW). For example, SHEMA, a 100% subsidiary of the EDF Group, is carrying out a study around five projects relating to "new facilities" which should be built by 2010, representing a total capacity of 14 MW.

In addition, EDF aims to utilize all available opportunities for development, in particular:

- to study of "over-fittings" possibilities (the increase in power of existing hydropower generation facilities, etc.) given by law

n° 2005-781 of July 13, 2005 defining energy policy guidelines (called the "LPOPE", see Section 6.5.2.2. ("French Legislation")) to contribute to the development of state of the art methods.

- to carry out adjustments to the facilities (modernization, optimization of power generation, etc.) in the framework of the renewal of concessions.

### 6.2.1.1.5 Fossil-fired generation (THF)

EDF's electricity production from its fossil-fired power plants in continental France represented approximately 4% of its total electricity production in 2006. This fleet, the average age of which is approximately 30 years, has a total installed functioning capacity of 9,426 MW for a total installed capacity of 13,206 MW. Fossil-fired plants have a certain number of advantages:

- a high degree of reactivity and flexibility (quick start-up and power modulation);
- the ability to be shutdown for extended periods (stand-by), or by contrast to be brought back into operation within short periods of time; and
- investment costs which are lower than for nuclear or hydropower facilities, and short construction periods.

In addition, the more modern fossil-fired power plants offer a better control of different sorts of emissions (carbon dioxide, sulfur dioxide, nitrogen oxide and dust).

Methods of fossil-fired power generation are one of the essential components of the energy mix to ensure in real time the balance of production-consumption and to accommodate the variations in electricity consumption. Together with a portion of hydropower facilities (lakes, STEP), the fossil fired plants are used to cover mid-merit and peak demand electricity requirements.

For this reason, they play an important role in adjusting EDF's generation capacities in response to the changes in its customers' requirements.

The performance of these types of plants is nevertheless sensitive to various factors that can lead to higher generation costs:

- the tightening of environmental protection regulations (pollutant emissions, air quality);
- compliance with greenhouse gas emission quotas; and
- increases in the cost of fuel (namely hydrocarbons).

#### 6.2.1.1.5.1 EDF's fleet of fossil-fired generation facilities

##### Breakdown of the facilities

As of December 31, 2006, the fossil-fired generation facilities operated by EDF comprised diverse production capacities, both fuel-related and power-related:

- Coal-fired units:
  - 9 units with a capacity of 250 MW, commissioned between 1965 and 1971 (Blénod 2, 3 and 4, Bouchain 1, Le Havre 1, La Maxe 1 and 2 and Vitry 3 and 4); and
  - 4 units with a capacity of 600 MW: Le Havre 2, commissioned in 1969, and three more recent units (Q600) commissioned between 1983 and 1984 (Cordemais 4 and 5, Le Havre 4).
- Oil-fired units:
  - 3 units with a capacity of 250 MW, commissioned between 1971 and 1973 (Martigues 1, 2 and 3);

<sup>13</sup> Mineral flow maintained at the downstream of dams to preserve aquatic life.

- 3 units with a capacity of 600 MW, commissioned between 1973 and 1975 (Porcheville 2, 3 and 4);
- 2 units with a capacity of 700 MW, commissioned in 1976 and 1977 (Aramon 2 and Cordemais 2); and
- Iron and steel gas units “Blast furnace gas”: two units commissioned in 1959 and 1961 (Richemont 3 and 5).
- Combustion Turbines (“CTs”): seven units on four sites (Arrighi, Brennilis, Dirinon and Gennevilliers) commissioned between 1980 and 1997, which constitute resources for extreme peak periods and which are extremely responsive.

The installed power of the operating fleet amounts to 9,426 MW.

EDF intends to reactivate by 2008 3 oil-fired units on stand-by (Aramon 1, Porcheville 1 and 2, Cordemais 3), representing 1,955 MW. In addition, five units of a total capacity of 1,825 MW are shut down. The installed power amounts to 13,206 MW.

### Fossil Fuel supplies

Fuel supplies are managed by EDF Trading, an EDF subsidiary responsible for fossil-fuel trading. Fuel consumption is determined for EDF's fossil-fired generation facilities on the basis of expected demand, and EDF places its orders for delivery two months in advance for coal and one month in advance for oil (see Section 6.2.1.3.3 (“EDF Trading”)).

EDF has the opportunity to adjust its requirements and inventories by asking EDF Trading to make additional purchases or, under exceptional circumstances, to sell quantities that are considered surplus. In addition, for security reasons relating to supplying the power plants, EDF Trading has been asked to maintain a security inventory on behalf of EDF divided among various harbors.

#### 6.2.1.1.5.2 Challenges relating to generation by fossil-fired facilities

### The renovation and strengthening of current facilities

In 2003, EDF decided to progressively shut down its 250 MW oil and coal-fired units, which had become obsolete due to environmental constraints and the development of the electricity market. The relevant installed power amounted to over 1,700 MW. This process ended in 2006 with the shutdown of the Albi power plant.

#### Renovation of the most recent coal-fired production means to meet mid-merit load capacity demand

For mid-merit load capacity, maintaining the most recent (i.e. most efficient) coal-fired units is the best solution to ensure availability of competitive capacities. EDF has therefore implemented in the last couple of years a programme running until 2009 for the renovation and ensured reliability of its most recent 250 MW and 600 MW coal-fired power stations.

The most recent 600 MW coal-fired units benefit from the lowest fuel generation costs of all of the fossil-fired generation facilities (better efficiency, seaside units, large capacity sites). Their power, along with the flexibility of their generation, are essential advantages. They are already equipped with a gas flow desulfuration system (90% reduction in sulfur dioxide emissions) and are currently adding an advanced denitrification facility which, by 2008, will enable them to comply with environmental constraints beyond 2015, with almost ten years of anticipation.

#### Strengthening the fleet to meet peak demand

In order to meet the increase in peak demand over the coming years, EDF has implemented a program to increase its peak capacities by

3,100 MW between 2006-2008, which will add to the fleet currently in operation.

In 2005, EDF decided to put back into operation four 600-700 MW moth-balled oil-fired units (Porcheville 1-2 for the winters of 2006-2007 and 2008-2009, Cordemais 3 for the winter of 2007-2008, and Aramon 1 for the winter of 2008-2009), representing a capacity close to 2,600 MW.

In spite of high variable costs, oil is still more competitive than coal in the current context in terms of operating at peak and emergency periods (that is, below 1,500 hours per year). Finally, in the period until 2015, the applicable regulations should allow EDF to take into account the emissions for the entire fleet, and, thereby, to benefit from efforts made in relation to the 600 MW coal-fired units.

Unit 2 at Porcheville is again operational since December 2006, following 18 months of extensive modernization work. It now uses oil with a very low sulfur content (oil known as “TTBTS” containing 0.55% of sulfur), which strengthens its environmental performances.

EDF considers that the experience gained from the reactivation of this power plant will benefit subsequent reactivations.

Furthermore, EDF plans to put 500 MW of extreme peak capacity (several hundreds of hours of operation per year) into operation by activating three combustion turbines, the first for the winter of 2007-2008 and the other two for the winter of 2008-2009 on the Vitry-sur-Seine and Vaires-sur-Marne sites.

For EDF, combustion turbines represent the best suited new operating method for its extreme peak demand needs, owing to the rapid start-up of this type of generation means (twelve to twenty minutes are enough for it to operate at full power).

### Preparation for the future of fossil-fired operation

EDF is already preparing the strengthening of its peak and mid-merit capacities for the period 2010-2015.

In 2006, EDF therefore examined a project to convert three oil-fired units on the Martigues site (3 x 250 MW) into two combined-cycle gas turbines of 440 MW each (“repowering”). This modernization project will enable the reduction of CO<sub>2</sub> and nitrogen dioxide emissions, and eliminate sulfur emissions. The examination of this project continued to be carried out in 2007, and the decision to invest will only be made at the end of this phase, if the results of the study confirm the feasibility and cost-effectiveness of the operation.

For the post-2010 period, EDF is examining the possibility of establishing combustion turbines for peak demand and developing new mid-merit plants (combined-cycle gas turbines and coal power plants with the best technology at their disposal) in order to face an increase in demand. For these developments, the EDF Group's main advantages are that it owns the sites on which the fossil-fired power plants are located, and its industrial skills as an operator and a developer, acquired through international operations. Over the last few years, EDF has in fact been carrying out Independent Power Plant (“IPP”) projects abroad (mainly in China and in Mexico — see Sections 6.3.3.1.2 (“The EDF Group's activity in China”) and 6.3.2.3 (“Mexico”)). This strategy has enabled EDF to acquire the skills required for managing the design, development and operation of combined-cycle gas turbines. EDF could also create Group synergies in terms of industrial strategy (Germany-EnBW, Italy-Edison, UK-EDF Energy).



### Evolution of the environmental regulatory framework

Fossil-fired power plants are operated within the context of regulations that apply to installations classified for environmental protection purposes, as well as regulations relating to greenhouse gas emissions (see Section 6.5.4.4 ("Other regulations relating to the environment, nuclear facilities, health, hygiene and safety")) for a description of these regulations) and a specific regulation regarding air quality.

The regulations relating to greenhouse gas emissions led to the establishment, in 2005, of the national CO<sub>2</sub> quota allocation plan. During the first period (2005-2007), EDF estimates that these quotas should be sufficient to operate its fossil-fired generation facilities in accordance with projections. This was indeed the case in 2005 and 2006. These regulations are being completed for the period 2008-2012 (see Section 6.5.4.4 ("Other regulations relating to the environment, health, hygiene and safety")).

The adaptation of its fossil-fired generation facilities, undertaken by EDF, is a result of the obligations imposed by regulations on air quality and reduction of airborne pollutants emissions, the principles of which are applicable until 2015. However, it cannot be excluded that the former regulations may be tightened prior to 2015 and future developments are an important challenge for EDF, in particular, with regards to the operation of its oil units beyond this date.

Owing to the shutdown of the oldest fossil-fired power plants, the renovation of the most recent plants, the set up of pollution-reducing procedures and the use of fuel with a low sulfur content, EDF considers that emissions of atmospheric pollutants from its fossil-fired fleet in mainland France could be reduced, with equivalent generation, by 30 to 40% by 2010 (see Section 6.5 ("Legislative and regulatory environment")).

### Generation and technical performances

Fossil-fired production, which represented 16.9TWh in 2006, decreased by more than 20% when compared to 2005, essentially due to the climate (2006 temperatures were globally milder than in 2005) and an increase in hydraulicity. It represents 4% of EDF's annual generation in mainland France, and covers 20% of adjustment services.

The fossil-fired fleet is now more reliable with an availability coefficient of 71.7% in 2006, a distinct improvement over two years compared with 64% in 2004, but particularly with a decrease in unplanned outages (accidental and extension of shutdowns): 13.4% in 2006 and 13.5% in 2005 against nearly 21% in 2004.

Controlling non-programmed unavailabilities is the essential aim for generation methods, such as fossil-fired generation, operating at mid-merit and peak. The goal for these generation methods, that are called upon throughout the year on a variable basis (EDF's fossil-fired power

plants operate annually between 1,500 and 6,000 hours for coal, 200 and 1,500 for oil, and several hundreds of hours for combustion turbines) is to ensure the system's security through maximum levels of reliability and availability.

EDF's goal is, from 2009 onwards, to reduce unplanned outages of its fossil-fired fleet to less than 10%. This goal should be reached by taking steps throughout the whole fleet, which focus principally on the main identified causes of unavailability, a strengthened monitoring of materials, a better exchange of good practices between sites and a closer monitoring of all incidents.

### Decommissioning existing facilities

EDF has planned all of the decommissioning operations for its existing fossil-fired generation facilities. The provisions for these operations have been made in an amount that corresponds to the cost of decommissioning all of the units being operated and the cleanup of the sites (see note 29.3.3.2 to the consolidated financial statements for the year ended December 31, 2006). However there is still a residual risk associated with increased cleanup requirements (development of applicable regulations, change in future use of the site requiring an additional cleanup process).

Decommissioning works were carried out in 2006 on those sites being definitively shut down: the decommissioning of the chimney at the Vaires-sur-Marne site and the boiler building at the Pont sur Sambre site, etc.

### 6.2.1.2 Sales and marketing

EDF's sales and marketing activities in France are managed by the EDF Customers Division, which markets EDF's energy and services to more than 27 million customers (excluding overseas departments and Corsica), representing nearly 33 million of sites (delivery points).

As of December 31, 2006, EDF's Sales and Marketing division totalled 5,941 statutory employees.

#### 6.2.1.2.1 Opening of the French market for electricity sales and marketing

Domestic consumption in France during the 2006 financial year totaled 478.4 TWh<sup>14</sup>, a decrease of 1% compared with the 2005 financial year. This decrease is due to higher average temperature in 2006 in comparison to 2005, and by a decrease in consumption by a large customer in the energy sector. Excluding these two factors, electricity consumption in 2006 rose by 1.3% in comparison with 2005.

In 2006, EDF's market share for eligible customers was 82.4%, against 84.8% in 2005.

The opening of the French market for sales and marketing occurred in the following stages:

DATE	Eligibility Threshold	% of Total Opening in Terms of Consumption (by volume)	Total Sites/EligibleCustomers
February 1999	100 GWh/year	20%	200 sites
May 2000	16 GWh/year	30%	1,600 sites
February 2003	7 GWh/year	37%	3,200 sites and 99 LDCs*
July 2004	All non-householdcustomers	69%	2,2 million customers
July 2007	All customers	100%	27 million customers

\* Local distribution companies.

<sup>14</sup> Source: RTE-EDF Transport 2006 provisional balance sheet, including Corsica.



On June 13, 2005, the European Commission announced the opening of a sector investigation in order to identify possible distortions of competition on the European markets for gas and electricity. For further information about this investigation, see section 6.5.2.1 ("European Legislation — Opening up the market") below.

In order to provide supplies for the open market, retailers that are competing with the EDF Group have access to:

- their own generation capacity;
- a little over 41 TWh made available in 2006 by the EDF Group through Capacity Auctions (VPP) described in Section 6.2.1.3.4 ("Capacity auctions");
- imports; and
- the wholesale electricity market.

The landscape of the energy market may soon change with the possible emergence of a first-rate competitor to EDF if the Suez/GDF merger is completed.

### 6.2.1.2.2 Prices and tariffs

In the context of the opening energy market, the following distinctions must be made with respect to sales of electricity in France:

- between the tariff structures that may be applied by the historical operator to non-eligible customers or to eligible customers that have not exercised their right of eligibility;
- for customers having exercised their right of eligibility, a choice between prices proposed by different retailers and, pursuant to the law of December 7, 2006, the transitory regulated tariff for market adjustment, which is fully applicable to them for a maximum duration of two years subject to a written request to their supplier before July 1, 2007 (see Sections 6.2.1.2.2.2 ("Electricity prices for eligible customers) and 6.5.1.2 ("French legislation")).

Concerning the irreversibility of exercising eligibility, the LPOPE law of July 13, 2005, as amended by law n° 2006-1537 of December 7, 2006 and by law n° 2007-290 of March 5, 2007 which created an opposable right to obtain a lodging, states that:

- a domestic or non-domestic customer having exercised its eligibility on a given site, may no longer benefit from regulated tariffs for this site;
- a domestic or non-domestic customer, moving onto a site for which the preceding occupant had exercised its eligibility, may not benefit from regulated tariffs for this site;
- a domestic or non-domestic customer, moving onto a site for which the preceding occupant had not exercised its eligibility, may benefit from regulated tariffs for this site;
- a domestic or non-domestic customer, moving onto a new site (whether or not it is social housing) may ask for the benefit of regulated tariffs if such site is connected to public transmission or distribution networks before July 1, 2010.

#### 6.2.1.2.2.1 The tariff structure

The tariff structure includes a range of regulated tariffs applicable to electricity sales. It applies to non-eligible customers and customers that have not exercised their right of eligibility.

The tariff structure is determined by decree rendered upon review by the French Conseil d'Etat, after consultation with the CRE and the Competition Council (*Conseil de la concurrence*). Changes in the tariffs, with no changes to the structure, are determined by the Minister of the Economy, Finance and Industry and the Minister of Energy, after consultation with the CRE.

These regulated tariffs include a fee for making the capacity available and a variable portion that is proportional to consumption, with prices that may be adjusted depending on the time of day or the season. The range of tariffs has been designed to take into account changes in customers' consumption with various options (in particular peak hours/off-peak hours for residential customers).

In addition, within the context of its mandate as an operator with public service commitments, EDF has been offering a basic necessity tariff since January 1, 2005 in accordance with French decree n° 2004-325 of April 8, 2004.

The tariff is a so-called "integrated" tariff because it covers all of the following elements:

- the "energy" portion based mainly on operating costs and long-term costs (investments in generation means, the downstream end of the cycle, research and development);
- management costs for customer service and sales, which together with the "energy" portion and the "supply" portion of the tariff (40% of the bill, including taxes); and
- the "network" portion including the cost of using the public transmission network operated by RTE-EDF Transport and the public distribution networks operated by distribution network operators, also called the "delivery" portion (approximately 40% of the bill, including taxes).

Customers benefiting from integrated tariffs receive a single electricity bill for supply and delivery, which indicates the network usage cost portion calculated on the basis of the Tariff for Using the Public Electricity Transmission and Distribution Networks (*Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité*, or "TURP"), established upon the proposal of the CRE (see Section 6.2.2.4 ("Tariffs for Using the Public Electricity Transmission and Distribution Networks (*Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité*, or "TURP")") below). In this way, the separation of the generation and sales and marketing activities in a competitive market, and transmission and distribution activities, which are a monopoly, is clearly shown.

The following taxes (representing more than 20% of the bill, including taxes) are added to the electricity bill:

- local municipal and departmental taxes, collected and transferred in their entirety by EDF to the local authorities;
- contribution to the public service charges for electricity (*Contributions aux Charges de Service Public de l'Électricité*, or "CSPE"), which was established by the French law of January 3, 2003 (see Section 6.5.1.2 ("French legislation") below). The CSPE was set at €4.5 per MWh for 2005 and 2006 with a ceiling of €500,000 per site;
- VAT.

Furthermore, the CTA levy (*Contribution Tarifaire Acheminement*, or "CTA"), which contributes to covering a portion of fees for the pension system (see Section 17.8.1 "Special pension system") is added to the electricity bill. On a transitional basis while waiting for the CTA of regulated tariffs to be externalised, the CTA is calculated inside the integrated tariff and is posted as a reduction of the turnover.

On August 15, 2006, regulated tariffs rose by 1.7%. This increase applies to individual customers as well as companies that, in the context of the opening up of the markets, have chosen to continue to be billed at the regulated tariffs. This increase is in accordance with the Public Service Agreement (see Section 6.4.3.4 ("Public Service")) signed between EDF and the French State on October 24, 2005, which guarantees that the increase in electricity sale prices for individual customers will not exceed inflation during the first 5 years.

### 6.2.1.2.2 Electricity sale price to eligible customers

Eligible customers are free to abandon the tariff schedule for an EDF offer or that of another retailer without notice.

With the exception of customers connected to the transmission network, who must sign different contracts for transmission and delivery, all other customers that have exercised their right of eligibility can enter into a single contract with the retailer of their choice for the transmission and delivery of their electricity. Their electricity bill will therefore consist of the following three components:

- the "electrical energy" supply price. The contract entered into with the retailer covers the billing price of activities that are open to competition, which is a market price that corresponds to the cost of supplying electricity (generally indexed to the electricity wholesale market price), sales and marketing and customer care and the energy-related services associated with the supply;
- the Tariffs for Using the Public Electricity Transmission and Distribution Networks (*Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité*, or "TURP"); and
- public levies: the CSPE, CTA, local taxes and the VAT mentioned in Section 6.2.1.2.2.1 ("The tariff structure") above

Article 15 of the law n° 2006-1537 of December 7, 2006 relating to the energy sector provides for the creation of a transitory regulated tariff for market adjustment for customers having exercised their eli-

gibility. This tariff is applicable for a duration of two years, to these consumers for the current contracts under the condition that they send a request in writing to their suppliers before July 1, 2007 (see section 12.3 ("Effects of the transitory regulated tariff for market adjustment")).

The order of January 3, 2007 decided that the transitory regulated tariff for market adjustment before tax applicable to a consumer area should be equal to the regulated sales tariff before tax applicable to a consumer having the same characteristics, marked up as:

- 10% for final consumers connected to low voltage with a subscribed power lower or equal to 36 kVA;
- 20% for final consumers connected to low voltage with a subscribed power considerably higher than 36 kVA;
- 23% for final consumers connected to HTA and HTB voltage.

### 6.2.1.2.3 EDF customers division

In 2006, electricity sales for the EDF Customers Division amounted to 382 TWh<sup>15</sup> (245 TWh to eligible customers and 137 TWh to residential customers and general building services) totaling 27 million customers.

Since end of 2005, EDF offers natural gas to all of its eligible customers. In 2006, the customers division commercialized 9 TWh to 40,000 sites.

Customer satisfaction is at the heart of EDF's marketing strategy. Studies, both qualitative and quantitative, are carried out on a regular basis in order to direct the activity. In 2006, satisfaction remained at a high level even though it was slightly lower than in the previous years in the eligible segment due to the changes caused by the separation of distribution and marketing activities.

By expanding its traditional role in promoting efficient use of electricity to its customer, the EDF Group integrated energy savings imperatives provided by the relevant regulation, in the context of the development of its marketing policy.

Thus, the law of July 13, 2005 and associated decrees defining an program and focuses for energy policy, set up a scheme including an energy saving certificate characterized by a national objective of energy savings (a savings target of 54 TWh has been set for the period from July 1, 2006 to June 30, 2009) which binds energy suppliers to respect these commitments.

The order of September 27, 2006 fixed a savings target at 30 TWh, representing the amount of energy savings that EDF should accomplish for 2006-2009.

In order to take into account this energy savings target, in all of its markets EDF's offers include the promotion of efficient energy use and renewable energy.

<sup>15</sup> Not including Corse and French overseas departments, processing (Eurodif and Sollac), internal sale or sale of foreign operators.

From mid-September to mid-October 2006, EDF also organized in 10 towns in France a tour entitled "Together, Saving Energy". The objective was to propose solutions to the public, professionals, companies and local authorities on how to improve their energy consumption.

### A. Customers of the Business Customers Division

The Business Customers Division comprises more than 200,000 customers for electricity sales of 219 TWh<sup>16</sup> for the 2005 financial year.

To customers wishing to exercise their right of eligibility, EDF offers a range of energy solutions by customer groups.

Packages for Large Companies and Key Accounts are adjustable, and consist of "tailor-made" solutions that are adapted both to the needs of purchasing divisions and to the bidding process of public operators. EDF has implemented "packaged" solutions for the SMEs and small local authorities in order to meet their expectations of simplicity.

#### Large Companies and Key accounts

This customer segment comprises large companies the annual electricity bill of which exceeds €150,000 delivery included, as well as large groups, frequently operating on a European level and most commonly with a centralized purchase structure. Business relations with these customers are highly personalized.

In addition, the EDF Group set up multi-country energy solutions within its coordinated marketing network which covers 11 countries (France, UK, Germany, Belgium, Spain, Italy, Austria, Slovakia, Hungary, Poland and Czech Republic).

Within the Key accounts segment, certain customers, share the special feature of being large-volume consumers of electricity, in other words customers the electricity costs of which represent a large part of their operating expenses:

- Before the opening of the markets, EDF signed long-term contracts with certain customers, the terms of which do not correspond to those of the current electricity market since all generation and delivery costs are covered by the contract prices. Provisions are made for these contracts in the company financial statements;
- On April 5, 2007, EDF and Exeltium (the consortium of large-volume consumers of electricity founded by 7 companies, including among others, Alcan, Arcelor-Mittal, Air Liquide, Rhodia and Solvay) entered into an industrial partnership agreement which details the terms and conditions of the memorandum of understanding that had been entered into on January 15, 2007, in accordance with the system created by the Finance Act dated as of December 31, 2005. This agreement allows Exeltium to benefit from a larger visibility over electricity supply prices in the long-term, in exchange of a sharing of risks related to the development and the operation of EDF's nuclear facilities. Volumes at stake amount to 350 TWh over 24 years. This agreement puts an end to the negotiation period that started after the call for tenders initiated in May

2006 by Exeltium to electricity suppliers, for the supply of a maximum volume of 28 TWh year. The approximately fifty industrials that could join the initial shareholders of the consortium will communicate their decision in the weeks following the signing of the partnership agreement. Depending on Exeltium's finance raising schedule and subject to the European commission's approval, the first electricity deliveries could take place in the beginning of Summer 2007.

#### New sale offers proposed to Key Accounts and Large Companies

EDF offers a range of packages to Key Accounts and Large Companies comprising:

- Electricity and natural gas supply;
- Electricity supply from renewable energy sources (*Equilibre offer*);
- "progress contract" where EDF agrees to reduce the customers global electricity bills by proposing to set up energy saving actions;
- Management services;
- Services enabling the monitoring of energy consumption curves;
- Diagnostic services related to energy optimization and kWh quality;
- the supply of energy services, via subsidiaries, joint-ventures and partners of the EDF Group;
- a range of offers "Carbone Optimia" which permit customers to have better access the CO<sub>2</sub> quota and to manage and optimize their allowances;
  - a statement and analysis which give customers a complete summary of their emissions and which help set up an optimized management of these emissions;
  - an offer which allows companies to entrust EDF with the sale or the purchase of CO<sub>2</sub> quotas.

In addition in 2004 and 2005, EDF offered firm price contracts over 5 years in response to expectations of stability and visibility of the medium and long term prices for customers facing by the volatility of the price of electricity on the wholesale market.

#### SMEs

The packages offered to the SMEs are based on integrated solutions, the price of which includes the supply of electricity and natural gas and management services. Three solutions are currently being marketed: *Visibilité, Alliance and Premium*.

Electricity offers from renewable energy sources (the *Equilibre offer*) and natural gas offers are also available to this customer segment.

#### LDCs

The "Local Distribution Companies" or "LDCs" sell and deliver electrical energy to end-users located in their exclusive area. They are responsible for 5% of the electricity distribution in France and sometimes generate electricity themselves. The French Decree of January 27, 2005 relating to the tariffs for the sale of electricity to non-nationalized distributors gives the LDCs the option of obtaining special tariffs from EDF for the portion of their electricity supply sold to non-eligible customers or customers that have not exercised their right of eligibility and for their network losses. This does not apply to those who have already exercised their right of eligibility.

<sup>16</sup> Excluding blue tariff sales managed by the Residential and Small Business Customers Division for customers of the Business Customers Division and including sales to municipalities.

## B. Customers of the Collectivités Territoriales Division

With clarity and coherence in mind, a division dedicated to the Collectivités Territoriales and lessor organizations was created in 2006. Under the same management, it regroups all commercial interlocutors from this segment of the market.

Offers to Collectivités Territoriales include:

- the supply of electricity and natural gas, including an *Equilibre* offer for electricity produced from renewable energy sources;
- management services;
- diagnostics (management of the energy demand, development of renewable energy);
- the “offre montant des charges” (“OMC”) intended for local authority lessors, aiming to improve the energy efficiency of local authority housing. It also enables EDF to fulfill its obligations concerning energy saving and collection of certificates;
- the supply of energy services, via subsidiaries, (share)holdings and partners of the Group;
- accompanying of collectivités in their development projects.

The year 2006 was marked by this customer segment being increasingly aware of the importance of energy issues: the local administrations are gaining skills in the energy sector and organize specific actions relating to “Management of the Energy Demand” (“MED”) and renewable energy. EDF is pursuing the signing of energy-related agreements with the Collectivités Territoriales.

## C. Customers of the Residential and Small Business Customers Division

This division comprises approximately 27 million residential customers and small business customers. For the 2006 financial year, the volume of electricity sales amounted to 163 TWh<sup>17</sup>.

### Historical offer proposed to non-eligible customers or customers that have not exercised their right of eligibility

Regulated or historical tariffs consist of a constant (subscription) and a variable element (see Section 6.2.1.2.2.1 (“The tariff structure”) above).

### Offers to small business customers wishing to exercise their right of eligibility

EDF has extended its range of offers, which combine the supply of energy and services. Since July 1, 2004, EDF has been offering *EDF Pro* solutions, the purpose of which is to simplify the lives of small business customers by offering them rapid and efficient solutions.

Moreover, if the customer’s business premises or layout were to change, EDF provides advice, diagnostics and demand-side management packages and sends the customer special newsletters that may be useful when preparing technical specifications.

EDF also provides its small business customers with a *kWh Equilibre* package, in which the electricity purchased is supplied wholly or partly from renewable energy sources.

Since June 15, 2005, EDF offers a dual electricity and natural gas offer. This offer meets the very high expectations of small business customers and serves to set EDF apart from its mono-energy competitors.

### Offers to residential customers: preparing for full market opening

This market comprises all residential customers and is characterized by a large number of customers and a relatively low average annual electricity bill.

The sales policy for residential customers has, in the past, been focused on promoting electrical heating. The policy now focuses on housing comfort and energy control. EDF is preparing for the market opening up to competition in 2007 and developing packages, communications and the Residential and Small Business Customers Division business model.

For EDF, the opening up of the market on July 1, 2007 involves adapting the services to residential customers on the basis of two axes: the services “related to supply” and the services “related to certain key moments” such as mobility and thermal energy comfort construction or improvement projects, including the maintenance of facilities.

The range of usage-related packages has therefore been extended and broadened (advice, financing packages) in order to fulfill customers comfort expectations. The range of current packages consists of *Vivrélec habitat neuf*, *Vivrélec rénovation*, *Diagnostic Confiance Sécurité* focused on interior electrical installations, *Assurélec* and *Objetifs Travaux*.

The range of offers is also being developed around “aval compteur” services, with notably the maintenance, repair and replacement of natural gas boilers for residential customers, managing agents and local authority housing management offices, through the acquisition in June 2006 of 99% of the capital of the company Fahrenheit.

During the second half of 2007, a natural gas package will also be proposed.

EDF is working in partnership with members of the renovation market (constructors, plot sellers, local authority lessors, etc.) in order to facilitate energy management actions.

Since January 1, 2007, 5,300 people handling the receipt and management of residential customer accounts from the EDF Gaz de France Distribution Division joined the Customers Division in order to create the teams of the “Residential retailer”, covering all customer-care and sales functions. Commercial structures and processes destined for residential customers are currently being redefined in preparation for July 1, 2007. EDF is also developing its information systems in order to guarantee continuity of customer management after the opening of the market.

<sup>17</sup> Including the blue tariff sales managed by the Residential and Small Business Customers Division for customers of the Business Customers Division.

For the opening of the residential market, EDF has set itself the following objectives:

- any customer wishing to change its supplier should be able to do so without any problems;
- any customer able and wishing to remain on the regulated tariff should be able to do so whilst receiving the same quality of service.

In order to deal with a transitional deficit in resources at its Customer Relations centers (CRC) at the time when markets are opened, EDF has implemented a procedure to have recourse to the support of service providers in the areas of management and long-distance customer service. Managed by a specific national entity, these providers will be given simple management tasks and must work towards the obtention of the Social Responsibility Label ("*Label de Responsabilité Sociale*"), already obtained by EDF for all of its own call centers (certification obtained from Ernst & Young appointed by the Ministry of Employment).

EDF participates, together with the other operators affected by the opening up of the residential market, in the works of the CRE's "2007 electricity working group", which aims at defining the rules of procedure or the open market of electricity<sup>18</sup>.

#### 6.2.1.2.2.4 New partnerships of the EDF Corporate Division

During recent years, EDF has entered into a number of partnerships in order to provide its residential customers with a global service offer.

##### Domofinance

In the context of the partnership agreement concluded between EDF and Cetelem in 2003, a finance company, Domofinance, in which EDF has a 45% interest (as of December 31, 2006), was created for the purpose of broadening EDF's sales offer in the context of the electricity market opening up to competition. The purpose of Domofinance is to execute all credit transactions with the EDF residential customer base and to provide insurance products linked to this credit and insurance products relating to energy supply. On September 29, 2003, Domofinance was approved as a finance company by the CECEI (committee of credit institutions and investment companies), in accordance with Articles L. 511-9 to L. 511-14 of the French Monetary and Financial Code (*Code monétaire et financier*).

The loans provided by Domofinance are marketed and managed by a *société en participation*. Domofinance has a 52% stake and Cetelem has a 48% stake in the results of this company.

##### Other partnerships

EDF has also entered into other specific partnerships, one with Cardif and the other with Crédit Foncier. The purpose of the partnership with Cardif was to create a group insurance agreement called the "*Service Assurélec*", which covers the payment of electricity bills in the event of the death or incapacity of the EDF customer taking out this insurance. The purpose of the partnership with Crédit Foncier was to create the "*Prêt Vivrélec Habitat Neuf*" loan, a subsidized financing facility proposed within the scope of the EDF *Vivrélec* sales offer.

In addition, cooperation has been implemented with Axa Assistance and Europe Assistance for repair services. The marketing of this service has been available throughout France since February 2006.

### 6.2.1.3 Upstream/downstream optimization — trading

#### 6.2.1.3.1 Role and activities of DOAAT

The Upstream/Downstream Optimization & Trading Division (*Direction Optimisation Amont/Aval & Trading*, or "DOAAT") ensures the balance and optimization of EDF's upstream/downstream asset portfolio, and management of the associated risks. It therefore coordinates and organizes the entire "Generation-Supply" ("G+S") chain:

- upstream: fleet of generation facilities, long-term supply contracts, wholesale purchasing, purchase obligations from small decentralized generators; and
- downstream: long-term supply contracts, final customer portfolios, wholesale market sales, VPP auctions, interruptibility.

The DOAAT's role is to guarantee the availability of the resources needed to supply EDF customers (end-users and wholesale market sales commitments), by maximizing the value of the "generation-wholesale purchase and sales-supply" chain, whilst minimizing physical and financial risks.

To this end, it performs arbitrages, based on all timescales, between diverse supply sources and business opportunities offered by EDF's own resources and the European wholesale market. It also proposes upstream and downstream asset portfolio development.

The DOAAT deals with the supply in fossil-fired fuel, coal and oil, for the EDF's plants.

The DOAAT's area of competence also includes EDF's trading activities, carried out by EDF Trading, a wholly owned subsidiary of EDF. For transactions on the fossil fuel and electricity wholesale markets, the DOAAT relies exclusively on EDF Trading. At the request of the DOAAT, this subsidiary performs the following for all commodities (electricity, gas, coal, oil, CO<sub>2</sub>, etc.): (i) arbitrage transactions that fall within the scope of the optimization strategies defined by the DOAAT and (ii) hedging transactions for EDF's commercial undertakings with a view to minimizing their physical and financial risks. EDF Trading also carries out its own trading activities.

In September 2006, the DOAAT's activity was extended to the gas sector through the creation of a "gas optimization" entity. Its mission is to ensure the balance of the upstream/downstream gas portfolio for the following three years, as well as the associated transport and storage logistics from border delivery points or at Gas Exchange Points ("GEP") in France. It also manages the exposure of the upstream/downstream gas portfolio to the risk of price increases and provides support for the organization of offers by EDF's marketers to its customers in France.

The DOAAT aims to develop cooperations with the Group's other European companies. This is the objective of the professional optimization-trading division, which groups together the DOAAT, EDF Trading and the optimization-trading entities of EnBW (Germany), Edison (Italy), EDF Energy (the United Kingdom) and Everen (Poland). The division has already enabled the emergence of a value creating project for all of the Group's entities: the launch in November 2006 of a Fonds Carbone Groupe managed by EDF Trading (see Section 6.2.1.3.3.2 ("Negotiating CO<sub>2</sub> emissions")).

<sup>18</sup> EDF is also involved in the working group "Gas 2007 (GTG)" of the CRE.

In addition, the DOAAT manages some trading activities directly: capacity auctions (Virtual Power Plants, or “VPP”) described in Section 6.2.1.3.4 (“Capacity auctions”) (41 TWh in 2006), long-term equity contracts with European energy providers described in Section 6.2.1.3.5 (“Purchase/sale contracts for long-term electricity”) (46 TWh sold and 9 TWh purchased in 2006) and purchase obligations (23 TWh in 2006) of EDF.

The DOAAT currently has approximately 700 employees, approximately half of whom work for EDF Trading. It managed an electricity flow volume of approximately 527 TWh<sup>19</sup> in 2006.

### 6.2.1.3.2 Upstream/downstream balance optimization activities

The DOAAT is responsible for the management of physical risks to EDF's upstream/downstream portfolio and their financial consequences.

The DOAAT optimizes the energy generation-supply gross margin by using the available flexibility levers of the upstream, downstream and market portfolios, and proposing developments in value and structure of these portfolios over different time periods:

**In the long term (5 years or more)**, the DOAAT will continue to contribute to the preparation of the generation investment program and, notably, the renewal of the fleet in parallel with the development of long-term downstream market opportunities.

**In the medium term (3 to 5 years)**, the DOAAT's role is to continuously and coherently create an optimized view of the Generation-Supply portfolio and EDF's supply/demand balances, by determining the financial trajectories and the landscape of physical and financial risks. The main levers are as follows: seeking new maintenance or operating policies with a view to improving the availability or flexibility of resources and adapting the mix of facilities; segment-based market share strategies, tariff changes, scaling interruptibility and seeking new sales offers; and adapting existing long-term contracts and seeking contracts with suitable counterparts.

Management of the supply/demand ratio can also be considered in **the short term** (1 month to 3 years) through the implementation of extreme risk (volume risk) and price risks policies drafted in accordance with the directives of the Group Risk Management Division as approved by the Deregulated Operations France Chief Officer. From a physical point of view, there are three hazardous elements which subject EDF's generation to a volume risk: temperature (a temperature decrease of 1°C leads to an increase in consumption of 1,500 MW), hydraulicity (in two extreme years, the gap can reach 15 TWh) and the availability of the nuclear fleet (such as an unexpected shutdown of nuclear units). The DOAAT also manages the exposure of EDF's upstream/downstream portfolio to energy wholesale markets' prices (electricity, gas, coal and oil products) and the CO<sub>2</sub> emission rights' market's prices variations.

In order to be able to face “volume risk”, the DOAAT takes each week significant power margins to reduce the likelihood of a default by EDF, recourse to the spot market excluded. The DOAAT also has a group of leverage actions: the programming of generation methods (in particular, nuclear power) maintenance operations, stocks man-

agement (fossil fuels, hydropower reserves and customer removal capacity), sales and purchases on wholesale markets. The DOAAT manages the price risk through EDF Trading, the only entity who can take commitments on wholesale markets, depending on economic contingencies and the expected evolution of market prices.

**In the short term – (within the same day up to weekly) -**, the DOAAT is in charge of the “balance responsibility” in EDF's scope towards RTE-EDF Transport. The optimization consists of informing RTE-EDF Transport the day before of an offer/supply balanced program for the next day which allows the reduction of the supply costs of EDF's contractual commitments. In order to ensure balance in EDF's scope, the DOAAT can benefit from the flexibility of the customer portfolio (namely, its interruptibility) or generation assets (moving shutdowns and trials, assets which can be mobilized within a few hours, such as the fossil fuel fleet, or within a few minutes, as it is the case for combustion turbines and hydropower assets), depending on their economic value and by hedging them with the “spot” sales and purchases of energy carried out by EDF Trading. Customer portfolio and generation flexibility go as far as allowing arbitrages within the same day.

The DOAAT's optimization activity becomes more visible when extreme climatic events occur, since it allows to limit their physical and financial consequences. Therefore, the net impact of July 2006 heat wave on EDF's margin was limited to €100 million, when compared to €300 million following a similar episode on August 2003. Due to the physical and organizational closeness between the optimizer and the trader and the other actors of the upstream/downstream generation and supply chain, it has been possible to efficiently use all available leverages: postponing facilities' shutdowns to the summer period, removal of long term and large industrial customers' contracts and optimizing wholesale markets' purchases through EDF Trading.

In addition, the DOAAT analyses and evaluates the impact of regulatory and institutional developments on the physical and financial balance of the generation-supply portfolio, which may affect EDF's businesses: system for allocating capacities at the borders; more stringent environmental constraints; and supply security and balance of the electricity network.

Under the framing of the French Electricity Union, some French producers (such as EDF, GDF, Suez and SNET), have implemented a daily information communication system concerning their facilities' generation and their availability prospects. As of November 15, 2006 this information is daily communicated on RTE-EDF Transport's website. It has been agreed on by generation professionals and it mainly concerns:

- information related to the reference fleet and to French generation, as well as a weekly information on the level of the French hydropower stock;
- information on the expected availability of short term, medium term and long term generation capacities.

This system was welcomed by market operators due to its contribution to transparency in the functioning of the European electricity market. It increases the visibility that all market operators have over the electricity offer/demand balance in France over a period of three years.

<sup>19</sup> At the C+P activity perimeter.



### 6.2.1.3.3 EDF Trading

Electricity and fossil-fuel trading is a key element in optimizing EDF's generation and supply activities insofar as, in the context of wholesale markets, the constraints of generators and suppliers must be accounted for jointly, and not separately.

EDF Trading is the entity in charge of trading on the wholesale markets for electricity, natural gas and fossil fuel on behalf of EDF. It benefits from EDF's leading position in Europe. EDF Trading is also in charge of the purchase and sale of transmission capacities within the European transmission networks, interconnections of France and gas trading activities on the wholesale markets in order to contribute to the development of the Group's gas strategy and the supply of coal and oil to EDF's power plants. In 2006, EDF Trading traded approximately 1,019 TWh of electricity, 189 Gm<sup>3</sup> of natural gas, 387 millions tons of coal and related transmission capacities and 242 million barrels of oil (including 229 million barrels as investment income).

The trading activities of EDF Trading are fully integrated into DOAAT's optimization strategy. Thus, the Director of DOAAT is a member of the Board of Directors of EDF Trading. The Chief Executive of EDF Trading is also a member of DOAAT management team.

EDF Trading created a trading subsidiary in France at the beginning of April, 2006, charged with day ahead and intraday trading activities related to electricity, in particular in France and in Germany. In addition to an immediate increase in the market optimization of EDF in France, this entity develops important creative activities for the Group using EDF Trading's market expertise to manage the EDF asset portfolio in France. This entity is controlled by EDF Trading London and relies on the latter for its risk management. It is a subsidiary of EDF Energy merchants Limited, itself a wholly-owned subsidiary of EDF Trading located in London and regulated by the British Financial Services Authority.

The reduction of the credit risk associated with trading activities is ensured by means of collateral agreements entered into by the market operators ("netting agreements").

#### 6.2.1.3.3.1 Trading in electricity

EDF Trading is the exclusive interface between EDF (DOAAT) and the electricity wholesale markets. It is therefore responsible for optimizing and carrying out daily purchases and sales and executing the futures hedging transactions decided upon by DOAAT.

This responsibility originally enabled EDF Trading to develop rapidly in the main electricity wholesale markets in Europe. EDF Trading is now known as one of the most important and high-performing traders in continental Europe and the United Kingdom.

The majority of EDF Trading's electricity-related activities are based essentially on bilateral over-the-counter transactions. The proportion of transactions carried out using financial instruments, for which delivery and settlement take place for cash only, has increased gradually and consistently over recent years, due to the wish of newcomers to reduce their exposure to physical and credit risks. Nevertheless, the scope of this development is limited, in as much as market operators create, use and sell underlying products, and require the products to be physically delivered.

#### 6.2.1.3.3.2 Trading in CO<sub>2</sub>

EDF Trading has a significant role on the European market for CO<sub>2</sub> emissions permits. EDF Trading is in addition the exclusive interface for EDF and EDF Energy with the wholesale market for their hedging operations. EDF Trading is also active on the market of clean development mechanisms. This program defined by the Kyoto protocol allows the acquisition of emission credits generated by reduction of green house gas emission projects in emerging countries (China, India, Brazil). In November 2006, EDF set up a Carbon Fund Group, the management of which was handed over to EDF Trading, combining the largest entities of the EDF Group: EDF, EDF Energy, EnBW and Edison. By mutualising of the Group's capacities regarding the purchase of emission credits, this fund places them as one of the principal actors on the clean development market. With the creation of this fund, the different companies of the EDF Group consolidate their CO<sub>2</sub> hedging strategy by diversifying their resources in emission allowances. This enables them to ensure that their environmental commitments are met with optimal economic conditions.

#### 6.2.1.3.3.3 Trading in gas

EDF Trading is one of the main traders on the European gas markets and operates in the United Kingdom, Belgium, The Netherlands, Germany and France. EDF Trading is involved in the entire supply chain, from the purchase of the product directly from offshore platforms through to the supply of the product to the customer. It is also involved with transmission and storage. EDF Trading's gas activities are based on a large number of structured transactions.

In 2006 EDF Trading carried out its first transactions on the liquefied natural gas market (LNG) with the acquisition of regasification capacity at the Montoir gaz terminal for 2007 and 2008.

#### 6.2.1.3.3.4 Trading in coal and in coal freight

EDF has entrusted EDF Trading with the exclusive responsibility for supplying its fossil-fired power plants with coal. EDF Trading is also responsible for supplying the EDF Energy's classic thermal power stations with the international coal purchases. EDF Trading is one of the major operators on the physical and notional markets for coal and for the corresponding freight. EDF Trading purchases coal from the main generation sites in the world, including South Africa, Australia, Colombia, Indonesia and Poland, and is one of the main coal importers in Europe. EDF Trading holds a subsidiary in Singapore to support the growth of its activities in south-east Asia. EDF Trading has entered into long-term purchase contracts in the Pacific and Atlantic basins and has specialized teams who are highly experienced in maritime and land logistics.

#### 6.2.1.3.3.5 Trading in oil

In view of the fact that the price of gas contracts is indexed to oil product prices, EDF Trading has taken financial positions on the oil market. Trading activities in this area consist mainly of executing hedging transactions on the gas contracts portfolio and developing trading around these positions, based on arbitrage opportunities arising on the markets, always strictly within the risk limits set by the Board of Directors.

#### 6.2.1.3.4 Capacity auctions

The DOAAT manages the capacity auctions mechanism ("VPP"). Capacity auctions result from a commitment made by EDF to the European Commission in the context of EDF's acquisition of EnBW shares. Since 2001, EDF has therefore committed to making part of its generation capacities available to the market for an estimated initial period of 5 years which means in principle until February 7, 2006. This commitment, made at the beginning of 2001, was intended to facilitate access of competitors to the French market by mitigating for a few years the difficulties of supply existing on the emerging French market. It aimed at mitigating the effects of the EDF-EnBW deal on the French competition situation.

In 2006, more than 41 TWh (for 43 TWh in 2005) was made available to the market.

Since February 2006, EDF has had the possibility to file a motivated request to remove itself from the auction process. As of today, EDF decided to not exercise this right. In September 2006, after discussions based on proposals made by EDF, the European Commission authorized a certain number of changes to the auction process (notably the proposal of an experimental line of primary products for a duration of 4 years), with any changes to the annual volume of energy available by EDF.

Auctions therefore still continue. If the termination of auctions is planned, EDF would be in favor of a progressive exit, to avoid too much disturbance in the market.

#### 6.2.1.3.5 Purchase/sales contracts for wholesale electricity

EDF has trade relationships with important European operators, such as Electrabel-Suez, Enel, EnBW, REE, NOK, EGL, Atel, CNR and SNET-Endesa, through numerous energy purchase and sales contracts.

In 2006, the volumes sold and purchased represented 46 TWh and 9 TWh, respectively.

There are several types of contracts, relating to:

- rights to energy generated by generation plants, mostly nuclear, in which the contracting parties have a stake as long as the installation is in operation (see Section 6.2.1.1.3.1 ("EDF's nuclear fleet") above);
- drawing rights for electrical power, totally or partially guaranteed for a period lasting generally from 15 to 25 years;
- rights and obligations contracted for with formerly related generators (mainly SNET and CNR, which became independent of EDF when markets opened). Contracts entered into between EDF and CNR expired in 2006. Those entered into with SNET, currently in force, should expire in 2010.

The portfolio of contracts is representative of the structure of EDF's generation facilities, mainly comprised of nuclear plants. EDF sells energy at basic load and purchases it at mid-merit or peak load.

As for what concerns interconnections, as of January 1, 2006, the French regulator made the decision to eliminate priority access at the interconnections networks between France and adjacent Member states. Access to interconnections now involves a horizontal auction system of at most one year to reserve exchange capacities, which applies to all transactions, including historical long term contracts. Half of the energy processed in 2006 was delivered to counterparties on the French main transport network. The other half was delivered on interconnection points with Swiss and Italian electrical systems pursuant to rights of access recognized to EDF's counterparties despite interconnection capacities reservations' market mechanisms.

At the end of December 2006, EDF entered into an agreement with Poweo for the exchange of electric generation capacities for a period of 15 years, under balanced economic conditions. This long-term industrial agreement concerns the supply, between 2007 and 2021, of 160 MW of base nuclear power. In exchange, Poweo will provide EDF, with the same capacity and for the same duration as of 2009, part of the generation capacity of its future combined gas cycle fossil fuel power plant at Pont sur Sambre. This agreement allows EDF to complement its mid-merit electric generation from its coal power-plants in order to better adapt its offer to its customers' consumption profile.

### 6.2.2 Regulated activities in France

In France, EDF's regulated operations consist of the following:

- transmission, handled by RTE-EDF Transport;
- distribution, handled by the EDF Distribution Network and EDF Gaz de France Distribution (managed jointly with Gaz de France); and
- EDF activities in Island Energy Systems (Corsica, French overseas departments and Saint-Pierre-et-Miquelon), which are managed by the Island Energy Systems Division (*Systèmes Energétiques Insulaires*, or "SEI").

The tariffs for these regulated operations are established on the basis of the Tariffs for Using the Public Electricity Transmission and Distribution Networks (*Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité*, or "TURP") and on the basis of compensating the additional generation costs in zones that are not interconnected with the network in metropolitan France (*Compensation des Surcoûts de Production dans les Zones Non Interconnectées au réseau métropolitain continental*, or "CSPE ZNI") (see section 6.2.2.4 ("Tariffs for Using the Public Electricity Transmission and Distribution Networks ("TURP")")).

#### 6.2.2.1 Transmission — RTE-EDF Transport

Created on July 1, 2000, RTE is the operator of the French power transmission network, which it owns, operates, maintains and develops. With some 100,000 km of high and very high voltage circuits and 44 cross-border power lines, this network is the largest in Europe. Its geographical position places RTE-EDF Transport at the heart of the European electricity market. RTE-EDF Transport is the entity responsible for the correct operation and safety of the electricity network. It guarantees equitable access of all users of the network. RTE was converted into a subsidiary, RTE-EDF Transport, in 2005, and has since been a wholly-owned subsidiary of EDF, fully consolidated in the financial statements of the Group.

## Business overview

In 2006, RTE-EDF Transport recorded sales of €4,059 million (70.9% of which was generated from activities related to distributors' access to the transmission network), EBITDA of €1,570 million and net income of €431 million. Its borrowing and financial debt amounted to €6,426 million as of December 31, 2006 (source: RTE-EDF Transport 2006 annual report).

The table below sets forth a simplified evaluation of energy flow on the RTE network over 2003 to 2006:

TWh	2003	2004	2005	2006*
<b>Injections</b>				
Generation	515.8	521.6	522.7	520.5
<b>Withdrawals</b>				
Energy withdrawn				
for pumping	7.3	7.2	6.5	7.3
Deliveries (including losses)	442.4	452.5	455.8	449.6
<b>Export balance of</b>				
<b>Physical exchanges</b>	<b>6.1</b>	<b>61.9</b>	<b>60.4</b>	<b>63.6</b>

\* Provisional figures.

In 2006, the net balance of physical exchanges of RTE-EDF Transport with countries abroad has always been that of an export balance, except during the cold periods from January to March, during which the net balance became of an import balance for a period of approximately 350 hours.

### 6.2.2.1.1 RTE-EDF Transport Activities

Pursuant to the French law of February 10, 2000 (reaffirmed by the Law of August 9, 2004, see Section 6.5.1.2 ("French Legislation — Transmission System Operator")), the electricity transmission system operator must operate, maintain and develop this network independently of other EDF activities.

Thus, RTE-EDF Transport:

- manages power flows: RTE-EDF Transport is responsible for the supply/demand balance and makes adjustments, manages electricity flows and manages access rights to international interconnections, in collaboration with neighboring network operators. It mobilizes reserves and compensates for losses. It makes the necessary accounting adjustments and resolves imbalances;
- manages the transmission infrastructure: RTE-EDF Transport operates and maintains the public transmission network and is responsible for its development, for minimizing costs for the community and for ensuring the safety of the system, people and property; and
- guarantees access to the transmission network: it enters into contracts with transmission network users on the basis of network access tariffs and in accordance with rules of non-discrimination.

#### 6.2.2.1.1.1 Power flow management

##### Cost allocation

The costs corresponding to the balancing offers activated by RTE-EDF Transport as a result of negative imbalances are passed on to the balance responsible entities (generators, traders, suppliers, etc.) proportionately, based on their imbalance. RTE-EDF Transport financially compensates the balance responsible entities for positive imbalances.

### Interconnections

RTE-EDF Transport manages access to international interconnections in collaboration with the transmission system operators of neighboring European countries.

The European electricity transmission networks are interconnected, and ensure that energy can be transmitted from one country to another. These interconnections are used to ensure the operating safety of the electricity transmission networks (in particular using neighboring generators and transmitters to compensate for a major generating or transmission unit outage in France and conversely) and to develop the European electricity market by enabling an electricity supplier to sell its energy to a customer in another country in the European Union. Moreover, these interconnections, by working on the basis of time differences between peak-loads on different sides of borders, enable generation capabilities to be better shared at a European level.

During 2006, the energy exchange capacities were increased between France and Belgium by roughly 1,000 MW, with the set up of a second circuit on the 400 kV line between Avelin and Avelgem and a new line linking Avelgem to Mastaing in 2005.

Concerning the project of the line between France and Spain, the European Commission should appoint a "European coordinator", in accordance with the new regulations, which should lead to some progress of this project.

Studies of feasibility are being carried out for a 1,000 MW increase of the interconnection capacity between France and England.

### Tri Lateral Market Coupling

Due to the existing limitations in cross-boarder exchange capacities, the European regulation n° 1228/2003 sets forth new rules at European level to handle problems related to the network congestion for the allocation of interconnection capacities (see Section 6.5 "Legislative and regulatory environment"). For practical purposes, there are two methods which allow to comply with this regulation:

- allocation of an interconnection capacity by open auctions: the sale of exchange programation rights;
- allocation by implicit auctions: interconnections access priority is given to the less expensive energy blocks.

In this last case, "market coupling" will be carried out. Market coupling is based on the performance of energy markets and boils down to merging purchase and sale book buildings of two nearby markets and creating a common price for such markets, within the import and export exchange capacities' limit.

The coupling of the three electric markets France-Belgium-The Netherlands, called "Tri Lateral Market Coupling" started on November 21, 2006. It is the first experience of this kind in Europe (except for Nordpool).

#### November 4, 2006 Breakdown

The electricity breakdown which concerned part of Europe on Saturday, November 4, 2006 at 22h13 resulted from a default by one of the German transport network Managers.

For what concerns France, it seems that the breakdown was well managed from a technical point of view, which allowed its duration to be limited to less than one hour.

An investigation commission was created by the Union for the Coordination of Transmission of Electricity ("UCTE") in order to determine the precise reasons and the sequence of the breakdown, its consequences and the coordination between German Managers. On January 30, 2007, the UCTE published its final report: its conclusions namely confirm the responsibility of one of the German transmission network managers and the lack of coordination between such managers. The investigation commission sets forth recommendations in order to improve the respect of security rules and cooperation between network Managers.

As for French public authorities, the CRE carried out an investigation and the Minister in charge of Energy entrusted the Mines General Council (*Conseil Général des Mines*) with a special mission. On February 7, 2007, the CRE published the report resulting from its investigation. This report aims to determine the chronology of the breakdown and the reasons for it. Although the CRE notes that the French electric system largely contributed to reduce the consequences of the breakdown on the European electric system, it still observed that there are some deficiencies in the implementation of urgency measures to reduce the impact of such breakdowns and set forth certain recommendations for distribution network managers, in particular, concerning load shedding systems.

This power breakdown draw attention to certain proposals already set forth by France:

- a European coordination center of transmission network managers (*Gestionnaires de Réseau de Transport* or "GRT") for an operational management of cross-boarder transmissions;
- a formal GRT group which would draft common rules concerning the security of the electrical system.

### 6.2.2.1.1.2 Management of the transmission infrastructure

#### Maintenance

RTE-EDF Transport is responsible for maintaining the transmission network, through everyday maintenance, emergency repairs and the renewal of installations that are at the end of their service lives or that are damaged.

Following the storms of 1999, RTE-EDF Transport implemented a "mechanical safety program", a commitment amounting to €100 million a year, in accordance with the public service contract which should be carried out for a period of approximately 15 years. Undertaken with numerous external subcontractors, the program's objective is to strengthen the mechanical resistance of overhead lines to enable them to withstand wind speeds of up to 150 km/hr and to transform or install approximately 16,400 "anti-cascade" towers in order to prevent a domino effect when faced with higher wind speeds.

#### Development

RTE-EDF Transport is also developing the transmission network. The aim of the new projects is to strengthen the national network and anchor the French transmission network in the European system.

Every year, RTE-EDF Transport prepares an investment program for several years which is approved by the Energy Regulation Commission. In 2006, RTE-EDF Transport spent €638 million for the development of its network, as opposed to €582 million in 2005.

### New investments carried out in the transmission network

#### • The Boute-Broc-Carros line

Following the cancellation by the French Supreme Administrative court (*Conseil d'Etat*) on July 10, 2006 of the declaration of public utility of the Boute-Broc-Carros line which aimed to assure the supply of the area around Nice, RTE-EDF Transport decided the launch of several investment projects as a replacement and partially improve the electric security of this region. The commissioning contemplated investments should occur in 2008 and 2009 and it should amount to €70 million.

#### • The Chaffard-Grand Ile and Marlenheim-Vigy lines

The public utility declarations obtained in 2006 by the Chaffard-Grand Ile and Marlenheim-Vigy lines will reinforce the security of the electric supply of respectively the Chambéry area and the Alsace area.

#### • Bretagne

In areas subject to strong transmission restrictions, such as Bretagne, which only generates 5% of its electricity consumption, RTE-EDF Transport invests in order to benefit in the best possible way from its existing facilities.

In addition, RTE-EDF Transport launched in 2006 an invitation to tender to reserve availability of a generation facility located in the Saint-Brieuc area. An agreement was entered into on December 6, 2006 with Gaz de France.

#### • Cotentin-Maine

A public discussion was carried out from the end of 2005 to mid-2006 by the National Commission for Public Debate (*Commission Nationale de Débat Public*), as requested by the RTE-EDF Transport, concerning the project of the 400 kV Contentin and Maine electric line. This line, which should be approximately 150 km long is meant to ensure the security of the French electric system at the time of the commissioning of the Flamaville 3 generation site.

#### • Electric supply of "TGV Est"

On November 13, 2006 RTE-EDF Transport connected to the very high voltage network the Vézilly second rank power plant, located in Aisne (225 kV line Ormes – Soissons). From now on the European TGV Est line has the electric energy necessary to the functioning of TGV Est.

### The Energy Balance in 2006

#### Moderate decrease in domestic electricity consumption and increase in peak demand.

French domestic electricity consumption in 2006 decreased by 1% compared with 2005, with a cumulative total for the year of 478.4 TWh, which is 4.8 TWh less than 2005. This has been the first decrease in consumption ever since 1997. Adjusted for climatic contingencies, electricity consumption attained 470.9 TWh, remaining stable in comparison with 2005 (-0.2%). Climatic contingencies alone caused consumption to rise by 7.5 TWh, of which 6.5 TWh in the winter and fall and 1 TWh during the heat wave of the month of July. Consumption broke a new record in France on January 27, 2006 when it reached 86,280 MW.

The decrease in domestic consumption is mainly due to the decrease in the consumption by the energy sector companies; other large industrial companies' consumption decreased by 0.8%, whereas the consumption of small and medium-sized companies increased by 0.9% and that of lower voltage customers by 2.0%.

The sum of cross-border commercial exchanges (exports + imports) decreased by 4.2% (-5.2 TWh) in 2006, when compared to 2005 when the record level of 123 TWh was reached.

Such results confirm RTE-EDF Transport's analysis in the update of the Prospective report carried out in 2006 concerning the need for new generation and transmission investments.

### 6.2.2.1.1.3 RTE-EDF Transport international activities

In 2004, RTE decided to develop its service providing activity abroad. For financial year 2006, this activity represented €5 million in profits and €4 million in expenses.

Pursuant to RTE-EDF Transport's articles of association, as drafted following its conversion into a new subsidiary, a subsidiary needed to be created to provide services abroad. Accordingly, on September 1, 2006, a French *société par actions simplifiée* was created, having RTE-EDF Transport as sole shareholder. Its company purpose is to carry out the service providing activity internationally. The new company was named RTE International and it received a €2 million allocation for shareholders' equity.

This entities' first agreements entered into with customers, namely in Serbia, Papeete, Croatia and Turkey, are nearly finalized.

### 6.2.2.1.2 Organization of RTE-EDF transport

Article 12 of the French law n° 2000-108, dated February 10, 2000, provides that the management of the public transmission system operator must be independent of the management of other EDF activities and that it must perform its activities in accordance with the provisions of the standard concession specifications approved by means of a decree rendered upon review by the French Conseil d'Etat, after consultation with the CRE. New standard specifications for the concession of the public transport network were approved by decree n° 2006-1731 of December 23, 2006. The French state and RTE-EDF Transport will negotiate in order to enter into a concession agreement, to which the standard specifications will be attached.

#### **RTE-EDF Transport is a French société anonyme with an Executive board and a Supervisory board**

Pursuant to law n° 2004-803 of August 9, 2004 and Decree n° 2005-1069 of August 30, 2005 which approved the RTE-EDF Transport's articles of association, the company is managed by an Executive board under the control of a Supervisory board.

RTE-EDF Transport's Supervisory board comprises twelve members appointed for five years, including six members appointed by the ordinary shareholders' meeting, four members representing employees and two members representing the French state.

RTE-EDF Transport's Executive Board is comprised of four individuals, appointed for 5 years, who carry out their responsibilities under the

control of the Supervisory Board. Subject to the approval of the Minister of Energy, the Supervisory Board appoints the Chairman of the Executive Board as well as, based on the Chairman's recommendations, the other members of the Executive Board.

Pursuant to Article 14 of the French law of February 10, 2000, the Chairman of the Executive Board submits to the CRE, on an annual basis, the investment program for the public electricity transmission network, in accordance with RTE-EDF Transport's medium-term financial plan.

### 6.2.2.1.3 Tariff for using the public transmission network

The tariff for using the public transmission network (which EDF estimates is one of the lowest in Europe) is a component of TURP (see Section 6.2.2.4 ("Tariffs for Using the Public Electricity Transmission and Distribution Networks (*Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité*, or "TURP")").

### 6.2.2.2 Distribution

The main purpose of distribution activities is to deliver the electricity sold by electricity suppliers to end-users. EDF serves approximately 34,000 out of some 36,500 French municipalities, which represents 95% of the volume of electricity distributed in France. The remainder is distributed by LDCs.

The distributor delivers electricity to the installation terminals (meters) of network customers, where the withdrawals are made. A number of different operators inject electricity into the distribution network. The main operators are as follows:

- RTE-EDF Transport, which is responsible for energy transmission in France (see Section 6.2.2.1 ("Transmission — RTE-EDF Transport")): the corresponding injections are made from the source substations spread over the network; and
- generators with installations whose size allows electricity to be injected directly into the distribution network.

These injections must compensate, at all times, for customer withdrawals and network losses. Failure to do so may result in a deterioration in the quality of the supplied product (quality of the wave, voltage and even the continuity of supply).

For the year 2005, the volume of electricity transmitted on the distribution network was as follows:

- injections:
  - by RTE-EDF Transport: 335.6 TWh;
  - by decentralized generators: 13.3 TWh;
- withdrawals: 329.6 TWh;
- losses: 19.3 TWh.

The distribution network generates losses, which are in part due to technical losses caused by the laws of physics (the Joule effect), which depend directly on the quantity of electricity transmitted. The distributor must compensate for these losses in order to supply the quantity of electricity required by the end-users. In 2005, the loss rate was approximately 5% of the electricity injected into the network, i.e., 19.3 TWh. This rate is comparable to that of the main European distribution networks. The cost to the distributor amounted to €797 million in 2005.



To compensate for these losses, the distributor purchases the corresponding electricity on the market by means of invitation to tender, placing approximately 20 qualified suppliers in competition. The activity of the distributor is therefore based on six businesses:

- investment and asset management: as licensee, managing the licensed assets (extension, strengthening and renewal of the network);
- network access management: conducting relations with network users within the context of the applicable contractual mechanisms;
- operation and maintenance: operating and maintaining the network in an optimal operational state;
- execution of works: carrying out work on the network either directly or by using subcontractors;
- metering services:
  - managing the meter system;
  - acquiring, processing and transmitting the consumption data of network users; and
- until 2007, providing customer care and managing non-eligible customers.

### Distributor's preparation to the 2007 market opening.

Within the "2007 Electricity working group" ("GTE"), the EDF distributor takes part in the different working groups responsible for redefining the procedures customers will have to follow when the markets are opened, and generally, the functioning rules applicable to all of the market's actors (see Section 6.2.1.2 ("Sales and Marketing")).

### 6.2.2.2.1 Distribution Network

#### Technical characteristics

As of December 31, 2006, the distribution network for which EDF is the licensee (see Section 6.2.2.2.2 ("Concessions")) comprises approximately:

- 592,200 km of 20,000 volt medium voltage lines (*Moyenne Tension*, or "HTA");
- 663,800 km of 400 volt low voltage lines (*Basse Tension*, or "BT");
- 762,500 HTA/BT transformers.

Generally speaking, this network's limits are:

- upstream: the source substation owned by EDF for the part that it operates, which constitutes the interface between the transmission network and the distribution network;
- in certain cases, and still upstream, the substation connecting to generation installations that are directly connected to the distribution network; and
- downstream: the meters and circuit breakers installed at the premises of the customer, which fall within the scope of the concession.

#### Evolution in investments

In 2006, €1,671 million were invested, €494 million of which were mainly allocated to the connections of new customers and producers. This represents a 8% increase when compared to 2005, in accordance with the public service agreement entered into with the French state and in which EDF committed to increase its gross investment in distribution by at least 6% in 2006 and by 6% in 2007. The additional resources obtained thereby are applied to ensuring networks'

security, to safety in general and to environmental protections, three fields in which customers and local authorities' expectations are particularly high. In total, between 2005 and 2007, €5 billion will have been invested by EDF in distribution networks in mainland France. In addition, the conceding authorities invested €702 million in 2006. Therefore, the total investment in distribution networks in mainland France amounted to €2,373 million in 2006.

Significant investments are aimed at reducing imbalances between regions or between geographical zones as well as the sensitivity of installations to exceptional weather conditions (storms, snow, floods). The objective is to maintain achieved quality levels and to progress in priority zones, where the need for better quality has been identified.

In order to comply with the public service agreement's objectives as well as with environmental and aesthetic objectives, EDF has also undertaken to bury 90% of the new HTA lines and to apply "discreet techniques" to two-thirds of the new BT lines. EDF does not apply the "bury everything" policy. A buried network is subject to the same supply interruption risks as an overhead network. It may be subject to the risk of external shocks (heat waves, floods, works, etc.), and the time required to locate the incident and to re-establish the customer's supply may be longer than in the case of overhead networks.

#### Distributor's projects

The EDF Distributor, in search of productivity sources in the scope of its activities, decided to carry out an experiment with new generation connected meters, allowing the distributor to act at a distance and customers to receive their bills on the basis of a real index. This experiment, which opens cost reduction perspectives, should concern 300,000 customers before 2010. It will also allow to consider the renewal of all of EDF's Distributor's 34 million meters.

#### Quality of consolidated service provided

The quality of service provided, which is the Distributor's main purpose, implies the maintenance of a regular voltage, keeping close to its contractual value and eliminating service interruptions. As for what concerns voltage quality, over 99% of customers were considered to be "well fed" in 2006, according to current applicable rules. On the contrary, the building up of extreme climate conditions (sticking snow, freezing rain in January and Mars, violent storms in July and storms in October and December) and the European electric service interruption of November 4, 2006, have led to an increase in the average length of interruption from 60 minutes in the last few years to 94 minutes in 2006.

In order to reduce the effects of climatic events, the Climate contingencies action plan was drafted and launched in 2006 in accordance with the public service agreement (see Section 6.4.3.4 ("Public service")). Based on a complete evaluation of the network's potential weaknesses in respect to climatic events, the Climate contingencies action plan provides for the burying of over 30,000 km of medium-voltage networks.

In order to be able to face major incidents, EDF's Distributor created a special rapid-response task-force (*Force d'Intervention Rapide* or "FIRE") which allows it to focus teams from all regions in the sinister area, in order to put an end, as quickly as possible, to the service interruption.



### 6.2.2.2.2 Concessions

In France, the distribution networks are owned by the municipalities where they are built. Since the French law of April 8, 1946, EDF is the only licensee that the law places in charge of public distribution networks in France, with the exception of the special case of municipalities and groups of municipalities which, prior to this date, chose to operate their networks themselves within the scope of local utilities or other legal structures. Since that time, some of them have been transformed into Non-Nationalized Distributors (NND). EDF operates the distribution networks within the scope of concessions signed with local licensing authorities which, in 97% of cases, form a syndicate of municipalities. EDF manages approximately 1,200 concession contracts and thereby distributes electricity to 94% of the French municipalities and 95% of the population.

#### Terms of the concession contracts

A framework concession contract and specifications were adopted (with adjustments, depending on whether the contract was entered into with an urban municipality or a syndicate of municipalities) in June 1992 following negotiations between EDF and the National Federation of Licensors and Local Utilities (*Fédération Nationale des Collectivités Concédantes et Régies*, or "FNCCR") and were validated by public authorities. To date, approximately 93 % of the concession contracts have been revised according to this framework.

As of December 31, 2006, the concession contracts of 93 municipalities expired and were tacitly renewed pending the conclusion of renewal negotiations. These municipalities represent less than 1% of the population served by EDF. The contract for the city of Paris does not follow the 1992 framework. Signed in 1955, this contract has been revised regularly and expires on December 31, 2009.

The concession contract is negotiated locally on the basis of the standard framework specifications, the specific provisions of which are described in note 3.1 to the consolidated financial statements for the year ended December 31, 2006.

#### Duration of the concession contracts

Concession contracts are generally entered into for a period of between 20 and 30 years. Weighted by consumption (expressed in kWh delivered to blue, yellow and green tariff customers), the remaining duration of the concessions averages 16 years.

#### Execution of work on the distribution networks: shared skills

Contracting work on the networks (the lead contractor organizes and finances the work) is divided, on the basis of the principles established in the standard specifications, as follows:

- with respect to connection (network extensions and connections) and installation modifications (network improvements as a result of an increase in electricity demand or to improve service quality), EDF and the licensor share the contracting of work for rural electrification networks on a case-by-case basis. For urban networks, EDF is generally responsible for contracting the work;
- EDF is the lead contractor for maintenance and renewal work (maintenance, pruning, renewal, displacement and compliance); and
- the local authorities are the exclusive lead contractors for integrating installations into the environment (burying work, installation aesthetics, etc.).

#### Main Fees and contributions

The concession contracts provide for the payment of a fee that enables the licensor to fund concession-related expenditures.

EDF also has to pay a fee (*Redevance due en raison de l'Occupation du Domaine Public*, or "RODP") for its electricity installations that occupy public property of municipalities and departments. This fee is calculated on the basis of a formula revised by an order in March 2002 and, notably, as a function of the population served. It is paid to the licensing municipalities or to the and to the department.

Like NNDs, EDF pays a contribution to the electrification charges depreciation and amortization fund (*Fonds d'Amortissement des Charges d'Electrification*, or "FACE") on the basis of its distribution revenues. The FACE redistributes the collected funds to the local authorities to fund their rural electrification expenditures. Like NNDs, EDF also participates in the electricity tariff equalization fund (*Fonds de Péréquation de l'Electricité*, or "FPE"), which splits the equalization charges among the distribution network operators. Equalization charges relate to the obligation to ensure that all customers across the domestic market benefit from the same electricity delivery tariff.

### 6.2.2.2.3 Organization

Since 1951, all of EDF's distribution activities have been undertaken with Gaz de France by means of a common structure. This common organization ensures greater efficiency and optimizes regional coverage within the operating context of distribution activities. As a result, approximately one-third of technical and metering services carried out at customer premises is both electricity- and gas-related.

This type of organization has resulted in operational synergies, achieved by pooling metering businesses, small-scale work and the reception of the Distributor customers (final customers of technical demand, suppliers or third parties, etc.), to which is added an interest in career development and motivation of employees. This organization has also created local coverage that is greatly valued by local authorities and licensors.

Pursuant to European directives, the obligation to ensure the organizational independence of gas and electricity distribution network operators with regards to the other activities of their parent companies resulted in the need for this organization to be modified. The aim of this modification was to preserve the synergies arising from the common structure and accommodate the temporary nature of the situation up until 2007.

Within this context, the new organization implemented on July 1, 2004 is based on:

- an electricity distribution network operator within EDF, "EDF Réseau de Distribution"; and
- an EDF and Gaz de France common operator, defined by the Law of August 9, 2004, "EDF Gaz de France Distribution".

In parallel, a gas distribution network operator within Gaz de France was created: "Gaz de France Réseau de Distribution".

## Distributor's conversion into a subsidiary

Article 15 of directive 2003/54/CE of June 26, 2003 states that if the manager of the distribution network belongs to a vertically integrated company, it must nevertheless be legally independent of organization and decision-making of other non-distribution-related activities, at latest by July 1, 2007.

The Law of August 9, 2004 was amended by the law concerning the energy sector, in order to reflect the transposition of provisions of the aforementioned directive of June 26, 2003 relating to the legal separation of the distributor. The scope of this conversion into a subsidiary includes the activities of EDF Réseau Distribution ("ERD") and those of EDF Gaz de France Distribution ("EGD"). The preferred hypothesis shared with Gaz de France is that of a conversion into a subsidiary of the two network managers (electricity and gas), EGD becoming a common service of these two subsidiaries.

In order to implement Law of August 9, 2004, EDF intends, following the opinions of employee representatives, to conclude an asset transfer agreement (subject to spin-off applicable regulations), during the first half of 2007, with the company C6 wholly owned by EDF. In accordance with the Law of August 9, 2004, this agreement will provide for the contribution by EDF to C6 of public electricity distribution network sites and of property of all kinds owned by EDF and related to the activity of electricity distribution. It also provides for the contribution of rights, authorizations and obligations held by EDF and contracts concluded, of whatever nature, if related to the activity of management of the public electricity distribution network insofar as these sites, items of property, rights, authorizations, obligations and contracts will exist at the date on which the contribution is performed. This contribution will include the group of assets, rights, authorizations and obligations which will then be transferred by C6 to the EGD common service activity.

In accordance with Law of August 9, 2004, this transfer may not entail any amendment of ongoing contracts and does not by its nature justify either the termination or amendment of any of their clauses, or the reimbursement of any debts that they may entail.

The contributions will be made at the net book value with retroactive accounting effect on January 1, 2007. The operation should take place during the second half of 2007.

## EDF Réseau de Distribution: distribution network operator

EDF Réseau de Distribution management is responsible for operating the electricity distribution network in metropolitan France. EDF Réseau de Distribution's main activities are as follows:

- to define and implement the operating, investment and development policies of the distribution networks assets granted to EDF;
  - to negotiate and co-sign concession contracts and their amendments;
  - to ensure that connection and access to the distribution network is non-discriminatory; and
  - to handle relations, arising from its activities, with all energy regulating authorities (Ministry of Energy, CRE, licensors for public distribution).
- As of December 31, 2006, EDF Réseau de Distribution employed 1,265 people.

In order to carry out its activities successfully, EDF Réseau de Distribution relies, in part, on EDF Gaz de France Distribution.

## EDF Gaz de France Distribution: EDF and Gaz de France common operator

### Activities of EDF Gaz de France Distribution

EDF Gaz de France Distribution manages the local public service for distribution.

Concerning EDF, the activities of EDF Gaz de France Distribution are as follows:

- executing the construction, development and maintenance of the electricity distribution installations;
- ensuring the technical operation of the distribution network and installations;
- carrying out metering services;
- managing daily relations with local authorities and licensors; and
- executing the technical activities at the premises of customers (connections, repairs, operation on electricity meter, etc.).

As of December 31, 2006, EDF Gaz de France Distribution has 54,895 employees, of whom 41,646 are assigned conventionally to EDF and 13,249 are assigned conventionally to Gaz de France, depending on their activities. At a departmental level, they are managed by 95 distribution centers spread over metropolitan France.

In 2006, EDF and Gaz de France technical activities included more than 88 million meter readings and 10.8 million calls at the premises of customers, 6 million of which involved a contact. This work was performed by approximately 11,200 "common" engineers spread over 750 intervention centers. The localization of these intervention centers enable to reach approximately 97% of the population in 20 minutes.

In order to prepare the opening of the residential market, EDF and Gaz de France develop separated commercial approaches. Each Company manages independently its customers portfolio.

The contract references of customers using the two energy sources have been separated during the first half of year 2006. The concerned 12 million customers now receive two bills. During the second half of year 2003, the contracts and account management was separated by energy sources and taken in charge by different teams of EDF Gaz de France distribution, then since January 1<sup>st</sup>, 2007, EDF and Gaz de France customer-oriented staff.

EDF Gaz de France Distribution is in charge of the distributor reception for EDF and Gaz de France with the following missions:

- reception of the suppliers requests, as of June 1<sup>st</sup>, 2007;
- reception for the electricity connection, for all customers, third parties (installers, promoters, etc.) and suppliers, as of April 1<sup>st</sup>, 2007;
- the reception of gas access, for all customers, third parties (installers, promoters, etc.) and the suppliers, as of April 1, 2007.

### Contractual relations between EDF and Gaz de France within the context of the common operator

To implement the new distribution organization, as described above, EDF and Gaz de France entered into an agreement on April 18, 2005 for the purpose of defining their relations *vis-à-vis* the common operator, EDF Gaz de France Distribution, their spheres of activities and the sharing of costs arising from the common operator's activity. This agreement was entered into for an unlimited duration and may be terminated at any time upon 18 month's notice, during which the parties must undertake to renegotiate a new agreement. If a new agreement is not entered into at the end of this period, the parties will refer the issue to the dispute resolution procedures described below.

Pursuant to the terms of the agreement, EDF Gaz de France Distribution manages and implements the activities that fall within the domain of distribution (whether this concerns the activities exercised by EDF Gaz de France Distribution exclusively on behalf of either EDF or Gaz de France, or activities exercised simultaneously, without distinction, on behalf of both parties), and implements the policies and decisions relating to the mandate entrusted to it with a view to improving performance. EDF Gaz de France Distribution is jointly and severally liable with each distribution network operator (EDF Réseau de Distribution and Gaz de France Réseau de Distribution) for the performance of the distribution activities entrusted to them. The obligations of EDF and Gaz de France arising from the agreement, however, are separate, and do not give rise to joint and several liability.

In this agreement, EDF and Gaz de France have also defined the principles and conditions governing EDF Gaz de France Distribution (including its organization, monitoring and development). The agreement provides that each company is free to develop its own activities within EDF Gaz de France Distribution. If the decision of a company has an impact, notably financial, on the other company through EDF Gaz de France Distribution, an impact study is conducted and any damage is covered by payment of financial compensation and/or by an amendment to the agreement. Decisions relating to common activities are made jointly by the two companies.

Common decisions regarding the management of EDF Gaz de France Distribution are made through two bodies, the respective mandates of which are consistent with the powers conferred upon the executives comprising such bodies:

- a committee deals with monitoring issues specific to the activities entrusted to the network operators. This committee is comprised of two executives in charge of the distribution network operators of each of the two groups. These executives each have the right to one equal vote. The Head of EDF Gaz de France Distribution also sits on this committee, but does not have the right to vote; and
- an Executive Board within each of the two groups is in charge of ensuring that the general policies of the two groups *vis-à-vis* EDF Gaz de France Distribution are consistent. They make the decisions that do not fall within the domain of the network operators. They are comprised of two executives from each of the two groups, who each have the right to one equal vote.

Therefore, neither EDF nor Gaz de France can impose a decision without the prior consent of the other party. Furthermore, Article 5 of the French law n° 46-628 dated April 8, 1946, as adopted in Article 2 of the Law of August 9, 2004, provides that "each of the companies shall bear the responsibility of their own activities within the context of common services which have no legal status".

Moreover, the agreement can be amended:

- **At the initiative of EDF and Gaz de France.** An impact study may be carried out to that effect, if necessary.
- **In the event of an amendment of the law.** The agreement would be adapted to take into account the applicable legislative and regulatory changes while maintaining the agreement's overall equilibrium.
- **In the event of a change in economic circumstances.** The conditions set forth in the agreement, in particular the financial conditions, have been determined in accordance with accounting, tax and cash management provisions that were in force at the date of the agreement's execution. They were also determined in relation to economic or legal circumstances applicable at the time of the agreement's execution. Consequently, if subsequent to a change of circumstances that had led EDF and Gaz de France to enter into the agreement:
  - one of the parties becomes subject to any tax, legal, economic, financial or other actions or events or legal proceedings implying significant consequences, particularly financial, for such party; or
  - the provisions of the agreement become irregular or illegal, with the effect of increasing the costs incurred by a party through the commitments undertaken pursuant to the terms of the agreement, significantly decreasing the benefits that such party receives from the agreement or rendering the agreement irregular or illegal,

the party in question will immediately notify the other party. The parties will negotiate in good faith to take into account the new circumstances.

Furthermore, the agreement sets forth the methods for resolving disputes between the parties. In the event of a dispute regarding the agreement, the parties will meet to put into place the necessary measures to reach an amicable resolution within one month from the date of such meeting. In the absence of an amicable agreement, at the end of this one-month period, and as long as the possibility of litigation does not impact the independence of the management of the distribution networks, EDF and Gaz de France both agree to forward the litigious issues immediately to the members of the Executive Board mentioned above who have been delegated for this purpose, in order to reach an amicable resolution within 20 days.

In the absence of an amicable resolution between the parties, the dispute will be submitted, before submission to any court with jurisdiction, to an external mediation procedure. Upon mutual agreement, the parties will appoint a mediator and define his mandate and the timeframe within which such mandate should be accomplished. The resolution recommended by the mediator is neither obligatory nor enforceable.

In the event that either party rejects the mediator's resolution, the dispute may be submitted to the Paris courts, which have sole jurisdiction over any dispute related to the formation, validity, execution or interpretation of the agreement.

#### Allocation of costs and property

There are different categories of costs in relation to the common operator, EDF Gaz de France Distribution:

- The costs of EDF Gaz de France Distribution activities, which relate directly to one of the companies, whatever their nature, are allocated directly to the relevant company. They do not, therefore, give rise to any financial flows between the two companies. For example, with respect to the employees of the common operator who are permanently and solely assigned to electricity activities, the corresponding costs are allocated directly to EDF;
- Costs relating to activities that are performed simultaneously, and without distinction for both EDF and Gaz de France, whatever their nature, are allocated between the parties according to contractual allocation formulas. These costs are allocated "at source" between EDF and Gaz de France, *i.e.*, when the expense is incurred, and each company's share is entered directly into the accounts of the respective parties. Thus, these costs also do not give rise to any financial flows between EDF and Gaz de France. The elements used for the calculation (basis, etc.) of each allocation formula are defined in exactly the same manner for EDF and Gaz de France. The most commonly used cost allocation formula is that of the "networks users". By way of example, the new allocation formulas result in an overall allocation of 75% for EDF and 25% for Gaz de France in 2006. For example, with respect to the employees of the common operator who are permanently assigned to mixed electricity/gas activities, the corresponding costs are directly allocated and entered into the accounts of EDF and Gaz de France according to the applicable allocation formula;
- On the other hand, certain costs may first be incurred and entered into the accounts of one of the two companies and then be invoiced to the other company. For example, certain employees of the common operator are assigned for administrative reasons (and thus in accounting terms) to one of the two companies but may, on occasion, undertake work for the other company. The hours worked for the other company are recorded daily and are invoiced each month. In 2006, €74 million were thus invoiced by EDF to Gaz de France and €73 million were invoiced by Gaz de France to EDF. In the same manner, certain services for the common operator are performed by (and entered into the accounts of) one of the two companies, which then bills the other, always on the basis of the contractual allocation formula. These services mainly involve IT and telecommunications, automobile services and real estate. In 2006, these common services (excluding real estate) resulted in €53 million of billings from EDF to Gaz de France and €27 million from Gaz de France to EDF. As regards the EDF Gaz de France Distribution's real estate, EDF billed €76 million to Gaz de France and Gaz de France billed €62 million to EDF in 2006. In 2005, EDF had billed €122 million to Gaz de France and Gaz de France had billed €82 million to EDF for these common services.

### 6.2.2.3 Island Energy Systems

The Island Energy Systems (*Systèmes Energétiques Insulaires*, or "SEI") comprise the electricity networks operated by EDF that are not interconnected or only connected to a very small extent to the continent: mainly the French overseas departments, Corsica and Saint-Pierre-et-Miquelon. All of these territories correspond to "zones that are not interconnected with the network in metropolitan France" (*Zones Non Interconnectées au réseau métropolitain continental*, or "ZNI"), as defined by the French law of February 10, 2000. They share the following characteristics:

- these territories benefit from tariff equalization with continental metropolitan France; and
- the small size of their electrical network and the lack or the insignificance of their interconnection with a continental network means that the generation costs are structurally far higher than those in metropolitan France and, for this reason, much higher than the portion reflected in the tariffs.

This situation has two consequences:

- the legislator considers the additional generation costs in these SEI to be a public service charge and these costs are therefore compensated by means of a contribution to the public electricity service (*Contribution aux Charges de Service Public de l'Electricité*, or "CSPE") (see Section 6.4.3.4 ("Public Service")); and
- maintaining tariff equalization with continental metropolitan France means that the development of a competitive electricity market is as a matter of fact impossible.

The Law of August 9, 2004 applies the exemption, provided for by the 2003 European directive, from the obligation to create independent network operators for the French overseas departments, Corsica and Saint-Pierre-et-Miquelon. EDF's organization in each of these territories is therefore based on maintaining an integrated structure that guarantees the main part of generation and all supply-demand balance management functions, network operator functions (HTB, HTA and BT) and supplier functions.

In these networks, given the existing imbalance between the MWh generation cost and the sale price at the equalized tariff, EDF's sales activities consist of managing electricity demand, either alone or in partnership with the Environment and Demand-Side Management Agency (*Agence de l'Environnement et de la Maîtrise d'Energie*, or "ADEME") and local institutions.

Most of the Island Energy Systems, however, have experienced significant growth in their consumption (high rate of demographic growth and/or late technological developments in household equipment). This increase in demand must be met by the creation of new generation plants, which are decided upon by the Minister of Industry within the scope of the Multi-Year Investment Program, either by means of invitations to tender or by authorizing projects developed by private operators. The operators' interest, including EDF, to invest in SEI generation was strengthened by an order taken by the Minister of Industry, on March 23, 2006, setting to 11% the nominal remuneration rate before tax of fixed capital in production investments made in Corsica, overseas department, St Pierre and Miquelon and Mayotte.

### Recent evolutions and mid-term prospects

#### • Legislation relating to Island Energy Systems

The law n° 2006-1537 of December 7, 2006 came to consolidate the law n° 2000-108 of February 10, 2000 by indicating in its article 2, that the activity of network management in areas that are not interconnected to the continental metropolitan territory, remains entrusted to EDF.

#### • Projected investments until 2015

As a SEI network manager, EDF participated in 2005 in the works of the Multi-Year Investments Program. The ministerial order that ratified this Multi-Year Investments Program was taken on July 7, 2006: it gives a figure of the objectives of implementation of centralized means of generation for the SEI to 890 MW in 2010 and 1,230 MW in 2015.

Following this order, the EDF Group's strategy as regards production in SEI was stopped. EDF has the following objectives:

- to remain, the leading actor in each Island Energy Systems, as regards installed capacity;
- to invest in new means of production for approximately €1 billion, until 2015, either by filing operation authorization ("DAE"), or by responding to the Minister of Industry call for tenders.

The production activity being a competitive activity since the vote of the law of February 10, 2000 relating to the electric sector, to reach these objectives imply that the EDF Group can make its offers (filing of authorizations, responding to call for tenders) in the same conditions as its competitors.

In order to realize this project, the EDF Board of Directors has, on its meeting of December 13, 2006:

- authorized the creation the Holding company "EDF Production Electrique Insulaire SAS"
- authorized the creation of local subsidiaries of this holding that will operate the plant in the concerned department.

EDF holds 100% of the share capital of EDF Production Electrique

Insulaire SAS. Each local subsidiaries share capital will be hold by EDF Production Electrique Insulaire SAS, when the filing of an authorization demand to operate, or the participation to a call for tenders will be doable thanks to the land control of the fields on which the plant will be build.

### 6.2.2.4 Tariffs for Using the Public Electricity Transmission and Distribution Networks (Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité, or "TURP")

Pursuant to the French law of February 10, 2000, the tariffs for using the public electricity transmission and distribution networks are adopted jointly by the Ministers of Economy and of Energy upon a proposal from the CRE.

The new Tariffs for Using the Public Electricity Transmission and Distribution, approved the September 23, 2005, by the public authority, are into force since the January 1<sup>st</sup>, 2006 for a two years duration. Given the uncertainty relating to the organization of distribution activities within the context of the full opening of the market on July 1, 2007, the CRE believed that the tariff rules should be adjusted again towards the end of 2007.

#### The new Tariffs for Using the Public Electricity Transmission and Distribution have been set up in order to cover:

- the cost of transmission and distribution, while integrating the productivity gain targets given by the regulatory authority;
- a financial remuneration equal to the regulated assets base, estimated on January 1<sup>st</sup>, 2006 to €10,799 million for transmission and to €26,324 million for distribution, multiplied by a fixed remuneration rate corresponding to a nominal rate before tax of 7.25% (instead of 6.5% for the former TURP) (see note 5.1.1.2 to the consolidated financial statement as of December 31, 2006).

## 6.3 - PRESENTATION OF THE EDF GROUP'S INTERNATIONAL ACTIVITY

In 2006, the EDF Group had a strategy of consolidating its asset portfolio around the business model of an integrated energy company in Europe. Besides, in accordance with its strategy, it has made partnership agreements in the distribution area in Asia and in the United States.

### 6.3.1 Europe

#### European context

The energy market environment in Europe is undergoing a transformation. Proven political willingness, especially in the European Commission, to open up markets has already considerably changed the energy landscape with the following principal effects:

- a complete change in the rules of operation, which have yet to stabilize, of these markets;
- the sensitivity and volatility of energy prices, customary in a commodity market, but amplified by the world energy context; and
- a vision based on national markets, which still continues in most countries due to inadequate interconnections

Renewal of the fleets of generation facilities is a relatively long-term major imperative, depending on the country: between 500 and 600 GW of new capacities are to be built or renewed before 2030 at the European Union level (source: survey of DG Tren – Trends to 2030 – update 2005). In any event, increasing environmental constraints will have an impact on the composition of the fleets of generation facilities and on price levels.

Significant restructurings of integrated energetic groups have happened in 2006. In this context, the EDF Group's goal is to be a major operator in the development of a fluid energy market in Europe by actively participating in the construction of this new market (interconnections, compliance with EU regulations, etc.).

### The Group's ambitions in Europe

The Group's ambition is to create a coherent industrial group with its current main positions in Europe. The Group will review any new opportunity of profitable development, especially in the Benelux countries and on the Iberian peninsula and in the PECO. Thus, Europe is the "core market" of the EDF Group with an integrated upstream-downstream business model, balanced between regulated and deregulated activities. Besides, the Group intends to continue building its gas assets, which are necessary to its ambition of becoming an important European gas operator, in order to secure its offer, to provide its customers with a multi-energy service and to have competitive means of electricity generation through gas.

This coherent industrial group, to be built from the Group's industrial base and shareholdings, will enable its main European subsidiaries to fully contribute to its strategy.

The Group is implementing operational synergies among its various entities in France and Europe with the following objectives:

- to improve the operational performances by sharing the best practices observed within the Group;
- to have a number of entities on a single network in order to optimize the fleet, reduce the costs of peak consumption coverage and to be able to offer services to multi-site customers in Europe; and
- to use the opportunity of construction projects of generation assets in the various subsidiaries in order to standardize the conception and to group the purchase orders to equipment manufacturer;
- to coordinate the gas supplies and investments in order to further the Group's ambitions in the gas market.



## Business overview

### Presentation of EDF Group's international activity

The table below sets forth the general features of the EDF Group's main subsidiaries and holdings in Europe (as of December 31, 2006):

Company Name	Main Activities	Technical data
<b>Germany</b>		
EnBW	Electricity Generation, Electricity Transmission, Distribution, Gas Transmission, Distribution, Electricity and Gas Sales Services	Numbers of customers: approximately 6 million <sup>(1)</sup> Electric Installed capacity: 14.8 GW Gas activity: 83.5 TWh <sup>(2)</sup>
<b>United Kingdom</b>		
EDF Energy	Electricity Generation, Electricity Distribution, Electricity and Gas Sales Services	Numbers of customers- accounts: approximately 5.5 million <sup>(1)</sup> Electric Installed capacity: 4.8 GW Gas activity: 37 TWh <sup>(2)</sup>
<b>Italy</b>		
Edison	Electricity Generation, Electricity Sales, Gas Production, Storage and Sales	Numbers of customers: 177,000 customers Electric Installed capacity: 11.7 GW Gas activity: 144 TWh <sup>(2)</sup>
Fenice	Electricity Generation, Services, Energy and Environment	Electric installed capacity: 298 MW Thermal installed capacity: 2,627 Mwth <sup>(3)</sup>
<b>Spain</b>		
Hispaelec Energia S.A.	Electricity Sales	Numbers of customers: approximately 50 sites
Elcogas	Electricity Generation	Electric installed capacity: 335 MW
<b>Poland</b>		
ECW	Electricity and Heat Generation	Electric installed capacity: 353 MW Thermal installed capacity: 1,225 MWth <sup>(3)</sup>
Elektrownia Rybnik S.A. (ERSA)	Electricity Generation	Electric installed capacity: 1,775 MW
ECK	Electricity and Heat Generation	Electric installed capacity: 460 MW Thermal installed capacity: 1,236 MWth <sup>(3)</sup>
Kogeneracja	Electricity and Heat Generation	Electric installed capacity: 403 MW Thermal installed capacity: 1,106 MWth <sup>(3)</sup>
Zielena Gora	Electricity and Heat Generation	Electric installed capacity: 221 MW Thermal installed capacity: 322 MWth <sup>(3)</sup>
<b>Hungary</b>		
BERT	Electricity and Heat Generation	Electric installed capacity: 410 MW Thermal installed capacity: 1,527 MWth <sup>(3)</sup>
DEMÁSZ	Electricity Distribution Electricity Sales	Numbers of customers: 764,908
<b>Slovakia</b>		
SSE	Electricity and Heat Distribution Electricity, Gas and Heat Sales	Numbers of customers: 695,857
<b>Austria</b>		
Groupe ESTAG	Electricity, Gas and Heat Distribution Electricity, Gas and Heat Sales Services	Numbers of customers: 430,000
<b>Switzerland</b>		
Groupe Atel <sup>(4)</sup>	Electricity, Generation, Trading and Sales Electricity Transmission, Distribution Services	Electric installed capacity: 3,621 MW Thermal installed capacity: 754 MWth <sup>(3)</sup>
Emosson Chatelôt/Mauvoisin	Hydropower Generation	0.4 Twh made available
<b>Belgium</b>		
EDF Belgium <sup>(4)</sup>	Electricity Generation Electricity Sales Services	Electric installed capacity: 481 MW

Gross values, not adjusted for percentage of ownership interests (including the minority interests).

(1) Including gas.

(2) Gross global gas volumes handled by the Group's companies including plants' internal consumption.

(3) MWth: thermal MW for cogeneration, as opposed to electric MW.

(4) EDF Belgium owns 50% of the Tihange 1 nuclear power plant.

For more information on the consolidation method at December 31, 2006, see note 39 to the consolidated financial statements as of December 31, 2006.

In addition, EDF has a 50% interest in Dalkia International<sup>20</sup>, through its subsidiaries and holdings operating in the energy-related services sector (see Section 6.4.1.1.4 ("Dalkia") below).

### 6.3.1.1 EDF Energy

EDF Energy, a wholly-owned subsidiary of EDF, is an integrated energy company that participates in the generation, distribution and supply of electricity and gas in the United Kingdom through its Energy, Networks and Customers Branches. In 2006, it was the number one distributor of electricity (by volume of electricity distributed and by regulated asset value) (source: Ofgem) and number 5 ex aequo electricity supplier by number of customer product accounts<sup>21</sup> in the United Kingdom (source: EDF Energy / Datamonitor). EDF Energy is

also a major generator of electricity and is one of the leading utilities in the United Kingdom for Private Finance Initiatives/Public Private Partnerships ("PFI/PPP") asset and electrical distribution networks projects (by amounts invested) (source: EDF Energy). In 2006, EDF Energy distributed electricity to over 7.9 million homes and businesses in London and in the east and south-east of England over a network of 175,000 km and it supplied 53.5 TWh of electricity and 25.8 TWh of gas. At the end of 2006, EDF Energy had 5.5 million customer-accounts including residential customers, small medium enterprises ("SMEs") and major business account holders. As of 31 December 2006, EDF Energy had a generation capacity (excluding PPAs) of 4.8 GW.

For the year ended December 31 2006, EDF Energy's sales were €8,319 million. EDF Energy employed 12,320 people.

The following chart sets forth the key figures for EDF Energy for the last two years:

	2006 <sup>(1)</sup>	2005 <sup>(1)</sup>
<b>Sales (millions of €)<sup>22</sup></b>	<b>8,319</b>	<b>6,674</b>
Electricity	5,866	4,754
Gas	889	550
Other	1,564	1,370
Electricity (GWh)	53,462	52,719
Gas (GWh)	25,849	21,287
Number of customer accounts (thousands)	5,497	5,052
Networks Regulated Asset Value (billions of £)	3,1	2,9
Networks Regulated Asset Value (billions of €)	4,6	4,2

(1) Sales for 2005 and 2006 as published and contributive.

(2) The exchange rates applied to the figures in the balance sheet are £1 per 1,459215 euros in 2005 and 1,4892 euros in 2006 and to the figures of the income statement, are £1 per 1,464110 euros in 2005 and 1,4665 euros in 2006.

#### 6.3.1.1.1 Overview Of The Market Structure In The United Kingdom — Price Movements

At the beginning of 2006 the average electricity price in the United Kingdom increased slightly to £53/MWh in March (December 2005: £52/MWh). From this point onwards it declined steadily to £41/MWh in December 2006.

These prices are more volatile than those in France and Germany mainly due to a stronger correlation with gas prices and the limited interconnection capacities compared to those between France and Germany.

After a significant increase over the last three years, coal prices in the United Kingdom have become relatively stable, standing at around US\$70.6 per tonne as of 31 December 2006 and between March 2006 and December 2006 United Kingdom gas prices have decreased from approximately £0.45 per therm to £0.38 per therm. However as a result of the impact of the changes in wholesale electricity and gas prices and the costs related carbon emissions, EDF Energy decided to increase their sale prices for residential customers and

SME customers by 4.7% for electricity and by 14.7% for gas in March 2006 as well as by 8% for electricity and by 19% for gas in August 2006.

#### 6.3.1.1.2 EDF energy's activities

##### 6.3.1.1.2.1 Generation

The Energy Branch of EDF Energy operates three major generation power plants in the United Kingdom with a total generation capacity of 4.8 GW, namely:

- Sutton Bridge — located in Lincolnshire. Sutton Bridge is a Combined-Cycle Gas Turbine ("CCGT") power plant with a design capacity of 803 MW. It was commissioned in May 1999.
- Cottam — located in Nottinghamshire. Cottam is a coal-fired power plant with a capacity of 2,008 MW generated by four units. The final unit was commissioned in 1970.
- West Burton — located in Nottinghamshire. West Burton is a coal-fired power plant consisting of four 500 MW units and two 20 MW CCGTs with a total registered capacity of 2,012 MW. The final unit was commissioned in 1970.

<sup>20</sup> Excluding indirect interest held by EDF via Véolia Environment.

<sup>21</sup> A customer can have up to two customer accounts, one for electricity and one for gas.

The Energy Branch also holds interests in other generation activities, including a 18.6% shareholding in Barking power plant in London and wind farm schemes in north-east and eastern England.

EDF Energy's generation portfolio is diversified between gas-fired and coal-fired power plants which can undertake either base load or cycling duties. Overall, in 2006, it generated 25.4 TWh of electricity for sales. The output from EDF Energy's generation plants broadly covers the customer demand from EDF Energy's SME and residential customers, while demand from large business customers whose consumption is measured on a half-hourly basis is covered through wholesale market purchases.

### Fuel and energy purchasing and risk management

#### General principles

EDF Energy buys and sells residual power and purchases gas and coal on the wholesale markets to fulfill the needs of its generating plants and EDF Energy's customers.

The Company is adopting a risk management strategy which differs according to customer, as follows:

- customers whose consumption is measured and recorded every half-hour; and
- other customers, especially residential customers and companies whose consumption is low.

For residential customers and companies whose consumption is low, the risk hedging strategy implemented by EDF Energy entails determining, in advance, a minimum exposure to the risk of expected variations in energy costs on wholesale markets and sale prices. Once this exposure has been determined, maximum and minimum hedging levels and limits on risk management are set and provide the basis for the supply strategy for all raw materials (coal, gas, energy and carbon).

For customers whose consumption is measured and recorded every half-hour, the risk management strategy is to hedge energy sales contracts through forward purchasing agreements (that is, with back-to-back hedging) as soon as practicable.

#### Electricity provision

Over and above its own generation, EDF Energy buys electricity through:

- long-term purchase contracts with the Barking (in London) and Teesside CCGT power stations and with Scottish and Southern Energy. These electricity purchase contracts represent approximately 6 TWh of electricity purchases per year, with the first of these expiring in 2008;
- contracts with generators who are connected directly to distribution networks, without the need for the transmission network. These are mainly electricity generators using renewable energy sources. Purchase of generation from these sources allows EDF Energy to provide itself with its own electricity as close as possible to where the demand for the electricity is required, thus reducing its transmission costs. EDF Energy purchases approximately 1 TWh per year from this market; and
- wholesale purchase contracts based on quantities and variable periods, designed to meet EDF Energy's policy within the bounds of risk parameters set out in advance. EDF Energy purchases approximately 21.1 TWh per year by this method.

#### Gas and coal provision

Gas procurement, both for end-users (25.8 TWh) and for the Sutton Bridge (CCGT) power plant (11.1 TWh), relies on a contract portfolio that is diversified in terms of types of contract, terms and conditions and counterparties.

Purchases of coal are based on generation forecasts and coal stock target levels. The EDF Energy contract portfolio is drawn up for approximately 50% of coal from the United Kingdom and 50% from international sources. In 2003, EDF Energy entered into a coal provision contract with UK Coal for a three-year term, at a price that is lower than the market price for imported coal. EDF Energy has now entered a further such contract with UK Coal extended until 2009.

#### Cooperation with EDF Trading and the EDF Group Gas Board

Since the beginning of 2006, EDF Trading supplies all the coal imported by EDF Energy. This allows EDF Trading, one of the main coal dealers in Europe, to use the leverage resulting from the large quantity of coal concerned, both in terms of price and logistics management associated with delivering coal to British ports.

Regarding gas, EDF Energy is exploring opportunities which would allow it to benefit from EDF's gas position to maintain competitive supply costs for supplying gas to its residential customers (approximately 1.5 million). In particular, EDF Energy is working with the EDF Gas Division and EDF Trading to build a long-term purchasing and storage portfolio and exploit gas markets in Europe.

With regards to the developing Carbon Emission trading permits, EDF Trading is responsible for sourcing EDF Energy's carbon requirements

#### UK Government Energy Market Review

On 11 July 2006 the UK government announced the conclusions of its Energy Review. The major energy challenges are stated to be carbon emissions and security of supply. Without further action by the government carbon emissions are forecast to be at the same level in 2050 as they were in 1990, whereas the government has previously accepted the objective of reducing them by 60%. Regarding security of supply, the government forecasts 80-90% dependence on imported gas by 2020, compared with near self-sufficiency in 2005.

A key conclusion to the review is that the government is committed to there being a continuing carbon price signal which investors can take into account when making investment decisions. The government aims to achieve this through negotiating a stricter EU Emissions Trading Scheme (ETS) post 2012. At the same time they will keep open the option of reinforcing ETS through other measures if necessary.

Action on the supply side is particularly focused on renewables and nuclear. Currently electricity suppliers will have to source 15% of their supplies from renewables by 2015. The government wants to raise this to 20% by 2020, but at the same time to avoid this increase imposing extra cost on customers.

The government stated in the report that it wished to see replacement nuclear power stations but there will be no subsidies or special inducements to achieve this. The government launched in this report a consultation with a view to creating a policy framework for new nuclear build by means of an Energy White Paper early in 2007.

## Stern Report

The report of Sir Nicholas Stern to the Chancellor of the Exchequer on the economics of climate change was published on 30 October 2006. EDF Energy agrees with the report's conclusion that early action to reduce greenhouse gases emissions is required. There is an opportunity, particularly in Europe, to replace carbon emitting power stations that are coming to the end of their lives with those that are low carbon emitting, such as renewables and nuclear, and eventually fossil-plant with carbon capture and storage.

## Generation capacity development

To maintain its vertical integration strategy despite the decreasing volumes gained through long-term contracts and the potential reduction of volumes produced by coal-fired power plants due to environmental constraints, EDF Energy is exploring opportunities to enter into long-term purchasing contracts, acquire stakes in power plant generation capacity, purchase additional generation resources or create new generation capacity on its existing sites.

Applications for consent under Section 36 of the Electricity Act 1989 have been submitted for a 1,280 MW CCGT power station at Sutton Bridge and a 1,260 MW CCGT power station at West Burton.

In addition EDF Energy is planning to increase its ownership of renewable generation plant to 900 MW (onshore wind equivalent) around 2015. Projects for around 30 MW are already in development and a consent application has been submitted for the development of an offshore wind farm near Teesside, in the north-east of England, with a potential capacity in the range 60-108 MW.

A 'Nuclear Project' team has been established in London to make possible investment in new nuclear capacity in the UK, drawing on the unrivalled expertise of the Company. Any such investment will help maintain security of supply, help keep the economy growing and help address global warming.

### 6.3.1.1.2.2 Supply

During 2006 EDF Energy unified its legacy supply brands under a single EDF Energy brand. As of 31 December 2006, EDF Energy had 4.2 million customers and 5.5 million customer accounts<sup>22</sup>. It supplied 19.8 TWh of electricity to more than 3.5 million residential accounts, 279,000 SME accounts and 33.7 TWh of electricity to 188,000 major business accounts. It also had 1.5 million gas customer accounts to whom 25.8 TWh of gas was sold in 2006.

During 2006, EDF Energy customer accounts increased by 0.4 million and major business sales increased by 320 MWh. EDF Energy is now one of the largest suppliers of energy to major business in the UK.

### 6.3.1.1.2.3 Distribution

The Networks Branch of EDF Energy operates the three contiguous licensed distribution networks in London, the east of England, and the south-east of England. As required by Ofgem in its regulation of Distribution Network Operators ("DNOs"), the Networks Branch is managed and operated as a separate legal entity from the rest of the EDF Energy group and its financing is ring-fenced so as not to restrain or hinder competition or create distortions in competition in relation to the supply of electricity or gas, electricity generation or the transmission of gas.

## Networks

EDF Energy's network covers over 29,000 km<sup>2</sup> and distributes 89 TWh of electricity annually through 48,000 km of overhead wires and 127,000 km of underground cables. EDF Energy is the largest distributor of electricity (by volume and regulated asset value) in the United Kingdom, distributing electricity to 7.9 million customers.

Each distribution network operates under very different operating conditions with a concentrated urban network in London and a mix of rural and urban networks in the South and East of England. EDF Energy invested over £354 million in its network during 2006 on asset replacement, reinforcement and extension. Network performance has shown consistent improvement during the past three years. The network performance is stronger in London in terms of continuity of supply due to the fact its network is almost entirely underground and is less affected by the extremes of weather, whereas a proportion of the network serving the other regions is above ground.

The networks business generates income through Distribution Use of System ("DuoS") charges levied against the supply companies that the end customer has a contract with. The charges levied by EDF Energy's DNOs are among the lowest in the United Kingdom.

## Distribution price controls

Key issues for the review conducted by Ofgem during 2005 included the level of capital expenditure for the current 2005-2010 five-year period commencing 1 April 2005, the efficient level of operating expenditure, further productivity improvements to be expected and the remuneration of the asset base. New prices came into force on April 1st, 2005. The outcome of the review was to allow for an increase in capital expenditure of £2.2 billion over the regulatory period but reduced allowed operating expenses, following which the Networks Branch initiated a significant cost reduction programme. This tariff review is considered, on the whole, to be satisfactory by EDF Energy.

Networks branch is on target to deliver the agreed capital plan and has made significant progress towards the cost reduction programme. Initiatives include the introduction of a new organizational model leading to more effective resource planning, a reduction in teams' traveling time and a reduction in properties occupied.

## Underground cables

Like all distributors in the United Kingdom, EDF Energy's networks contain Fluid Filled Cables ("FFC"). These cables can leak and pollute ground soil. The Environment Agency, Ofgem and distributors have had discussions concerning this problem.

Ofgem has suggested that during the current price control period (2005-2010), DNOs prepare robust leakage management strategies and, as a better understanding of the necessity to replace FFC is developed, discussions will continue with the DNOs regarding expenditure profiles. Ofgem confirms that, if it is necessary to incur significantly higher levels of expenditure than those allowed during the current price control period, it will seek to agree on the treatment of such expenditure with DNOs in advance.

<sup>22</sup> A customer can have up to two customer accounts, one for electricity and one for gas.

Ofgem's general view is that the price control mechanisms for the current 2005-2010 period allow for a significant level of replacement expenditure. This amounts to £58 million of capital expenditure for EDF Energy which will primarily be spent on replacing FFC where a problem has occurred or where replacement is necessary to prevent such a problem from occurring.

The Networks business has conformed with current best practice in developing its leak management strategy and most FFC cables owned by the Networks business have now been mapped to the Environment Agency's environmental sensitivity map, which enables the business to understand where FFCs are close to, or cross, a high sensitivity area. This, together with FFC condition enables the business to determine replacement policy.

### 6.3.1.1.2.4 Private networks and Private Finance Initiatives/Public Private Partnerships

EDF Energy provides a wide range of commercial and technical solutions for PFI/PPP asset infrastructure and electrical distribution networks projects.

The basic premise for PFI and PPP contracts is that a private-sector company or consortium finances, constructs/refurbishes and then manages a public asset over a long-term contract, typically 25 to 30 years. While the private sector funds the initial capital-intensive construction/refurbishment phase, it is subsequently reimbursed for the capital, finance and maintenance costs by a relatively flat monthly payment from the owner of the public assets throughout the period of the contract.

The Development Branch has co-sponsored projects that are expected to lead to investments of over £6 billion in public infrastructure over the next 15 years. The project-related obligations amount to £428 million, of which £370 million has already been paid.

EDF Energy has built up a large portfolio of contracts through successfully winning PFI/PPP asset infrastructure and electrical distribution networks projects such as:

- the London airports of Heathrow, Gatwick and Stansted;
- the Docklands Light Railway Lewisham Extension;
- several commercial buildings in the London Docklands;
- public lighting for Dorset County Council and the London Boroughs of Islington and Ealing

EDF Energy also has a number of joint venture investment projects:

- an 80% interest in the Powerlink consortium. This project, which was won in 1998, is a 30-year contract to maintain and upgrade the high voltage electrical distribution network for the London Underground system (see Section 20.6.2 ("Proceedings concerning EDF's subsidiaries — Litigation concerning Powerlink")).
- a 20% interest in the Metronet Consortium, which holds two of the three London Underground Infrastructure PFI concessions;
- a 25% interest in Metronet Alliance, which manages the delivery of station modernisations and refurbishments as well as the maintenance, remediation and development of civil assets;
- a 49.9% interest in MUJV Limited, a joint venture formed between EDF Energy and Thames Water Services to design and lay all water, wastewater, gas and electricity pipes/cables to the new buildings that Aspire Defence is building for the Ministry of Defense.

Metronet performance is currently below expectations in respect of the areas of construction, operational delivery and financial results. The stations upgrade programme continues to be delayed and with costs above expected levels. A large part of this is due to changes required by London Underground to the scope of works to be delivered. The other major financial impact on Metronet at present is in respect of Performance Revenues. These have been disappointing in recent months as a result of a number of operational incidents. There is significant management and shareholder effort being applied to resolve these problems.

EDF Energy's Contracting business has several major contracts with customers including Network Rail (Power Supply Upgrade), Pfizer, London Underground (Metronet Station Refurbishment), Islington Highway Lighting.

### 6.3.1.1.3 Financing and pensions

#### Financing

Between 2002 and the end of 2006, EDF Energy refinanced £2.7 billion of its debt. Its average maturity rose from 8.7 years at the beginning of 2003 to 9.5 years at the end of 2006.

The average cost of servicing the debt has been reduced since 2002 to attain 6% in December 2006. Liquidity is maintained by committed credit lines totaling £1.65 billion at December 2006. These comprise a committed line of £1.4 billion provided by EDF, of which £1.19 billion was drawn at December 2006 and an undrawn syndicated credit line of £250 million. Both lines are subject to compliance with certain covenants and at present, EDF Energy complies with these covenants.

Most cash flows are denominated in pounds sterling. Cash flows denominated in other currencies are immediately subject to hedging operations to limit exposure to exchange rate fluctuations.

#### Pension schemes

EDF Energy sponsors two pension schemes:

1. The EDF Energy Pension Scheme ("EEPS") which was established in March 2004 and includes a number of legacy pension schemes from London Electricity and Seeboard. Membership of EEPS is open to all employees.
2. The EDF Energy Group of the Electricity Supply Pension Scheme ("ESPS") which was created in September 2005 as a result of the merger of the London Electricity and Seeboard groups of the ESPS. ESPS is closed to new members.

Both EEPS and ESPS are final salary pension arrangements and they both have formal triennial actuarial valuations due 31 March 2007 with the last formal valuations being undertaken at 31 March 2004. In addition from 2006 onwards UK law now requires the Trustees of each pension scheme to issue members with an annual funding statement.

The funding position for ESPS has improved over the period 2004 to 2006 due to improvements in equity markets and the deficit repair contributions paid by EDF Energy amounting to £45.9 million for the merged number per year over the 12-year period from 1 April 2005 to 31 March 2017. At the end of 2006 ESPS was in deficit by £298 million versus £396 million at 31 December 2005.

Although EEPS has grown in terms of members, assets and liabilities the funding position has not changed greatly over the period 2004 to 2006. At the end of 2006 EEPS was in deficit by £13 million versus £16 million at 31 December 2005.

## 6.3.1.1.4 Recent events

### Recent events – Anti-competitive investigation with respect to EDF Energy

In January 2007 Ofgem announced that its investigation into EDF Energy's conduct in withdrawing the provision of electricity meter reading and related services to non-affiliated electricity suppliers did not amount to an abuse of dominance, which would have been an infringement of the Chapter II prohibition of the Competition Act 1998 and Article 82 of the EC Treaty.

During August 2006 the UK Regulator, Ofgem, issued the three EDF Energy licensed distribution companies, EPN, LPN and SPN, with an Electricity Act Section 28 notice requiring the provision of information. This information request was in relation to connections activity and a significant volume of data relating to processes, procedures and actual connection details was issued to Ofgem in the required timescales. Ofgem have reviewed the submissions and have now issued a further notice requiring additional data.

## 6.3.1.2 Germany — EnBW

As of the date of this Document de Référence, EDF owned 45.01% of EnBW's share capital and, excluding treasury shares, which have no voting rights, 46.07% of EnBW's voting rights.

In 2006, the EnBW group recorded sales of €13.2 billion (as published by EnBW) and EBITDA<sup>23</sup> of €2.3 billion (source: EnBW 2006 annual report). EnBW was consolidated by proportional integration at 46.07% in the consolidated financial statements of the EDF Group as of December 31, 2006.

EnBW, whose shares are traded on the Frankfurt stock exchange and the Stuttgart stock exchange, ranks third among German energy companies after E.ON and RWE in terms of sales and number of customers. Furthermore, it is the top electricity company in its historical development area, Baden-Württemberg. Its business includes generation, transmission, distribution, supply and electricity trading. EnBW also operates in the gas fields (transmission, distribution, supply and trading), energy-related services, waste management and water. EnBW holds equity participations in several local utilities in Baden-Württemberg. Elsewhere in Germany, EnBW also holds interests in local utilities and has developed, on a national scale, an independent electricity retailer, Yello, the electricity supplier in Germany with the highest number of customers outside its historical area.

### 6.3.1.2.1 Strategic interest of EDF's stake in EnBW

EDF's stake in EnBW followed a long collaboration between the two companies, especially in the technical field and that of electricity exchanges with Baden-Württemberg. EnBW has a strong presence in this region, which is also one of the most developed in Europe, with a population of 11 million and dynamic companies focused on exports.

EnBW's Yello brand gives the company a strong marketing advantage with its residential and small business customer base, which has been

open to competition since 1998, and expertise which EDF may use to its advantage. EDF's holding in EnBW also allows it to service major multi-site customers of both companies.

EnBW's equity holdings in the "Stadtwerke" (see Section 6.3.1.2.3.1 ("Electricity business — Transmission — Distribution")) in Baden-Württemberg, as well as in Düsseldorf and in Saxony in eastern Germany allow it to operate outside of its historical area.

EnBW's gas business, with sales of €2.76 billion in 2006 (as reported by EnBW, source: EnBW 2006 annual report) in the leading gas market in Europe, is a major advantage for the EDF Group's gas strategy.

Moreover, EDF estimates that a presence in Germany — the largest market in Europe in terms of numbers of customers and electricity consumed — is essential from the perspective of a European energy market.

The EDF Group's strategic interest in Germany is also based on the size of the "German" marketplace encompassing Germany, Austria and, to a certain extent, Switzerland, which gives access to almost 90 million consumers. This regional marketplace may be considered a single market as interconnections between the countries concerned are highly developed and transmission lines are not saturated, which leads to flexibility in exchanges. Wholesale prices for different products (base-load, peak and forward spot markets) are also globally the same in the three countries. This network occupies a key position in Europe and is likely in the medium term to create, with France and the Benelux countries, a "regional market", if network congestion is alleviated.

The interest of a presence in Germany is reinforced by growth opportunities in the countries of central and eastern Europe since the enlargement of the European Union. EnBW is present in these markets through a number of largely minority shareholdings in electricity generation and distribution companies, especially in Switzerland, Austria, Poland and Hungary, and intends to develop in central and eastern Europe.

Finally, the geographical proximity of EDF and EnBW, the similarity of the sectors in which they operate — and especially the large proportion of nuclear energy generated by the two companies — open the path to the sharing of expertise and the realization of synergies.

### 6.3.1.2.2 Detail of EDF's holding in EnBW

#### EnBW shareholders

As of the date of this Document de Référence, EDF held 45.01% of EnBW's share capital and, excluding treasury shares that have no voting rights, 46.07% of EnBW's voting rights. With EDF, the other main EnBW shareholder is OEW, a group of local authorities in Baden-Württemberg, which held, like EDF, 45.01% of EnBW's share capital and 46.07% of EnBW's voting rights as of the date of this Document de Référence. EDF and OEW entered into a shareholders' agreement that gives them joint control of the company (see below).

As of the date of this Document de Référence, the remaining balance of EnBW's share capital is held as follows: 5.9% by different municipalities and municipality federations in Baden-Württemberg, 1.8% by the general public and 2.30% as treasury stock by EnBW (source: EnBW 2006 annual report).

<sup>23</sup> EnBW's 2006 annual report defines EBITDA as earnings before interest, taxes, depreciation and amortization.



### Shareholders' agreement

EDF and OEW entered into a shareholders' agreement on July 26, 2000, under the terms of which they agreed to hold, jointly and in parity, the majority of EnBW's share capital and to control the company jointly. The agreement provides that EnBW must be EDF's exclusive vehicle in Germany for any investment relating to the electricity, gas and waste businesses, unless OEW or EnBW declines the proposed investment.

Furthermore, the agreement distinguishes between two categories of shares:

- shares subject to the shareholders' agreement, which represent 50.01% of EnBW's share capital (25.005% for each party) (the "Shares subject to the Shareholder's Agreement"); and
- shares not subject to the shareholders' agreement, which represent the balance of the holdings of each party.

With regard to Shares subject to the Shareholder's Agreement, the agreement provides that since January 1, 2005 and until December 31, 2011, OEW is required to obtain EDF's prior agreement to sell its Shares subject to the Shareholder's Agreement to a third party that is not part of OEW.

However, OEW has:

- a put option against EDF for some or all of its Shares subject to the Shareholder's Agreement (25.005%), which may be exercised at any time between January 1, 2005 and December 31, 2011 at a price of €37.14 per share. The EDF Group has recorded an amount of €2,322 million in its off-balance sheet commitments at December 31, 2006 (see note 22.5.1 to the consolidated financial statements as of December 31, 2006);
- a preemption right on Shares subject to the Shareholder's Agreement held by EDF; and
- the right to oppose a sale by EDF of its Shares subject to the Shareholder's Agreement if the third party buyer is not ready to purchase OEW's shares at the same price (tag-along).

Regarding shares which are not subject to the Shareholder's Agreement, the agreement provides for a reciprocal preemption right mechanism.

EDF and OEW are required to uniformly exercise their voting rights at shareholders' meetings and to adopt a uniform position on decisions examined by the supervisory board and are also required to adopt a common position on any decision concerning EnBW that is considered important by at least one party and to uphold it in respect of the company.

To this end, EDF and OEW have formed, in accordance with the stipulations of the shareholders' agreement, a shareholders' committee (led by EDF) allowing them to adopt common positions. However, EDF has a decisive vote for decisions relating to the implementation of the EnBW's medium term development plan ("*plan de développement à moyen terme*") as drawn up by the parties.

Out of the 20 members on the supervisory board, EDF has four representatives and OEW has three (including the Chairman, who has the decisive vote). Two members were appointed by the shareholders'

meeting of EnBW (one suggested by OEW and the other by EDF), ten members were appointed by EnBW's employees and the remaining member is the Finance minister of Baden-Württemberg.

One of the members of EnBW's Executive Board, currently composed of five members, is appointed by EDF.

The agreement's earliest expiry date is December 31, 2011, but the agreement will remain in force for as long as EDF and OEW own: jointly, the majority of the share capital; and individually, at least 17% of the share capital.

### Other shareholders' agreements

OEW had a put option against EDF for some or all of the shares it purchased from Deutsche Bank and HSBC Trinkhaus & Burkhardt KgaA on January 28, 2005 (5.94% of EnBW's share capital). This option was exercisable at any time from January 28, 2005 to November 30, 2006, but was not exercised by OEW. From December 1, 2006 until December 31, 2011, in the event that OEW sells the aforementioned shares to a third party, EDF will have a right of preemption.

### Evolution of EnBW shareholding

For EDF, an ongoing quality partnership with OEW is a major objective. On the occasion of its return to parity with EDF in the capital of EnBW in April 2005, OEW expressed its objective of holding its shares until at least 2011. However, this situation could change before 2011 as OEW may exercise its the sale option relating to Shares subject to the Shareholders' Agreement before this date.

#### 6.3.1.2.3 Detail of EnBW'S business

The table below sets forth key figures for the EnBW group for the last two financial years (source: EnBW 2006 annual report).

	Financial Year as of December 31, 2005	Financial Year as of December 31, 2006
<b>Sales (€ billions)<sup>(1)</sup></b>	<b>10.77</b>	<b>13.22</b>
Of which electricity	8.15	9.64
Of which gas	2.10	2.76
Electricity sales (TWh) <sup>(2)</sup>	106.7	119.4
Gas sales (TWh)	88.6	83.5
Energy customers (millions)	5	6
Employees	17,765	21,148

(1) Net sales, after deduction of taxes on electricity and gas.

(2) Includes sales of electricity by companies where EnBW has (i) fully consolidated majority holdings for which the volume of sales is taken into account at 100%, and (ii) proportionally consolidated minority holdings for which the volume of sales is taken into account according to the percentage of the stake. From 2003 (pro forma figures), the volumes of electricity sold are entered as net amounts.

#### 6.3.1.2.3.1 Electricity businesses

##### Generation

In 2006, sales of electricity by the EnBW group (including the net volumes traded and all holdings) amounted to 119.4 TWh. Its instal-

led capacity was approximately 14,800 MW and is broken down as follows:

(MW)(*)	CAPACITIES
Nuclear (including EDF contracts)	4,843
Fossil-fired	6,579
Hydropower	3,354
Other renewable energies	35
<b>TOTAL</b>	<b>14,811</b>

(\*) Gross data, EnBW group consolidated figures including participations.

(Source: EnBW 2006 annual report.)

EnBW's generation assets in Germany are mainly located in Baden-Württemberg. They are characterized by their well balanced and low carbon dioxide emissions generation mix, baseload generation provided by nuclear power and hydropower, mid-merit generation provided by coal-fired power plants and peak generation provided by gas- and oil-fired power plants, as well as pumping stations. Extension projects for hydropower sites have been developed (for example, hydropower plant extension plan for an installed capacity of 26 MW to 100 MW on the Rheinfelden site). Overall, fossil-fired and hydro-power means intended to meet peak demand are adequate, even allowing peak energy to be sold on the market.

The following table sets forth electricity supplies by type of primary energy used:

Coal, gas, oil	19.3%
Nuclear energy	34.0%
Hydropower and other renewable energies (*)	16.3%
Other (**)	30.4%
<b>TOTAL (***)</b>	<b>100.0%</b>

(\*) According to paragraph 42 of the German law of July 7, 2005 concerning electricity and gas.

(\*\*) Unknown source of energy, the majority of this volume being supplied by trading.

(\*\*\*) Consolidated figures for the EnBW group including holdings (119.4 TWh).

(Source: EnBW 2006 annual report)

Through its own generation, long-term supply contracts and its holdings in power plants, EnBW satisfies approximately 63% of the EnBW group's requirements, i.e., 74.9 TWh produced out of 119.4 TWh sold in 2006 (Source: EnBW 2006 annual report).

## Replacement capacity

Nuclear power represents 33% of EnBW's installed capacity (which includes energy supplied by EDF under energy supply contracts). If the expected exit from nuclear power were to occur, this would force EnBW to replace approximately 4,450 MW of installed capacity, excluding EDF contracts, by 2021. In December 2006, EnBW thus decided to go ahead with the construction of coal-fired power plant in Karlsruhe. The investment amounted to slightly more than one billion euros. Finally, the study for the construction of a second gas-fired power plant in Karlsruhe continues. These measures will allow EnBW to satisfy a good portion of its sales through its own generation.

In this context, EnBW entered into a supply agreement for a 20-year period, with the STEAG generator (located in the Ruhr region), which, as from 2010, will give to EnBW a generation capacity of 250 MW. Furthermore, EnBW and STEAG have entered into a cooperation agreement for the construction and the operation of fossil-fired power plants. Thus, two projects are contemplated (one for each of the parties) with crossed shareholdings.

The schedule for closing EnBW's nuclear power plants is set forth in the table below:

Power Plant	Commissioning	Installed Capacity (MW)	Forecast Closure
Neckarwestheim 1	1976	633 <sup>(*)</sup>	2009 <sup>(**)</sup>
Philippsburg 1	1980	890	2012
Philippsburg 2	1985	1,392	2018
Neckarwestheim 2	1989	1,096 <sup>(*)</sup>	2022 <sup>(**)</sup>

(\*) Corresponds to the EnBW quota in the power plant.

(\*\*) This calendar does not take into account the prolongation of the lifespan of the first unit at the Neckarwestheim power plant requested by EnBW at the end of 2006.

Future costs of eliminating irradiated fuels and operational waste as well as the decommissioning and dismantling of the nuclear power plants are estimated by EnBW at €4,534 million on a discounted basis at the nominal rate of 5.5%, which is the amount provisioned in EnBW's accounts as of December 31, 2006. These provisions are calculated on the basis of regulatory obligations and provisions for operating licenses.

At the beginning of 2006, the President Minister of the Land of Baden-Württemberg took a position in support of the prolongation of nuclear power, particularly of the Neckarwestheim 1 plant. In this context, EnBW also declared that it supported the idea of an update on the consensus relating to the end of the nuclear power, and at the end of 2006 filed an official request for authorization to transfer production volumes from unit 2 to unit 1 of the Neckarwestheim power plant.

## Supply

In 2006, EnBW sold 119.4 TWh of electricity (including trading business and participations) to 6 million customers (source: EnBW 2006 annual report).

The EnBW group markets electricity through its VSG subsidiary (EnBW Vertriebs- und Servicegesellschaft, wholly-owned), ODR (EnBW Ostwürttemberg DonauRies AG, 99.72%-owned by EnBW) and ED (Energiedienst, a 75.97%-owned subsidiary, operating in Baden-Württemberg and Switzerland) (source: EnBW 2006 annual report). EnBW also markets through several majority holdings, including ENSO in Land Sachsen (64.8% at the date of this Document de Référence) and Stadtwerke Düsseldorf in North Rhineland Westphalie (54.95%).

EnBW has a 15.07% stake in MVV (Mannheimer Verkehrs- und Versorgungsbetriebe), which is a major electricity supplier in the Mannheim region. EnBW has no significant influence on the company (EnBW is not represented on its supervisory board). MVV is not a direct or indirect supply channel for EnBW.

## Business overview

Outside Baden-Württemberg, supply to residential and small business customers are mainly provided by the company Yello which has a very well-known brand name. Yello has 1.3 million customers throughout the German market (source: Yello website).

Establishing the brand was an expensive process with high fixed costs and low selling prices, but, since 2004, Yello has made a recorded profit before tax due to a significant reduction in its costs and to the regionalization of its tariffs.

### Transmission — Distribution

EnBW manages one of the four regulatory areas in Germany and is thus the only electricity transmission system operator in Baden-Württemberg. In this area, EnBW is responsible for providing stability and managing the 380/220 kV very high voltage transmission network, in addition to interconnections with other networks.

EnBW owns the majority of the high and medium voltage network (110 kV to 20 kV) in its historical area and is also very active in distribution (20 kV to 400 V). EnBW has eight regional centers that operate distribution networks in Baden-Württemberg under concession agreements. EnBW has entered into more than 1,000 concession agreements, including approximately 750 agreements directly with municipalities, with the balance entered into indirectly through subsidiaries or holdings.

EnBW also holds approximately 50 stakes in Stadtwerke and municipal corporations that operate distribution networks, which means it can operate in areas where it has no direct distribution concessions.

At the beginning of 2007, EnBW increased its stakes in three regional corporations:

- Erdgas Südwest GmbH of which it now holds a stake of 79% (i.e., a 28% increase compared to December 31, 2006);
- Energie Sachsen Ost GmbH (ENSO) of which it now holds a stake of 64.8% (i.e., a 14.5% increase compared to December 31, 2006);
- Gasversorgung Sachsen Ost Wärmeservice GmbH & Co. KG of which it now holds a stake of 100% (i.e., a 76.5% increase compared to December 31, 2006)

Increasing its stakes in the share capital of these corporations allows EnBW to strengthen its position in Baden-Württemberg and in east Saxony, which are two important markets for EnBW.

As of the date of the present document, EnBW holds a 54.95% stake in the share capital of the Düsseldorf *Stadtwerke* AG, ("SWD") located in the center of the area where its competitor, RWE, operates. In December 2005 City of Düsseldorf's exercise of one put option granted by EnBW on a 25.05 % stake in the share capital of SWD, allowed EnBW to take control of SWD in March 2006, after the European Commission consented to this acquisition. The amount for EnBW corresponding to the acquisition of this additional shareholding was €360.8 million (see note 6.1 to the consolidated financial statements of the EDF Group for the year ended December 31, 2006). The city of Düsseldorf also holds a second put option on EnBW, also on 25.05% of SWD's share capital. The exercise period of the second put option began on January 1, 2005 and expires on December 31, 2007. EnBW may also extend these exercise periods, by one-year periods, upon written notice sent no later than October 31<sup>st</sup> of the year in which the exercise period expires. As of March 31, 2006, the exercise price

of the second put option was accounted for as €278.5 million in the other debts of EnBW's balance sheet (source: EnBW 2006 financial report).

The table below illustrates the size of the EnBW network:

### Length of the EnBW Group network

<i>Very high voltage:</i>	
380,000 volts	1,958 km
220,000 volts	1,787 km
<i>High voltage:</i>	
110,000 volts	9,810 km
<i>Medium voltage:</i>	
30,000, 20,000 and 10,000 volts	48,237 km
<i>Low voltage:</i>	
400 volts	102,334 km

(Source: EnBW 2006 annual report)

Like German distribution networks in general, the EnBW distribution network is characterized by a level of quality of service that is among the best in Europe.

EnBW owns the transmission network.

The distribution networks belong to it for the duration of the concessions. Networks granted under a concession are accounted for as tangible assets in EnBW's balance sheet. Concessions held by utility companies in which EnBW has a minority stake are shown on the balance sheet of such utility company. Where EnBW has a majority stake, this concession appears in the EnBW group accounts.

Most of the concession agreements entered into by EnBW will have to be renewed between 2008 and 2012. The company has prepared itself for these deadlines and several years ago drew up a structured action plan consisting of various measures: situation analysis by municipality, definition with the associations of the municipalities of Baden-Württemberg of a standard contract for concessions, allocation of special investment budget for concessions. Thus, in 2006, EnBW renewed nearly 200 contracts of concessions concerning distribution networks of electricity.

The non-renewal of a concession does not necessarily mean that EnBW ceases to operate in the municipality concerned. Often, a municipality that does not renew its concession may create a *Stadtwerke* and allow EnBW to participate in its share capital, which would allow EnBW to continue to secure the related area. If a concession is lost, EnBW must sell the network to its competitor or to *Stadtwerke* at market price ("*Ertragswert*"). If the non-renewed concession is granted to a competitor, EnBW does not necessarily lose its customers as they have sales contracts with EnBW. However, the "new" network operator will have a strong interest in acquiring these customers.

EnBW aims to increase its presence in the distribution business outside Baden-Württemberg by purchasing stakes in regional utility companies.

Following the implementation in July 2005 of a new law on energy and the creation of a regulatory entity, the access tariffs were reduced for transporters and distributors. EnBW was compelled to reduce its tariffs by 8% for its electricity transport network, 14% for its electricity supply network and 17% for its gas supply network, compared to the tariffs requested by EnBW. The important competitors of EnBW were also compelled to impose significant reductions.

### Trading activity

EnBW Trading GmbH is a wholly-owned subsidiary of EnBW, responsible for managing the upstream-downstream balance, *i.e.*, the balance between different means of sourcing (including its own generation capacity) and demand for electricity. It is responsible for managing generation capacity, fuel purchases and the management of associated risks, as well as EnBW's supply contracts. It also deals with CO<sub>2</sub> quota transactions and trades on its own account.

EnBW Trading operates on the wholesale markets and on the electricity stock market. It has been a leading operator in the German electricity stock market and is one of the main operators in the European energy stock market in Leipzig.

### 6.3.1.2.3.2 Gas business

At the end of 2006, the EnBW group had approximately 500,000 gas customers. In 2006, EnBW sold 83.5 TWh of gas and recorded sales of €2.76 billion (source: EnBW 2006 annual report).

### Transmission

In the midstream sector, EnBW operates mainly through Gasversorgung Süddeutschland GmbH (GVS) and EnBW Trading. GVS, of which EnBW owns, in parity with ENI, 50% of the share capital, is one of the largest regional German gas transportation companies and has a 1,892 km network of gas pipelines and 90 million cubic meters of storage capacity (mainly in Baden-Württemberg). GVS sells gas almost exclusively to redistributors and its only direct customers are industrial.

GVS is mainly supplied by E.ON Ruhrgas, but also Wingas, a joint venture between Gazprom and Wintershall, which is entirely held by BASF. Since 2004, ENI has also provided gas to GVS.

In 2006, EnBW Trading extended its activities to physical gas transactions in Germany and neighboring countries.

### Distribution and Supply

In Baden-Württemberg, EnBW supplies gas to residential customers mainly through its subsidiaries EnBW Gas and ODR. EnBW Gas brings together several regional and local distribution channels (in particular Erdgas Südwest GmbH). It has a presence in Saxony and Düsseldorf through ENSO Erdgas GmbH (previously Gasversorgung Sachsen Ost GmbH) and Stadtwerke Düsseldorf respectively.

These subsidiaries, which are active in the marketing of gas, hold concessions. The gas supply concessions regulatory framework is the same as for electricity supply concessions. During 2006, EnBW renewed 25 concession contracts concerning the gas distribution network in Baden-Württemberg.

### 6.3.1.2.3.3 Energy and environmental services

Energy and environmental services include waste elimination businesses, water distribution and energy-related services for industry. EnBW's consolidated sales in 2006 in these areas were €819 million, which represents an increase of 51% compared to 2005 (source: EnBW 2006 annual report).

### Industry and services

EnBW supplies energy-related services to companies through its wholly-owned subsidiary Energy Solutions GmbH ("ESG"). ESG brings together all of EnBW's expertise in terms of energy and engineering services for industrial customers.

### Waste treatment

In the waste treatment sector, EnBW operates mainly through its wholly-owned subsidiary U-plus. This subsidiary is a holding company combining several domestic and industrial waste removal and treatment companies. U-plus recorded sales of €306 million in 2006, with 1,400 employees, making it a major operator in the German market (source: EnBW 2006 annual report and U-Plus Internet web site).

The U-plus group operates mainly in Baden-Württemberg, where it is the market leader for integrated industrial waste management. In addition to integrated waste management for companies, U-plus provides special waste treatment for electronic products, vehicles and purification residues. Moreover, U-plus operates a waste incinerator. U-Plus's activities are currently being audited in order to devise an appropriate plan of action if necessary. EnBW announced in a press release the forthcoming sale of U-plus, subject to EnBW's Supervisory board and the cartel office approval.

Through its wholly-owned subsidiary T-plus, EnBW also operates several mechanical-biological treatment facilities. These types of facilities specialize in the treatment of domestic waste from parishes. Waste from municipalities is also managed by T-plus, which holds several contracts with incineration facilities.

Technical difficulties on both mechanical and biological treatment of U-plus facilities have led EnBW to record asset write-downs of €66 million and loss provisions rising to €106 million during the 2006 fiscal year. The two facilities concerned will be closed during 2007.

### 6.3.1.2.4 Development areas

EnBW carried out over the 2003-2006 period a cost reduction program named "Top Fit". This program intended to achieve savings of approximately €1 billion between 2003 and 2006, corresponding to a 30% reduction in EnBW's controllable operating costs and investments (an estimate which does not include energy purchases and investments required in the nuclear energy sector).

At the end of 2006, EnBW exceeded the targets defined in the Top Fit program (cumulative achievement at the end of 2006 of €1,056 million in recurring savings compared to a target of €1 billion) (source: EnBW 2006 annual report). All of the actions taken led to a significant improvement in its performance and its financial structure.

The social agreement on the reduction of working hours that expires in the beginning of 2007 has not been renewed.

While maintaining its objective of financial discipline over the coming years, EnBW's ambition is to consolidate and develop its position as the third German energy group with a strong regional base. To this effect, EnBW's management has stated that priority would be given to strengthening its positions in Baden-Württemberg and expanding in Germany. Furthermore, EnBW wishes to strengthen its position in central and eastern Europe. Certain growth opportunities in this region and in south Western Europe will also be explored (source: EnBW 2006 annual report).

EnBW has also increased its ownership interest in the Austrian company EVN AG in October 2006, whose shares are listed on the Vienna Stock Exchange, from 29.74% and up to 35% of the share capital. EnBW is thus the largest shareholder of EVN after the Land of Niederösterreich which owns (through Nö Landes Beteiligungsholding) 51% of its share capital. Since January 2006, EnBW has a representative on the Supervisory Board of EVN (source: EnBW 2006 annual report).

### 6.3.1.2.5 Potential synergies within the EDF Group

Since the end of 2003, EDF and EnBW have embarked on a common program to create synergies. They have therefore developed approximately 40 projects.

With regards to purchases, efforts are being made not only to regroup volumes but also on a broader basis to develop specifications and the sharing of information for tertiary products, and for procurement for distribution and generation. A program to reduce IT costs (OPTAIS) has contributed to achieving considerable savings for EDF and EnBW.

With regards to engineering, cooperation is centered on internal projects within the Group: study for the construction of new EnBW fossil-fired power plants. In the area of hydropower, EDF and EnBW continue to cooperate in a study for a fifth turbine in the Iffezheim power plant (increase of capacity of 38 MW) and in the construction of a new power plant at Kehl and Breisach (capacity of 4 MW). In the operation of nuclear power plants, benchmarks for maintenance and safety costs have been defined in order to optimize generation costs of power plants. In addition, a joint program of recruitment and training of bilingual engineers allows to strengthen the cooperation.

In the sales and marketing field, EDF and EnBW have developed a common strategy with regards to certain major industrial customers. This has allowed them to work side by side with customers and to increase sales. Moreover, in some countries, such as Poland, the EnBW and EDF sales teams have been merged.

In the research and development field, in particular through the EIFER (the Institute of Research in collaboration with the Karlsruhe University) EDF and EnBW entered into an agreement in January 2003 to share results and information regarding renewable energy, distributed generation and fuel cell batteries.

In the gas business, relationships between EDF and EnBW have continued to grow. Joint operations have already been carried out with regards to supply and transmission.

### 6.3.1.2.6 Recent events

The preliminary investigation conducted by the prosecutor's office of Mannheim against the current Chairman of EnBW's Executive Board

relating to financial year 2003 ended at the beginning of May 2006. The suspicions that gave rise to the investigations proved to be unfounded.

The investigation opened by the prosecutor's office of Karlsruhe against the EnBW's Chairman of the Executive Board relating to the alleged grants to civil servants of benefits in kind, namely invitations for the World Cup football matches, is in progress.

### 6.3.1.3 Italy

The EDF Group operates in Italy mainly through its shareholdings in Edison, the second operator on the Italian electricity market and third in the gas market. As of December 31, 2006 the EDF Group directly or indirectly held 16.9% of the Edison Share Capital (17.3% of the voting rights), and 50% of the share capital of Transalpina di Energy ("TdE") which in turn held 69.4% Edison's share capital (71.2% of the voting rights).

The agreements entered into during the year 2005 by the Group with AEM S.p.A. (the local utility of Milan ("AEM Milan")) have provided for the joint takeover of Edison by EDF and AEM Milan. The terms and conditions of this takeover are described in section 6.3.1.3.1.2 ("Joint takeover of Edison by EDF and AEM Milan").

Furthermore, the EDF Group operates in Italy through the following subsidiaries and shareholdings:

- Fenice: the Group wholly owns Fenice, which specializes in electricity generation, supply of energy-related services, solid and liquid industrial waste treatment, and environmental activities; and
- Siram: the Group holds, through Dalkia and Dalkia International, a 50% interest in Siram. Siram specializes in energy-related services to customers in the service sector, industrial companies and local authorities.

The Group also operates in Italy through its stakes in EDEV, in the TIRU group and in EDF Energies Nouvelles, which have local subsidiaries (see sections 6.4.1.2.3.2 ("TIRU Group") and 6.4.1.2.1.2 ("EDF Energies Nouvelles")).

### 6.3.1.3.1 Edison

Edison is the oldest Italian electricity company. Edison is the second largest operator in the Italian electricity market (after the historical operator Enel) and the third largest operator in the gas market after ENI and Enel. In 2006, net electricity generation by Edison was 51.9 TWh, which accounted for 17.2% of net electricity generation in Italy, and gas activities, excluding stock variation, accounted for 13.1 Gm<sup>3</sup>, or 15.7%, of Italian gas demand.

At the end of 2006, Edison sold its electricity network (Edison Rete), for an amount of approximately €294 millions, to Terna, which already owned 95% of the Italian network.

In 2006, the Edison group realized sales of €8,523 million<sup>24</sup> and generated an EBITDA ("*margine operativo lordo*") of €1,536 million (source: Edison 2006 annual report). In EDF Group's consolidated financial statements as of December 31, 2006, Edison is consolidated by proportional integration at 51.58%. Edison is listed on the Milan stock exchange pursuant to whose regulations it publishes a certain

<sup>24</sup> Of which €6,495 million before writing off intra-group electricity transactions and €4,171 million before writing off intra-group gas transactions.



amount of information (in particular, its annual report) that is available on its Internet site ([www.edison.it](http://www.edison.it)).

### Market environment and price trend

In Italy, the demand of electricity in 2006 amounted to 337.8 TWh, increasing by 2.2% when compared to 2005. The supply/demand balance remained tense in 2006, in spite of the increase of the generation capacity connected to the starting of new combined-cycle gas turbines ("CCGT"). Wholesale prices have strongly increased (approximately 27%). Nevertheless, for certain time periods, this increase was less important than the one of the French-German plate, which might have generated a reduction of the streams of import towards Italy (overseas net trading fell by 9% when compared to 2005).

Net national demand of natural gas reached 83.5 Gm<sup>3</sup> (- 1,9 % than in 2005 – source: Edison). This reduction is mainly due to the reduction in consumption related to the particularly soft climatic conditions of the last months of the year, which has largely compensated the increase in the needs for supply of natural gas for the generation of electricity due to the start of new power stations CCGT.

#### 6.3.1.3.1.1 Strategic interest of Edison shareholding

The Italian electricity market is, in term of consumption, the fourth largest market in the European Union with a high growth rate and price levels. The development of new generation capacities is a major challenge. Competition is encouraged by the Italian government, which has taken measures to reduce the market share controlled by the historical operator.

The position and ambitions for growth of Edison allow the Group to implement a balanced strategy in Italy based on Edison's ambitions to develop its electricity production facilities, its portfolio of customers and its gas business.

Edison continues to increase the installed capacity of its generation assets: 12.5 GW at the end of 2007 and to 14 GW by 2012 (including its share in Edipower), principally through the construction of two CCGT. Edison also continues the conversion of various fossil-fired units, currently oil-fired, to gas, which will increase its gas supply needs.

In terms of supply, Edison's goals for the coming years are to significantly develop its electricity sales to small and medium-sized companies as well as its gas sales to large industrial customers. Furthermore, Edison intends to develop a dual (electricity-gas) offer for its business customers (either directly or through local utilities with which it has entered into partnership agreements) in order to significantly increase its sales in these sectors.

In addition to the EDF Group's strategic interest in the growth of Edison and that of the Italian electricity market, Edison's development plan provides opportunities for synergies with the EDF Group in the short term notably in the fields of engineering, equipment purchases, supply to large customers' services.

In the gas market, Edison offers opportunities for synergies and holds an important position in the gas component of the Group's strategy, notably through the Gas Assets Committee. This Committee, animated by Umberto Quadrino, executive manager of Edison, analyzes EDF Group's gas assets development projects.

Edison is also implementing different infrastructure projects for the delivery of natural gas to Italy. Edison plans to have independent import infrastructures permitting the delivery of gas coming from the Mediterranean and Caspian Seas for onward transportation to continental Europe. This will allow the Group to gradually reduce its reliance on the infrastructures of its main competitors. If these projects materialize, they could contribute to turning Italy into the gas transit center from South through North, creating opportunities to satisfy Group's needs in France and in Germany.

Finally, for the purpose of implementing its gas strategy, the Group will be able to benefit from the experience that has been developed over the course of many years by Edison along the entire gas value chain, from exploration/production to direct supply of natural gas.

#### 6.3.1.3.1.2 Joint takeover of Edison by EDF and AEM Milan

On May 12, 2005, EDF, AEM Milan, WGRM Holding 4 S.p.A. ("WGRM", a wholly-owned subsidiary of EDF) and Delmi S.p.A. ("Delmi", a subsidiary held at that time at 95% by AEM Milan) entered into a Structure Agreement and a Shareholders' Agreement governed by Italian law, relating to the implementation of their joint takeover of Edison and the exercise of their joint control. To further this goal, they formed Transalpina di Energia S.p.A. ("TdE"), a jointly-held holding company in which WGRM and Delmi each hold 50% of the share capital.

AEM Milan is an integrated Italian operator, listed on the Milan Stock exchange, active in the markets of generation, importation, supply, transmission, distribution and sales of electricity and gas to end-users.

As at the date of the present *Document de référence*, Delmi is controlled by AEM Milan which holds 51% of its share capital and voting rights, by industrial partners with 35% (ENIA, SEL and Dolomiti Energia) and by Italian banks with 14%.

#### Edison's voting rights after dilution

The exercise of all the warrants (*i.e.*, 1,018,616,924 warrants as of December 31, 2006, including 281,549,617 held by EDF and WGRM and 210,012,399 held by TdE) will cause a reduction of the TdE stake in Edison from 71.2% to 61.3% without changing Edison control of TdE. The governance agreement with AEM has been concluded on a totally diluted basis, anticipating the exercise of warrants. The validity period of these warrants is open until December 31, 2007. On February 1, 2007, Edison announced that 519,554,810 warrants had been exercised for a subscription price of €1. Consequently, Edison received €519.6 million. EDF didn't exercise any of its warrants under this operation.

In addition, Carlo Tassara, former shareholder of ItalEnergia Bis (IEBIS) started an action against EDF before to the civil Court of Milan, mainly claiming the payment by EDF of the warrants IEBIS price. (see section 20.6.2 ("Legal proceedings concerning EDF' subsidiaries")).

#### Specific provisions of the Structure Agreement

The Shareholders' Agreement whose provisions would stay in force until December 31, 2020, contains a provision relating to the change of control of AEM Milan or of Delmi. In the case of a third party other than the city of Milan, acquiring the control of AEM or in the case of a third party other than AEM Milan appointing the majority of the members of the Board of Directors of Delmi, this provision allows EDF to require Delmi to sell its stake in TdE to EDF. The Shareholders' Agreement has a similar provision as to EDF and WGRM.



### Joint control of Edison

The Shareholders' Agreement provides for rights and obligations of TdE shareholders, the exercise of joint control of Edison and the rights and obligations of EDF and AEM Milan in respect of TdE and Edison. It states that, where possible, Edison will pursue a strategy designed to achieve synergies in the electricity and gas activities of EDF, AEM Milan and other Delmi industrial shareholders.

### TdE

The Board of Directors of TdE shall be comprised of 10 members elected by the shareholders, five appointed by EDF and five appointed by Delmi. Delmi will appoint the Chief Executive Officer (amministratore delegato) of TdE (the role of which can be compared to that of a *Directeur Général* under French law) and EDF will appoint the Chairman of the Board of Directors. The meetings of the Board of Directors require a quorum of eight members, and decisions are made by a qualified majority of eight members. No director holds the right to a deciding vote.

### Edison

In accordance with the Shareholders' Agreement, the Board of Directors of Edison will be comprised of 12 members elected by the shareholders. These members will be the five directors of TdE appointed by EDF, the five directors of TdE appointed by Delmi and two independent directors, one appointed by each of EDF and Delmi. In addition, Delmi will appoint the Chairman of the Board of Directors and the Chief Financial Officer of Edison (who can also be a director), whereas EDF will appoint the Deputy Director and the Chief Operating Officer. The meetings of the Board of Directors require a quorum of 10 members and the decisions will be made by a qualified majority of 10 members. No director will hold the right to a deciding vote.

### Specific provisions of the Shareholders' Agreement

The Shareholders' Agreement establishes the fundamental principle that the management of Edison will be determined exclusively by TdE. Consequently, EDF, WGRM, AEM Milan and Delmi have agreed in relation to shares of Edison that they hold, or may hold in the future, directly or through their subsidiaries:

- to exercise their right to vote (or abstain from voting or participating in shareholders' meetings of Edison), in accordance with the position of TdE; and
- not to use their shareholder's rights in a way which would be inconsistent with a decision made by TdE or which would be contrary to the above-mentioned principle, or in their own interests.

The Shareholders' Agreement has a minimum duration of three years (five years if Edison ceases to be listed) and is then automatically renewed for the same duration, unless terminated by one of the parties, in which case TdE will be dissolved.

During the initial period of three years, no party may sell its holdings in TdE to a third party. The by-laws of TdE contain, in addition, a mutual preemptive right which will apply during the life of the company, but which does not apply in the event that WGRM sells all of its holdings to EDF.

The Shareholders' Agreement will be automatically terminated if EDF, directly or indirectly through WGRM, or if AEM Milan indirectly through Delmi, ceases to hold more than 50% of the voting rights which can be exercised at the shareholders' meetings of TdE or if the assets of Delmi are liquidated. EDF may also terminate the Shareholders' Agreement if AEM Milan ceases to hold the majority of the voting rights of Delmi or ceases to appoint the majority of the members of the Board of Directors of Delmi. AEM may also terminate the Shareholders' Agreement if EDF ceases to directly hold 100% of the share capital of WGRM or if WGRM exercises any substantial activity other than the management of its holdings in TdE or Edison.

### 6.3.1.3.1.3 Edison's business in the electricity sector

After Enel, Edison occupies the number two position in the Italian electricity generation market.

### Generation

The Edison group's installed generation capacity amounted to 11.7 GW as of December 31, 2006 (of which Edipower accounts for 50%) with a net electricity generation of 51.9 TWh in 2006 (source: Edison).

This generation includes 12.4 TWh of Edipower's generation, which is at Edison's disposal pursuant to the Tolling Agreement (right to benefit from generation capacities at an agreed price) for the fossil-fired power plants and pursuant to a Power Purchase Agreement for hydroelectric power plants. Under these contracts, Edison will benefit from a right to 50% of Edipower's existing and future thermoelectric and hydroelectric generation capacities between January 1, 2004 and December 31, 2011. The remaining 50% is divided between Atel (20%), AEM Milano (20%) and Iride (10%). The co-contractors are jointly committed to Edipower. If any of the parties fails to perform its obligations, the remaining co-contractors would have to purchase a quantity of energy equal to that of the defaulting co-contractor up to its respective share.

As of December 31, 2006, Edipower is a company owned by Edison (40%), AEM Milano (16%), Atel (16%), Iride (8%) and three Italian banks. These banks have a put option against Edison with respect to their Edipower shares, representing 10% of the share capital, which may be exercised in 2007. Edipower was created for the acquisition, on May 31, 2002, of Eurogen, a generation company sold by Enel in connection with the opening up of the Italian generation market. In 2006, Edipower has been provided a generation capacity of 7.0 GW.

On September 19, 2006, ACEA, the Rome municipal corporation, started an action against EDF before the Civil Court of Rome arguing that the takeover of Edison by EDF and AEM led to the indirect crossing of the threshold of 30% of the capital of Edipower by public entities, which, according to ACEA, would constitute an act of unfair competition against it (see section 20.6.2 ("Legal proceedings concerning EDF's subsidiaries")).

Edison's generation capacities are mobilized mainly to meet the base-load and mid-merit electricity requirements of the Italian market. Edison has drawn upon imports and other Italian suppliers and dealers to cover the balance of its requirements (13.5 TWh in 2006).

Edison's generation capacity (including its share in Edipower) in the European Union is as follows:

### 2006 Installed Capacity of the Edison Group (GW)

	Edison <sup>(1)</sup>	Edipower (Edison Share)	Total	%
Thermoelectric	6.5 <sup>(2)</sup>	3.1	9.6	82
Hydroelectric	1.4	0.4	1.8	16
Wind power	0.3	—	0.3	2
<b>TOTAL</b>	<b>8.2</b>	<b>3.5</b>	<b>11.7</b>	<b>100</b>

(1) Source: Edison

(2) The installed thermoelectric capacity of Edison at the end of 2006 includes 260 MW corresponding to its shareholding (66.3 %) in Serene which was sold to BG Italia SpA in February 2007.

In 2006, Edison's generation (and that of Edipower) in the European Union was broken down as follows:

### 2006 Generation of the Edison Group (TWH)

	Edison <sup>(1)</sup>	Edipower (50% of Edipower)	Total	%
Thermoelectric	36.0	11.6	47.6	91.8
Hydroelectric	3.0	0.8	3.8	7.3
Wind power	0.5	—	0.5	0.9
<b>TOTAL</b>	<b>39.5</b>	<b>12.4</b>	<b>51.9</b>	<b>100.0</b>

(1) Source : Edison

#### Development projects

Edison has launched an investment program in order to increase its generation capacity. The main ongoing investment programs are the followings:

- Development of 1.6 GW of new capacity through the construction of CCGTs.

Edison is close to finishing the construction of the Simeri Crichi's power plant (CCGT of 760 MW) which should be put in service during the second half of 2007 and plans to put in service in 2011 a new CCGT of a 800 MW capacity in the center of Italy.

In addition, Edison committed to partially re-power Edipower's generation capacity (Fuel oil power plant of Turbigio, which is being converted into a CCGT of 800 MW and which should be put into service during the second half of the year 2007) and of some power plants benefiting from CIP6/92 subsidies.

Edison maintains its objective to insure the growth of its generation facilities up to about 14 GW (including Edipower's share) in 2012 with the development of about 200 MW of wind turbine production projects and 50 MW of hydroelectric capacity, allowing it to obtain the corresponding green certificates.

- Development outside Italy

By the end of 2007, Edison will have achieved most of its objectives

as for what concerns regards electrical generation capacity and will focus on the consolidation of its positions on the Italian market and consider an expansion to others European markets such as Greece, Mediterranean countries and the Balkan region.

#### Renewal of Hydropower concessions

Edison's and Edipower's hydroelectric assets are operated under a series of concessions granted by the Italian authorities for a limited period of time. The concessions in relation to these assets are scheduled to be renewed between 2008 and 2020.

The Italian Bersani Decree, which establishes the terms and conditions as well as the timeframe for the renewal of Italian hydroelectric concessions, grants a right of preference to the current licensee if competing offers are of an equivalent nature.

The terms of renewal of the concessions set forth in the Italian Bersani Decree have been subject in 2005 to an infraction proceeding brought by the European Commission which contemplated referring the case to the European Court of Justice. In order to avoid such a proceeding, the Italian government promulgated the law n° 266 dated December 23, 2005 ("legge finanziaria 2006"), which abrogated the provisions of the Bersani Decree relating to the attribution of the right of preference to the current licensee, and extended the period for hydroelectric concessions relating to "important derivations" in operation as of January 1, 2006 for a period of ten years over the expiration date, under the condition of the completion by the licensee of an investment program equal to at least €1 per MWh produced. These terms

were also supposed to be in force before April, 2006, in the Trento and Bolzano regions (Edison owns in these regions with a special status, power plants which represent almost a quarter of its hydroelectric capacity in Italy). However, these regions challenged this law before the Italian Constitutional Court for a breach of their autonomy prerogatives. The Italian parliament finally approved a law which specifies that the 10-year extension will not apply in the provinces of Trento and Bolzano. Concessions attributed by those provinces will thus be awarded by way of auctions at the dates planned at the time of their attribution and Edison should then apply for the renewal of the aforementioned concessions.

### Expiry of CIP6/92 agreements

Edison's CIP6/92 sale agreements, entered into with GRTN, have a term of 15 years and will expire between December 2007 and 2017. These contracts constitute an important element of Edison's profitability through:

- their tariffs, which are attractive, given average market prices;
- dispatching priority to call upon power plants; and
- the existence of an additional payment over the first eight years of the contract.

The progressive phasing out of the additional payment by 2009 and the termination of the CIP6/92 agreements by 2017, present a challenge to Edison in terms of margin and opportunities. As a result, Edison has, for several years now, adapted its industrial base through the development of new CCGTs, the reduction of its dependence on ENI for gas supplies, the plan to repower CIP6/92 power plants and the sale of some CIP6/92 power plants. Thus, Edison has sold its shareholding in Serene SPA (66.3%) to BG Italia in February, 2007, which represents a total capacity of 400 MW.

In November 2006, the AEEG (*Autorita per l'Energia Elettrica e il Gas*) decided to reduce, from January 1, 2007, the amount of fuel taken into account in the formula used to calculate the subsidies awarded to the producers benefiting from CIP6/92 agreements. Edison, which had anticipated such unfavorable evolution, considers that the impact of this decision on its EBITDA for the financial year 2007, could be estimated to about 8 % and could notably vary according to oil price. This impact will gradually decrease in the next years with the extinction of CIP6/92 agreements. This impact should also be partially offset by the estimated growth of volumes in 2007 and by the results of the programs implemented to increase the operational competitiveness of Edison.

### Supply

In 2006, Edison sold 20.8% of the total net Italian electric power demand (65.4 TWh, of which 51.9 TWh generated by Edison and 13.5 TWh purchased on the Italian wholesale market or imported). Edison's 2006 sales break down as follows:

- 40.4 TWh sold on the markets (Single Buyer<sup>25</sup>, wholesalers, end-users);
- 4.9 TWh sold directly to end-users under long-term contracts (mainly electricity generated on a customer's site by a power plant built by Edison);
- 20.0 TWh sold under CIP6/92 sales contracts; and
- 0.10 TWh of exports.

Edison's supply activity is focused on its Business customers and SMEs. In relation to the mass small business and residential customers, Edison intends to develop a dual electricity and gas offer to the customers of local utilities with which it has entered into commercial alliances.

In addition, on October 19, 2006, Edison acquired 100% of EDF Group's shareholding in EDF Energia Italia, a company specialized in the sale of electricity to Italian eligible customers. This acquisition allows the rationalization of EDF Group's supply structure in Italy and the reinforcement of Edison's commercial position in the important customers market.

### 6.3.1.3.1.4 Edison's business in the gas sector

Edison ranks third after ENI and Enel in the Italian market for the supply and marketing of gas, with a 15.7% market share in 2006 (source: Edison).

In 2006, Edison purchased 12.5 Gm<sup>3</sup> of gas, in addition to 1.1 Gm<sup>3</sup> from its own production capacity (of which 0.7 in Italy). Of the 12.5 Gm<sup>3</sup> of purchases, 4.8 Gm<sup>3</sup> (including stock variation and network losses) are purchased on the Italian wholesale market, and 7.7 Gm<sup>3</sup> are imported.

In 2006, Edison consumed 8.3 Gm<sup>3</sup> of gas to generate electricity and sold 1.2 Gm<sup>3</sup> of gas to industrial customers, 3.3 Gm<sup>3</sup> to small business and residential customers, 0.5 Gm<sup>3</sup> on the wholesale market and 0.4 Gm<sup>3</sup> outside Italy.

Following a strong increase in the prices of gas worldwide, the regulator tried to limit the increase for final customers by setting a ceiling for prices in 2005 and 2006 (resolutions 248/04 and following). The measures taken by the regulator have led Edison to create provisions of approximately €53 million in its accounts.

The large volume of gas consumed by Edison is due to the fact that gas is the main source of its electricity generation, as it has gradually moved away from fuel oil.

Securing gas supplies in the medium and long term is a major imperative for Edison. Hence Edison is involved in the construction of a regasification terminal in Rovigo (8 Gm<sup>3</sup> per year), which will be completed by the end of the year 2008 through a joint venture with Exxon Mobil (45%) and Qatar Petroleum (45%), with Edison owning the remaining 10%. The agreement entered into in May 2005 with these two partners gives Edison access to an annual volume of gas of 6.4 Gm<sup>3</sup> over 25 years.

In September 2006, Edison has entered into an agreement with Sonatrach for the delivery of 2 Gm<sup>3</sup> of gas during the 2008-2019 period. This gas will be routed via Transmed and TTPC (Trans Tunisian Pipeline Company) gas pipeline.

With respect to exploration-production, in the framework of a joint venture with Repsol YPF, RWE Dea and Sonatrach (Edison holds 18.75% of the share capital of this joint venture), Edison has successfully started a research campaign on two blocks of the north basin of Reganne in the Algerian desert. The first three drillings have been conclusive. By the end of the trial period, which comprises

<sup>25</sup> Public entity purchasing electricity from CIP6/92 producers, wholesale market and imports, in order to supply distributors for the part corresponding to the consumption of non-eligible customers and the eligible customers who have not exercised their eligibility rights. This entity should continue to assure this mission after July 1, 2007.

8 other drillings, the reserves of these blocks could be declared “marketable” from 2008. In exploration-production, Edison’s objective is to increase, in comparison with all its supplies, the share of self-produced gas (from 1.5 Gm<sup>3</sup> in 2006 to 2.6 Gm<sup>3</sup> in 2012) to reach 15 % on the long-term basis.

Moreover, Edison is involved in the following projects in importations infrastructure:

- **GALSI Project:** pipeline to link Algeria and Italy via Sardinia with an annual capacity form 8 Gm<sup>3</sup>. The first phase relating to the feasibility study is finished. The project should be finalized by a realization decision by the end of 2008. Edison has already entered into an agreement with Sonatrach for the delivery of 2 Gm<sup>3</sup> subject to the accomplishment of this project. Commissioning is expected to take place in 2011.
- **IGI Project:** pipeline to link Greece and Italy with an annual capacity of 8 Gm<sup>3</sup>, to allow the transit of gas notably from Russia and Caspian sea countries via Turkey. Commissioning is expected to take place in 2011.
- **Rosignano Project:** regazification terminal with an annual capacity of 8 Gm<sup>3</sup>. So far, there is no date planned for the starting of this terminal.

In the medium term, Italy could become a gas transit country of gas from the south to the north of Europe. With this prospect, Edison is continuing its development and consolidation in gas delivery to reduce its reliance on ENI and to improve the competitiveness of its supplies.

Besides, Edison has two subterranean storage sites, Cellino and Collalto, of a capacity of 0.3 Gm<sup>3</sup>. The development of Collalto and the new storage sites of Cotignola and Mafalda should increase the capacity to 2.2 Gm<sup>3</sup> in 2012 (including 0.6 Gm<sup>3</sup> of “strategic reserves” required by the Italian law).

### 6.3.1.3.2 Fenice

At the date of the present *Document de Référence* the EDF Group holds 100% of Fenice. Fenice owns electricity generation facilities, electricity networks and environmental assets associated with industrial sites operated by the Fiat group from whom the EDF Group purchased this company. In 2006, Fenice recorded sales (contributive) of €537 million.

#### 6.3.1.3.2.1 Fenice activities in the energy sector

Fenice operates mainly in the field of outsourced management and operation of cogeneration power plants, electricity substations, fossil-fired power plants using superheated water and steam generation for industrial use or site heating, cold generation power plants, compressed air generation units and internal electricity distribution units, cold or hot, industrial compressed air and gas.

In terms of energy assets, Fenice had, in Italy, on December 31, 2006, 37 generation sites of which:

- 36 with thermal power generation facilities (steam, overheated water and hot water) of a total power of 2,627 MWth;
- 10 with electric power generation facilities of a total power of 298 MW; and
- 33 with compressed air generation power plants of a total capacity of 920,000 cubic meters/h.

In addition, Fenice operated and maintained at this date six CIP 6/92 combined-cycle gas turbines on behalf of third parties (600 MW in total).

These businesses represented 86% of Fenice’s sales for 2006 in Italy.

Business transactions with the Fiat group represented 75% of Fenice’s sales due to the location of its assets and historical connections with this group.

At the time of the sale of Fenice to EDF, it was decided to maintain and develop industrial and commercial relations with the Fiat group. The Fiat group therefore entered into service agreements with Fenice prior to 2002 for a minimum duration of eight years, which led to the transfer of assets to Fenice. These agreements were renegotiated in end of 2006, and as a result, their duration has been extended until 2012 and new development projects have been agreed on (construction and management of three cogeneration facilities with planned starting dates at the end of 2012 and at the end of 2016). If these agreements were to be renewed in 2012, Fiat is committed to buy back from Fenice all of the assets used for these agreements for an amount equal to the net book value of these assets. This would greatly compensate for the reduction in Fenice’s future cash flows. The corresponding workforce would be re-transferred to Fiat.

Since its acquisition by the EDF Group, Fenice carried out a policy of diversifying its customer base. Fenice offers its customers, other than Fiat, industrial cogeneration and greater environmental services.

#### 6.3.1.3.2.2 Other Fenice businesses

Fenice develops an activity in the environment field: construction and operation of waste treatment and industrial water treatment plants, etc. These businesses represented 13% of Fenice’s sales in Italy in 2006.

## 6.3.1.4 Rest of Europe

### 6.3.1.4.1 Switzerland

Switzerland represents an industrial interest for the Group due to its geographic position in the center of European electricity transfers and because of its important capacities in terms of peak generation.

#### The EDF Group’s activities in Switzerland

The Group operates in Switzerland through:

1. the EDF Group’s holdings in hydropower generation facilities on the border, which generated 0.4 TWh of energy rights for EDF in 2006;
2. EDF’s ownership of the share capital of Motor Columbus which holds 59.06% of Atel’s share capital (Aare Tessin Electricité). From 1997 to 2006, EDF was holding 20% of the share capital of Motor Columbus. Following the agreements and the exchange offer described below, it now holds 36.94% of the company’s share capital. EnBW also holds 4.89% of Motor Columbus and EDF directly holds 1.23% of Atel’s share capital.

#### (a) Description of Atel activities

Atel is an integrated electricity company, and is very active in the European electricity trading market. Atel’s sales (as published by Atel) make it the main Swiss electricity companies, with sales of CHF 11.3 billion in 2006 (source: Atel 2006 annual report). In 2006, Atel sold 116 TWh mainly on wholesale markets and to major European customers, mainly in southern Europe and in the Eastern and Central Europe countries (“PECO”). Atel also supplies approximately 100,000 customers in north-western Switzerland. This business is based on

major generation and transmission assets in Switzerland (19% of the Swiss transmission network) and in countries where Atel is developing its business. In 2006, Atel had a total installed capacity of 3,621 MW as follows: 1,567 MW in Switzerland (860 MW of hydropower, and 707 MW nuclear power), 1,230 MW in Italy and 824 MW in the PECOs. Atel has recently embarked upon the diversification of its skills and developed an energy-related services business through its subsidiary, AIT, and through the German energy-related services company, GAH.

### (b) Evolution of EDF shareholding interest in Motor Colombus

In September 2005, EDF entered into a share purchase agreement concerning 17.32% of the share capital of Motor Colombus following UBS's sell of its interest (55.6%) in this company.

On this occasion, EDF entered into a consortium agreement with the other principal shareholders of the new company, *i.e.*, EOSH, the sub-consortium of minority shareholders in Atel and Atel.

EDF thus favored a solution that would allow it to protect its long-term interests without taking control of the company but through permanent shareholder rights within an enlarged holding company. Following the definitive completion of the transfer of UBS's shareholding of in Motor Colombus, members of the consortium were supposed to initiate a public exchange offer for the shares of Atel. This offer was launched by Motor Colombus on behalf of the members of the consortium as an exchange offer. On July 14, 2006, the closing date of the offer, 16,640 shares of Atel (0.55% of the share capital) had been brought to the exchange offer.

In addition, during the first half of 2007, Atel and Motor Colombus are expected to join forces. By the end of 2007, Atel as well as EOS' assets and operating activities should be put together in a new holding structure whose head office will be located in Neuchâtel. EDF will come to have a minority shareholding of at least 25% in this new structure. In addition, EDF continues to examine all of its possibilities to optimize its Swiss assets in this new company.

The agreements concluded in September 2005 create the basis for a leading energy company in western Switzerland regrouping the industrial electricity assets from the region and Swiss assets of the EDF Group if necessary. The new company will rely on a complementary services portfolio in order to offer energy-related services across Europe, and will thus benefit from a strong position on the Swiss market and from a significant size at the heart of European electricity transfers in each of the different business areas (generation, network, trading, distribution).

3. Of the company EnAlpin, a wholly-owned subsidiary of EnBW, which produces and supplies run-of-river hydropower on the banks and valleys of the Rhône (1.9 TWh in 2006);
4. A 75.97% EnBW holding as of December 31, 2006 in Energiedienst which produces and supplies run-of-river hydropower from dams on the Rhine (5.7 TWh sold in 2006).

Apart from this commercial and capital presence, the Group has decided for several years to develop its presence on the Swiss electricity market through operational cooperation with the main Swiss operators (in particular Atel EOS).

### 6.3.1.4.2 Benelux

The Benelux countries constitute a consistent electricity zone with significant links with the Franco-German market place, thus presenting profitable development opportunities in electricity generation. Furthermore, Benelux countries form an important hub for the European gas market due to its numerous import and transit infrastructures and to the Zeebrugge hub<sup>26</sup>.

#### The EDF Group's activities in the Benelux countries

Through long-term cooperation with Electrabel in the nuclear energy field, EDF owns 50% of the Tihange 1 nuclear power plant through its wholly-owned Belgian subsidiary, EDF Belgium S.A. The power attributed to EDF represents 3% of Belgium's generation capacity. Tihange 1's generation, which is attributed to EDF Belgium S.A., is sold in Belgium to a Belgian operator through a long-term agreement which expires in 2015.

The trading business of EDF Belgium S.A is oriented towards the industrial market and that of SMEs. Sales in 2006 reached a volume of 4.9 TWh.

EDF provides approximately one-third of Belgian imports (Belgium imports 5% to 10% of its consumption).

In July 2006, EDF has entered into a partnership agreement with the Dutch company DELTA N.V. for the development and the construction of natural gas power plant of 870 MW in the southwest of the Netherlands. On March 29, 2007, EDF and Delta created a joint-venture, Sloe Centrale B.V., whose corporate purpose is the construction and operation of the new power plant. This partnership includes the sharing in half of investments, a joint operation of the facilities and the sharing in half of the electricity generated. Commissioning is expected to take place in 2009.

### 6.3.1.4.3 Spain

#### • Hispaelec Energía S.A.

Hispaelec, established in 1999, a wholly-owned subsidiary of the EDF Group, is involved in the supply business. It does not have its own generation capacity. Hispaelec was established as part of EDF's strategy to service its major customers in Europe. It offers customized electricity supply, advice and optimization services.

#### • Elcogas

As of December 31, 2006, the EDF Group owns 31.39% of the Elcogas share capital. Elcogas uses an innovative "clean coal" project at Puertollano in a power plant with a gross power of 335 MW fueled, in GICC mode (coal gasification integrated in a combined cycle), through coal gasification and local petcoke. In addition to natural gas, this installation allows the use of coal and oil cokes, which produce atmospheric emissions that are far below European standards. This facility is the largest solid fuel power plant of this type in the world. In 2006, Elcogas produced 1,237 GWh, including 982 GWh in GICC mode.

#### • EDF Peninsula Ibérica S.L.

The EDF Group owns 100% of EDF Peninsula Ibérica S.L, which is intended to represent the Group on the Iberic Peninsula, provide promotion and support services to Group's subsidiaries and, if necessary, the implementation of projects in the field of electricity generation and gas production.

<sup>26</sup> Gas market established at the junction point of infrastructures of transport where gas arrives from various sources offering the possibility of physical exchange of gas.



#### 6.3.1.4.4 Austria

Austria lies at the hub of electricity and, especially, gas interconnections of the European network. It is strongly integrated with the market in Germany and is therefore of interest to foreign investors. Hydropower plants represent 70% of Austria's fleet of generation facilities.

##### The EDF Group's activities in Austria

The EDF Group owns 80% (and Gaz de France 20%) of the Investment Company for Austria (*Société d'Investissement*, or "SIA"), which itself owns 25% plus one share of ESTAG's share capital (corresponding to a minority blocking interest in Austrian law). The Land of Styrie owns the remaining ESTAG shares and entered into a shareholders' agreement with SIA, giving SIA greater powers than its blocking minority. ESTAG heads a group of 41 Austrian subsidiaries operating in the fields of energy, water, waste treatment and associated services, but whose strategy is to focus on energy-related businesses. Centered around Styrie, the ESTAG group is developing its business in the other Austrian Lands and some neighboring countries. Its two main subsidiaries are Steweag-Steg, the main electricity distributor and retailer in the Land of Styrie, and Steierische Gas Wärme (STGW) transporter, distributor and retailer of gas and heat in the same region.

In addition, EnBW operates in Austria, through:

- a minority holding in Energie-Versorgung Niederösterreich ("EVN"), an electricity, gas and heat transmission, supply and distribution company, in the Land of Lower Austria. EVN is held at 51% by this same Land. EVN is the top distributor-retailer in Austria in terms of number of customers; and
- electricity delivery and purchasing agreements with TIWAG and VKW, two electricity transmission and distribution companies operating in the Lands of Tyrol and Vorarlberg, respectively.

#### 6.3.1.4.5 Countries in central and eastern Europe

##### Group operations in central and eastern European countries

The Group operates in three central and eastern European countries (*Pays d'Europe Centrale et Orientale*, or "PECO"): Poland (electricity generation, cogeneration), Hungary (cogeneration, distribution) and Slovakia (distribution). Apart from EDF's shareholdings, EnBW also has minority holdings in Poland (electricity generation, cogeneration and heat distribution), Hungary (electricity generation, distribution) and the Czech Republic (electricity distribution, cogeneration). The EDF Group also operates in these countries through its subsidiary Dalkia International, mainly in cogeneration intended for major urban heating systems.

##### 6.3.1.4.5.1 Poland

##### The EDF Group's activities in Poland

Through direct control of four generation companies, EDF owns 12%<sup>27</sup> of the generation market share, consisting of 28% of the cogenerated electricity market ("red" electricity) and 9% of the "black" electricity market from ordinary thermal power-plants. EDF is ranked the third Polish generator after the two public groups, BOT and PKE.

Moreover, with cogeneration power plants, EDF also has an approximately 20%<sup>28</sup> share of the centralized heat generation market in Poland (i.e., delivered to urban heating systems).

<sup>27</sup> 2005 figures.

<sup>28</sup> 2005 figures.

The Group operates through the following four main subsidiaries:

- The Group controls the EC Wybrzeze cogenerator ("ECW") in the Gdansk region. ECW has an installed generation capacity of 353 MW and 1,225 MWth.
- The Group controls the electricity generation company ERSa in the Rybnik region. Its installed capacity is 1,775 MW.
- The Group also controls the cogenerator of the town of Krakow, ECK. ECK has an installed generation capacity of 460 MW and 1,236 MWth. ECK sells its generation to PSE through a long-term contract (PPA) which expires in 2013.
- The Group holds, through its subsidiaries, 50% plus one of the share capital of the cogenerator Kogeneracja in the Wroclaw-Czechnica region (the interest percentage is 35.61%). Its installed generation capacity is 403 MW and 1,106 MWth. This cogenerator owns 99.85% of the heat and electricity generation company, EC Zielona Gora. The latter, through a combined-cycle gas turbine sells its electricity to PSE through a long-term contract, which expires in 2024.

The long term electricity sale contracts of ECK (in force until 2013) and of EC Zielona Gora (in force until 2024) are the purpose of a formal enquiry by the European Commission which concerns all Polish long-term contracts. If at the end of the enquiry, the European Commission assimilates these long term contracts to new state aids contrary to the European rules; it could order the Polish authorities to put these contracts in accordance with the European directives or to terminate them. EC Zielona has filed an appeal before the Court of first instance of the European Union disputing the legal basis of the opening of the enquiry by the European Commission. A failure of this appeal would imply that the decision taken by the European Commission to open a formal investigation enquiry on long-term contracts of sale of electric energy would be considered valid and that the conclusions of the enquiry could have the consequences described hereunder (see section 20.6 ("Legal and arbitration proceedings")).

##### 6.3.1.4.5.2 Hungary

Hungary has a total installed capacity of approximately 8.6 GW. Hungarian consumption represents approximately 39 TWh, compared to a generation of 33 TWh (Source: MAVIR, manager of the Hungarian transport network, data 2005). Hungary is therefore an importer of electricity.

##### The EDF Group's activities in Hungary

In Hungary, the Group is developing its generation, supply and distribution businesses, through three main subsidiaries: BERT, DÉMÁSZ and D-ENERGIA.

- BERT. As of December 31, 2006, EDF owns 95.57% of this company, which generates heat and electricity through cogeneration and is located in the Budapest region. In 2006, BERT has an installed electricity generation capacity of 410 MW and heat generation capacity of 1,527 TWth in its three main power plants BERT markets most of the electricity generated by its power plants to MVM (83%) through three "PPA" type supply contracts. The PPA of the Kelenföld power plant expires in 2011 and those of the Újpest and Kispeszt power plants expire in 2021 and 2024, respectively. As in Poland, those three PPA are being formally investigated by the European Commission as are all the PPA of Hungarian producers. BERT filed an appeal before the Court of first instance of the European Union disputing the legal basis of the opening of a formal



enquiry by the European Commission. A failure of his appeal would have the same consequences as described in the section 6.3.1.4.5.1 ("Poland").

- Demasz is held at 100% by the EDF Group as of December 31, 2006. This electricity distribution and supply company of the south-east of Hungary (19.6% of its territory) supplied 764,908 customers in 2006 — mainly residential customers, who will only become eligible on July 1, 2007. Démász has 30,313 km of low and medium voltage power lines. The Démász group marketed 4.3 TWh of electricity in 2006, or approximately 11.5%, of total marketed electricity in Hungary.

The EDF Group has filed with the competent stock exchange authorities a preliminary takeover bid on the remaining share capital of Demasz at 20 000 Forints per share, namely a premium of 22% with regard to the average price of the last 12 months, and a premium of 30% with regard to the closing price of Tuesday August 22, 2007, the day before the half of trading over Demasz' shares. On November 13, 2006, the takeover bid, the period of acceptance of which began September 25, was successfully completed. Thus, the EDF Group raised its shareholding in the Hungarian subsidiary to 95% of Demasz's share capital. The purchase price of the supplemental shares of Demasz acquired through the takeover bid carried out in the second half of 2006 amounted to €112 million (see note 6 to the consolidated financial statements for year ended December 31, 2006). The crossing of threshold of 90% of shareholding has permitted to buy back all the remaining Demasz shares (except the *golden share* of the Hungarian State). The delisting of Demasz shares from the Budapest stock exchange was done on December 1, 2006. On December 31, 2006, the EDF Group held 99.99% of Demasz's share capital.

- D-ENERGIA. In 2003, Demasz set up D-ENERGIA, now a wholly-owned subsidiary of Démász, responsible for supplying electricity to eligible customers who opted for the free market.

EnBW also holds the following minority holdings in the country:

- 21.7% of the supplier Matrai (held by RWE at 51%), which had an installed capacity of 836 MW in 2006 (Source: EnBW and RWE 2006 annual reports); and
- 27.25% of the distributor ELMŰ, held at 55% by RWE (ELMU serves an area of more than two million inhabitants) and 26.83% of the EMASZ distributor, held at 54% by RWE (Source: EnBW and RWE 2006 annual reports).

### 6.3.1.4.5.3 Slovakia

#### The EDF Group's activities in Slovakia

The Group operates in Slovakia through a 49% holding in the distribution and supply company, Stredoslovenská Energetika, a.s. ("SSE"), based in the center of Slovakia (province of Žilina), which covers approximately one-third of the country's territory. SSE has 29,487 km of low and medium-voltage power lines. As of December 31, 2006, SSE had approximately 695,857 customers representing 6.3 TWh, i.e., approximately 30%, of the Slovak market.

In accordance with the shareholders' agreement entered into on June 25, 2002 with the Slovak National Property Fund, the EDF Group names three of the five members of the SSE Executive Board, including the Chairman and has one representative among the nine members of the supervisory board. At the shareholders' meeting, decisions are made unanimously by the two shareholders.

Within the context of the continuing privatization process, the aforementioned shareholders' agreement gives the Group a preemption right over 2% of SSE's shares and gives the Slovak National Property Fund a put option which it can exercise against the Group for 18% to 51% of SSE's share capital at an exercise price which will be determined by an independent expert. This put option may be exercised until October 31, 2008. The privatization process that should have taken place in 2006 has been postponed by the new government.

### 6.3.1.4.5.4 Czech Republic

#### The EDF Group's activities in the Czech Republic

The Group operates in electricity generation and distribution in the Czech Republic through EnBW minority holdings in PRE-Holding and PT Holding, respectively, the electricity distribution, and the heat distribution companies of the city of Prague.

## 6.3.2 Latin America and the United States

### Presence of the EDF Group in Latin America

During the years 2005 and 2006 the EDF Group has implemented a policy of withdrawal from the companies located in Latin America in which it had shareholdings.

### 6.3.2.1 Argentina

#### 6.3.2.1.1 Edenor

##### Sale of Edenor

The Group disposed of its control of Edenor on September 15, 2005, for an amount of \$100 million by selling its indirect holdings through EASA and a portion of its direct holdings in Edenor to Dolphin Energia S.A. ("Dolphin").

Following this sale, the EDF Group held 25% of the share capital and the voting rights of Edenor. In connection with the contemplated listing of Edenor on the New York and Buenos Aires stock exchange markets currently in progress, EDF contemplates the sale of the remainder of its shareholding in Edenor's share capital.

#### Edenor's business in Argentina

Edenor is a company operating an electricity distribution and supply business over a concession area of 4,637 km<sup>2</sup>. With over 2.4 million customers by December 31, 2006, representing 16.6 TWh in sales over the financial year, Edenor is the country's leading distributor.

#### Governance

According to the shareholders' agreement entered into by the EDF Group, Dolphin and EASA on September 15, 2005, as long as the EDF Group's holdings in Edenor's share capital remains above 15%, (i) the EDF Group may appoint two out of the 9 directors of Edenor's Board of Directors and (ii) all decisions diluting the EDF Group's holding in Edenor, as well as certain specific decisions (including amendment to the by-laws, sale of a significant portion of Edenor's assets, and merger, acquisition or execution of any contract worth more than \$50 million), are subject to the EDF Group's prior written consent.

#### Sales of Edenor's shares — call and put options

According to the shareholders' agreement, the EDF Group will benefit from, in the event that Dolphin plans to sell its holding in Edenor to a third party, the possibility of selling its holding in the company according to the same terms and conditions (tag-along). The EDF Group also benefits from a put option over its shareholding in

Edenor against Dolphin, which may be exercised at any time between April 1, 2013 and April 30, 2014. In addition, the EDF Group has, under certain conditions and, in particular, in the event that Dolphin does not fulfill certain of its obligations (particularly in the event of non-payment if EDF exercises its put option described below), the right to force Dolphin to sell its holding in Edenor to a third party (drag-along). In such a case, the EDF Group shall have the right to sell its holdings to that third party on the same terms and conditions. Dolphin also has a call option on the EDF Group's holding in Edenor, which may be exercised at any time between April 1, 2015 and April 30, 2015 and between April 1, 2016 and April 30, 2016.

#### Agreement relating to Edenor's debt entered into between the EDF Group and Dolphin

According to the terms of the agreement related to Edenor's debt entered into by the EDF Group and Dolphin, the parties undertook to conduct a renegotiation process for Edenor's debt.

At the end of 2005, Edenor decided on a plan for the restructuring of its debt, which was accepted by more than 90% of its creditors in February 2006. According to the agreements entered into by Dolphin, the Edenor claim held by EDF was restructured in April 2006 and assigned on November 21, 2006.

#### 6.3.2.1.2 Other minority shareholdings in Argentina

As of December 31, 2006, the EDF Group has indirect minority shareholdings in Distrocuyo, an electricity transmission company handling 7% of the electricity transmission business in Argentina.

On October 18, 2006, the EDF Group sold its indirect shareholdings in Hiniisia and Hidisia to the Argentinean company Pampa Holding S.A. for an amount of \$36.1 million.

### 6.3.2.2 Brazil

#### 6.3.2.2.1 Light

##### Sale of Light

On March 28, 2006, EDF entered into an agreement with the Brazilian RME companies' consortium (Rio Minas Energia Participações SA) concerning the sale of 79.4% of Light's share capital for \$320 million. This sale obtained the authorization of the competent French and Brazilian authorities. Following the completion of this sale, which occurred on August 10, 2006, EDF kept 10 % of the share capital of Light, and the remainder share capital, 10.6 %, being on the Brazilian stock exchange.

##### Light's activities

Light carries out an electricity generation, distribution, and supply business. It is located in the State of Rio de Janeiro covering a concession area of 10,970 km<sup>2</sup> and serves 31 towns (including Rio de Janeiro). Light also owns generation assets (mostly hydropower) with an installed capacity of 852 MW (i.e., 1% of the power available in Brazil).

#### 6.3.2.2.2 Norte-Fluminense

The EDF Group owns 90% of Norte-Fluminense, the company which built and now operates the combined-cycle gas turbine at Norte-Fluminense in the State of Rio de Janeiro. This power plant has a capacity of 780 MW. Norte-Fluminense sells all of its generation to Light under a power purchase agreement (PPA).

### 6.3.2.3 Mexico

The Group has had a presence in Mexico through independent electricity generation projects (Independent Power Plants, or "IPPs"). Participating in combined-cycle gas IPP projects has allowed the Group to bring its expertise as an architect-assembler and operator to this type of power plant.

With an installed capacity of 2,232 MW corresponding to 25% of the private generation sector (Source: EDF), the Group constitutes today one of the leading foreign actors in the market.

#### IPPs

The Group's IPPs were exclusively implemented, following international invitations to tender, as BOO (Build, Own, Operate) and BOOT (Build, Own, Operate, Transfer) projects, backed by PPAs (Power Purchase Agreements).

The EDF Group has key skills to optimize the yield from its IPP projects, for example, construction engineering, operation/maintenance, network analysis capability, legal and contractual engineering, management of fuel supplies, financial engineering and project monitoring.

The EDF Group intends to carry out a dynamic portfolio management of IPP assets: sales depending on industrial and financial maturity of the assets and development of new projects.

#### The EDF Group's activities in Mexico

The EDF Group owns the following combined-cycle gas turbines:

- *Rio Bravo 2*: capacity of 495 MW, commissioned in January 2002;
- *Saltillo*: capacity of 247 MW, commissioned in November 2001;
- *Altamira 2* (power plant owned at 51% by EDF and at 49% by the Mitsubishi Corporation): capacity of 495 MW, commissioned in May 2002; and
- *Rio Bravo 3 and Rio Bravo 4*: capacities of 495 MW and 500 MW, respectively, entered into service in April 2004 and in April 2005.

To guarantee gas supplies to the Rio Bravo 3 and Rio Bravo 4 power plants, the EDF Group created, in February 2002, Gasoducto del Rio, which built and operated a gas pipeline with a length of 54 km. This integrated gas-electricity project was the first project of this type for EDF at an international level.

EDF initiated, by mid-January 2007, the sales process of its assets in Mexico.

### 6.3.2.4 United States of America

The United States is the largest energy market in the world, with total sales of 3,661 TWh (source: Energy Information Administration, 2005) and an historical average growth rate of 2.3% per year which tends to increase. It is also an extremely innovative market in the energy field, with large-scale research and development activity, both upstream and downstream, where numerous international groups and organizations have their headquarters and where a number of EDF's competitors are present.

Accordingly, the EDF Group is present in the United States to carry out an industrial and strategic monitoring activity. In addition, since the *Energy Policy Act* ("EPACT") was voted in 2005, several projects of new nuclear power plants have been developed by leading

American energetic companies. In this context, the EDF Group could seize opportunities to take advantage of its competence as an architect - assembler and nuclear operator.

Thus, EDF participated in the formation of the NuStart Energy Development LLC consortium, set up in March 2004, which includes the major nuclear energy companies (Constellation Energy, Duke Power, Entergy, Exelon Generation, Florida Power & Light, Progress Energy and Southern Company) and constructors (General Electric, Westinghouse). The aim of the project is to launch and develop nuclear energy in the United States by 2014, by working on two "passive" reactor projects, Westinghouse's AP 1000 (Advanced Passive 1000 MW Reactor) and General Electric's ESBWR (Economic Simplified Boiling Water Reactor). Through its shareholding, EDF will be able to obtain additional information, technical and economical, on these new generation reactors, which may be available on the market during the renewal program of the French nuclear power plants. Participation in this project will result in EDF's spending \$1 million per year over five years (from 2004 to 2008).

On May 31, 2006, EDF has entered into a cooperation master agreement with the American electrician Constellation Energy. In accordance with this agreement, the two companies have to define the terms and conditions under which EDF will bring to Constellation Generation Group (CGG), subsidiary of Constellation Energy, a package of services in order to allow it to develop new generation of nuclear power plants, such as EPR, in the United States of America. EDF and Constellation Energy also agreed to explore other cooperation possibilities in the nuclear field in the United States of America.

The Group is also present in the United States through EDF Energies Nouvelles in the wind farm operating and maintenance sector on behalf of third parties (see Section 6.4.1.2.1.1 ("New energies") below).

### 6.3.3 Asia/Pacific

The EDF Group's activities managed by the Asia-Pacific Division mainly focus on China and the great Mekong area, both significant growth areas where EDF wishes to consolidate and continue its investments.

Accordingly, by 2020, most of the world's power plants will be built in Asia (source: International Energy Outlook 2006) which justifies EDF's presence in this area.

Thanks to its presence in China and in south-east Asia over the last 20 years and to the development of its relational networks at the industrial and institutional levels, EDF is willing to seize the opportunities to participate in the region's growth and to take an active part in such development projects in order to take advantage of its expertise both in the nuclear energy sector and in other generation technologies.

#### 6.3.3.1 China

##### 6.3.3.1.1 Strategic rationale for EDF's presence in China

###### The interest to the EDF Group of its presence in China

An industrial presence in Chinese growth is an industrial challenge for the EDF Group. EDF believes that its economic effectiveness in its role of architect-assembler results from its industrial skills in terms of the design, construction and operation of its range of power plants, described in Section 6.2.1.1.3 ("Nuclear generation"). This expertise

stems from a dynamic process which is fueled in practice by innovative projects. In addition to French projects such as the EPR, new projects will allow the EDF Group's technological advances to be maintained: EDF's industrial presence in China will allow it, against the backdrop of the French power plant renewal program, to take part in technological innovations and to develop its industrial expertise in future decades, while limiting its financial investments as much as possible.

With this in mind, EDF develops partnerships in order to acquire stakes in certain generation assets.

##### The EDF Group's strengths for developing its presence in China

EDF believes that its presence in China over the past 20 years has given it the opportunity to participate in this country's electricity development in accordance with the Group's commitments to sustainable development and in accordance with the objectives announced by the Chinese government of a more abundant generation with progressively less pollution. EDF's opinion is that Chinese generators will search for partners with industrial skills and international experience to build long-term industrial partnerships.

##### 6.3.3.1.2 The EDF Group's activities in China

With its stakes in companies operating coal-fired power plants with a total installed capacity of 3,720 MW, EDF is one of the leading foreign investors in electricity generation in China. The EDF Group has also entered into partnerships agreements which open perspectives in order to take part in developments in nuclear, coal-fired and hydropower technologies in the different technological options available.

###### Partnerships in nuclear energy generation

###### • Daya Bay

From 1984 to 1994, EDF directed, on behalf of the owner company, the construction and commissioning of two pressurized water reactors with a power of 1,000 MW, using its engineering expertise. When the site was at its busiest, almost 100 EDF employees were in China working on this project. The high level of performance achieved by this power plant constitutes the Group's main achievement in China. EDF is participating in the operation of this power plant through technical service and technology transfer agreements.

###### • Ling Ao

Ling Ao, a power plant identical to that at Daya Bay, is follow-on to the latter: several French engineers from EDF assist and advise the local operators responsible for the construction and operation of units, commissioned in May 2002 and January 2003. In July 2004, the Chinese government approved two supplementary units of 1,000 MW, each one on the Ling Ao site with an expected commissioning by 2010. In this context, EDF signed a new servicing agreement with China Nuclear Power Energy Corporation (CNNPC) on April 21, 2005, for a projected amount of €25 million and an expected commissioning date of 2010. Other one-off operations regularly associate EDF and Chinese nuclear power plant operators.

###### • Industrial partnership

On the October 26, 2006, the EDF Group entered into an industrial partnership agreement with CGNPC (China Guangdong National Power Co.) which extends the cooperation between the two partners in the nuclear field, in which EDF is willing to invest, by associating the expertise of all French operators in this field.

## Stakes in coal fossil-fired electricity generation

In 2006, thermal coal represented 75% of the installed capacity of China and is expected to represent the majority of it even if it is decreasing (65 % in 2020 (source: Capgemini Investment in China power market)) when compared to the acceleration of the nuclear, hydropower and wind programs.

The EDF Group is present in this sector through a number of coal-fired power plants with a total capacity of 3,720 MW (1,300 MW in proportion to the shareholding), the Laibin B thermal power plant and the three power plants of Shandong Zhonghua Power Company ("SZPC").

### • Laibin B

In 1997, EDF entered into a "BOT" (Build, Operate and Transfer) project for the design, construction, testing, commissioning, operation and maintenance of the Laibin B power plant (720 MW) located in Guangxi. As of December 31, 2006, French Investment Guangxi Laibin Electric Power Company, Ltd. ("FIGLEC"), a wholly-owned subsidiary of the EDF Group, owns the Laibin B power plant and Guangxi Laibin Synergie Operating Maintenance for Generation Co. Ltd. ("SYNERGIE"), an 85%-owned subsidiary of the EDF Group, is responsible for operation and maintenance. The remaining 15% is owned by the Guangxi province and the transmission company. Commissioned in November 2000, Laibin B supplied 10% of the annual electricity generation for the Guangxi province in 2006 (source: National and Development Reform Commission, or NDRC). In 2015, after 15 years of operation, the ownership of Laibin B will be transferred to the government of Guangxi.

### • Shandong Zhonghua Power Company (SZPC)

As of December 31, 2006, the EDF Group owns 19.6% of SZPC, which owns three coal- and anthracite-fired power plants with a total capacity of 3,000 MW. These power plants, commissioned between 1987 and 2004, operate according to the independent power plant model (IPP) (for a general description of the implementation of IPP's programs in foreign countries by the EDF Group, see section 6.3.2.3 ("Mexico")). SZPC is legally bound to transfer each of the power plants to the government of the Shandong province 20 years after receiving the second unit for each of the power plants.

### • Recent developments

To limit the effects on the environment, China is developing high-yield coal-fired power plants which generate less pollution. For the EDF Group, this involves relying on its skills in engineering, taking part in these projects to consolidate and develop its experience in order to be able to fulfill the needs that could emerge in Europe in the future.

On the October 26, 2006 EDF entered into a cooperation agreement with China Datang Corporation (CDC), the national leader of electricity generation, for a joint development of investment projects.

## Stakes in gas field

### • Buget

As of December 31, 2006, EDF held a 20% stake in Buget, a design, construction and consultancy company in the gas-fired heating field. The other shareholders are Gaz de France (20%), Golden State (20%) and Beijing Gas Group (BGG) (40%).

## Partnerships in hydropower generation

Present since 1985 in this field, EDF has become a recognized operator, as a result of its multiples operations on different sites:

- in pumped storage power plants (*Stations de Transfert d'Énergie par Pompage*, or "STEP"), Conghua (1,200 MW), Zhang Hewan (1,000 MW), etc.
- in equipment manufacturing quality control, technical expertise in dams: dam of the Three-Throats (22,400 MW), Longtan (6,300 MW), etc.
- in valley management: Yellow River and Lancang Jiang.

In accordance with the partnerships agreements signed with major production companies, the EDF Group is examining certain investment possibilities.

## Other partnerships and prospects

At the beginning of 2006, China promulgated a law on renewable energies, which has led EDF to conduct an analysis of the emergent wind-power sector.

In the transport/distribution sector, EDF has won several consulting tenders and has thus reinforced its position in this segment which is not yet opened to foreign investors.

## 6.3.3.2 The EDF Group's activities in the rest of southeast Asia

The EDF Group's businesses in southeast Asia are focused on the electrification of the "Grand Mékong" region.

### 6.3.3.2.1 The interest to the EDF Group of its presence

An economic and electric exchange area is being created within the region of the "Grand Mékong". Thailand and Vietnam are the drivers of this integration and can offer IPP type opportunities in the continuity of the Nam Theun 2 and Phu My 2.2 projects. The EDF Group estimates that the installed capacity in the Greater Mekong area, 36 GW, will be increased by 30 GW between now and 2015. In this context, EDF intends to participate, by means of partnerships and services agreements, in the design, building support, and operation of the new generation plants, and to acquire interest in certain thermal (Vietnam and Thailand) and hydropower, and on the long term, nuclear generation assets.

### 6.3.3.2.2 EDF Business

#### 6.3.3.2.2.1 Vietnam

The EDF Group is present in Vietnam through its shareholding in the Phu My 2.2 combined-cycle gas turbine project, with a generation capacity of 715 MW, which was commissioned on February 4, 2005. This is the first IPP project exclusively financed by foreign investments in Vietnam. The "BOT" agreement is for a 20-year term. This power plant is owned by MECO (Mekong Energy Company Ltd), a subsidiary in which the EDF Group had a 56.25% holding as of December 31, 2006. The other shareholders as of December 31, 2006 were the international subsidiaries of the Japanese companies SUMITOMO Corporation and TEPCO (Tokyo Electric Power Corporation, Inc). The EDF Group ensured the plant's construction and turn-key delivery. EDF and TEPCO are also providing technical assistance for the operating phase.

In order to fulfill the needs for new generation methods in the south of the country, EDF has shown its interest to the Vietnamese authorities to duplicate Phu My 2.2 and develop Coal projects. EDF is interested in opportunities that could allow it to implement the most advanced technologies.

### 6.3.3.2.2 Laos

The EDF Group is present in Laos through the Nam Theun 2 hydropower power plant project, with a generation capacity of 1,070 MW. Located on a tributary of the Mekong, this hydroelectric project, with a dam capable of holding back an area of water almost 450 km<sup>2</sup>, is a major project for the development of Laos and for supplying energy in northeast Thailand. Commercial commissioning of the project is expected at the end of 2009. Thailand will be the main purchaser of the electricity generated. As of December 31, 2006, EDF owns 35% of NTPC (Nam Theun 2 Power Company), the company that owns the future power plant. On October 3, 2002, this company entered into a "BOT" concession agreement with the government of Laos, in order to finance and build the hydroelectric facility, then to operate it for 25 years after its commissioning. The purchase agreements for the electricity to be generated by this power plant (995 MW to Thailand, the remainder to Laos) were signed on November 8, 2003 and the financing of the project was completed on June 10, 2005. In addition, the EDF Group is leading the consortium, of which it is a member, which manages the construction of the installations (contract for a total sum of approximately \$720 million paid to the consortium) and will supply technical assistance with the operation of the power plant.

Laos holds particular role in EDF's strategy due to its hydroelectric potential and its geographical position at the very center of the economical exchange area of Vietnam, southern China and Thailand, all countries to which Laos exports electricity.

On the November 16, 2006 the EDF Group entered into an agreement with the Laos Government on a feasibility study of the Nam Ngiep 2 hydropower project.

## 6.3.4 Middle East, Africa

Various countries have invited private investors to finance, build and operate independent power plants (IPPs), including the countries of North Africa, the Gulf countries and some African countries (for a general description of the implementation by the EDF Group of IPP's programs in foreign countries, see section 6.3.2.3 ("Mexico")). The Group is currently present in the generation market in two countries which have changed their legislation to incorporate IPPs: the Ivory Coast and Morocco.

The Group is seeking to make the best use of its assets and to manage them effectively, a strategy that may lead to sales, as it is the case in Egypt, or to the launch of new projects, as applicable.

### 6.3.4.1 Egypt

On November 29, 2005, EDF International entered into an agreement with the Malaysian group Tanjong Energy for the sale of 100% of the Group's assets in Egypt. The transaction amounted to \$307 million and was completed on March 2, 2006.

### 6.3.4.2 Ivory Coast

As of December 31, 2006, EDF indirectly holds 32.85% of the owner company (Azito Energie) and directly holds 50% of the operating company for the Azito power plant (Azito O&M). Located near Abidjan, the power plant is comprised of two gas turbines, each with a total capacity of 150 MW, fueled by natural gas from the Ivory Coast itself. It supplied 2,174 GWh of electricity in 2006, i.e., 40% of the national generation. All generation is sold back to the national Ivory Coast operator, which has satisfied its contractual obligations since the start of commercial operations of the power plant in 1999.

EDF owns 51% of Enerci. This company has a 12 % holding in the joint venture that operates the Ivory Coast's largest gas field, Foxtrot (53% of Ivory Coast generation in 2005 with an average annual production of 82 mpc per day). This gas field is one of the traditional suppliers of the Azito power plant. In November 2005, an exploration revealed the presence in the same area of a new exploitable gas deposit in Mahi, located 5 km to the south of the Foxtrot platform.

### 6.3.4.3 Morocco

As of December 31, 2006, the Group owned a shareholding of 84.5% in the Compagnie Eolienne du Détroit ("CED" — Detroit Wind Company) in Morocco which operates a wind power facility in northern Morocco, as well as a shareholding of 50% in Temasol, a company in the photovoltaics solar power electrification business.

### 6.3.4.4 South Africa

As of December 31, 2006, EDF is a 50% shareholder, with Eskom, in the PNES (Phambili Nombane) company, responsible for the construction, development and operation of the electricity distribution network in the township of Khayelitsha.

### 6.3.4.5 Services Activities

In addition to the IPP business, EDF has a consultancy services business in the Middle East and Africa.

Consultancy services present several challenges for EDF:

- developing, in an international context, expertise in a certain number of specific fields (hydropower generation, dispatching, network planning);
- maintaining a presence in regions which could present an interest to the Group without making investments (as in the countries around the Mediterranean sea, where the interest is strategic for the Group in terms of access to gas resources); and
- maintaining a close relationship with electricity companies in southern countries.

EDF maintains a stronger presence in the following countries and areas:

- Abu Dhabi: dispatching engineering, studies to interconnect the Emirates, IPP technical integration;
- Lebanon: technical assistance in the construction of fossil-fired power plants, hydroelectric installations, networks and other advice (organization, pricing study, etc.);
- Africa: technical assistance, training.



## ➔ 6.4 - OTHER ACTIVITIES AND TRANSVERSE FUNCTIONS

### 6.4.1 Other activities

#### 6.4.1.1 The EDF Group's energy-related services

To respond to the changing industrial, service and public markets (customers' increasing needs concerning economic performance, improvements in energy efficiency, environmental issues) and to strengthen its relations with its customers within each of these sectors, EDF considers energy-related services as an important component of its business model. The Group currently operates in the energy-related services market, mainly through its holdings in the Dalkia group (the European leader in this sector) and through its own services business and those of EnBW Energy Solutions in Germany, EDF Energy in the United Kingdom and Fenice in Italy.

##### 6.4.1.1.1 Introduction to energy-related services

The EDF Group is able to offer its industrial, service sector and local authority customers in Europe an extensive and coherent range of energy-related services over and above regular energy supply:

- services linked directly to energy supply: consumption monitoring, assistance optimizing consumption, installation quality audit, advice on consumption control;
- services linked to an optimized operation of energy facilities on the customers' sites (industrial facilities, electrical networks, thermal management of buildings, facility management), based in particular on Dalkia's expertise;
- specific services for local authorities, either in connection with their own use, or intended for the local population within the framework of delegated public services: managing street lighting, waste incineration;
- in addition, in order to face the increasing energy efficiency challenges, EDF supplements its offer with integrated energy eco-efficiency solutions whereby it guarantees the quality of the energy supplied and/or the reduction in energy consumption on its customers' sites by using efficient technology and renewable sources of energy.

The energy-related services market includes important features, such as contracts generally with terms of several years, the availability of personnel on the customer's site or recovery of its employees. Each offer is matched to the customer's specific needs and the features of the site and often requires the assistance of partners and subcontractors. The energy-related services business also relies on various skills in financial and corporate engineering.

##### 6.4.1.1.2 The energy-related services market

In France the potential market for outsourced energy-related services is estimated to be worth €30 billion per year (not including energy supplies) (source: Boston Consulting Group). This market is experiencing strong growth, increasing by 10% each year (source: Frost and Sullivan).

EDF believes that this trend should continue, due to the increasing demand of industrial, service sector and local authority customers to optimize their energy consumption. This concern corresponds to the

increasing demand for savings and performance from their facilities as well as to regulatory and legislative restrictions such as the European directive relating to services, the law concerning the energy sector in France and the European regulation relating to CO<sub>2</sub> quotas.

The major international energy groups competing with the EDF Group are also developing a services business through specific subsidiaries. These principal competitors are: Suez with its Elyo subsidiary and Gaz de France with its Cofatech subsidiary.

##### 6.4.1.1.3 Strategic interest of energy-related services for the EDF Group

Developing the Group's energy-related services business will allow it to:

- improve its customer relations in order to promote customer loyalty by offering them a comprehensive energy solution;
- develop a new business complementing its energy sales business.

##### 6.4.1.1.4 Dalkia

Leader in the European market for energy-related services, Dalkia total sales amounted to €6,107 million in 2005 (managed scope: 100% of sales by Dalkia and its subsidiaries) (source: Dalkia Annual report 2005). Dalkia offers a complete range of services with excellent commercial coverage in France and a strong presence in Europe.

##### Dalkia's business

Dalkia's business is based on optimized energy management. Dalkia has gradually offered a range of activities around energy management: heat and cold networks, thermal and multi-technical services, industrial facilities, set up and maintenance of production equipments, integrated services of global buildings management and electric services on the public way. Dalkia encourages the use of renewable energy sources and alternative energy sources such as cogeneration, bio-mass, heat produced by the incineration of household waste, heat recovered during industrial processes or geothermal energy.

##### Details of EDF's holding in the Dalkia's holding company

As of December 31, 2006, EDF held 34% of the share capital and voting rights of the Dalkia's holding company, created as a French *société par actions simplifiée* ("SAS"). The EDF Group has held this interest since December 2000, after having carried out various transactions, including the contribution in kind of some of its energy-related services subsidiaries to Dalkia. The remainder of Dalkia's share capital (66%) is held by Veolia Environnement, a company listed on Euronext's Eurolist and on the NYSE. EDF held 4% of the share capital of this company as of December 31, 2006.

##### Shareholders' agreement

The shareholders' agreement between EDF and Veolia Environment, entered into on December 4, 2000, and as amended on April 19, 2005, contains a change-of-control provision under which each party has the right to purchase the other's entire stake in Dalkia if the other was to be controlled by a third-party competitor. It also grants each party a right of preemption if Dalkia securities were to be sold to another purchaser.



### 6.4.1.2 Holdings and New Business Division (Direction des Participations et des Activités Nouvelles, or "DP&AN")

The Holdings and New Business Division (*Direction des Participations et des Activités Nouvelles*, or "DP&AN") is responsible for developing new business for EDF. It is therefore responsible for two innovative business programs linked to sustainable development (Business Innovation and Electric Transportation), as well as managing the holdings owned by EDF in companies developing new businesses. These holdings are, for the most part, owned through the EDEV holding company. Furthermore, the EDEV holding company owns, for historic reasons, stakes in companies that operate in EDF's conventional business sectors (electricity generation and distribution).

In connection with carrying out its business, the DP&AN has a Commitments Committee which authorizes or gives its opinion on investment projects that are in its field of competence.

#### 6.4.1.2.1 New businesses

##### 6.4.1.2.1.1 New energies

The development of renewable energy sources has become a reality in Europe and in the United States: in 2006, 7,588 MW of wind power were installed in the European Union (source: Ewea) and 2,454 MW of wind power were installed in the United States (source: Awea). The combined installed of wind power in these two areas now amounts to 60,000 MW wind power and more than 70,000 MW worldwide. This development concerns wind power to a considerable extent, with biomass in second place and solar power being seen as a future growth area which is already gaining importance. Hydropower has reached saturation in these countries.

The EDF Group is the European leader in renewable energies, as a result of its hydropower. The EDF Group's ambition is to develop all forms of renewable energy and, in particular, wind power generation. EDF also intends to favor the emergence of new technologies in conjunction with R&D and to develop generation capacities in "Wind power", "Hydropower", "Solar", "Biomass", "Biofuels" and "Geothermal" channels. This process is in line with the Group's sustainable development policy (see Section 6.4.3.1 ("Main stages of the Group's sustainable development policy")).

##### 6.4.1.2.1.2 EDF Energies Nouvelles

EDF's development of renewable energy sources is undertaken mainly by EDF Energies Nouvelles (formerly SIIF-Energies).

#### History of EDF Group's shareholding in EDF Energies Nouvelles

In October 2000, EDF acquired a 35% stake in the share capital of SIIF-Energies, a company incorporated in 1990 in order to operate thermal and hydroelectric power plants. In December 2002, EDF raised its holding to 50%.

EDF Energies Nouvelles initial public offering took place in November 2006. EDF Energies Nouvelles initial public offering prospectus was registered with the AMF on September 22, 2006 under no. I.06-148 and the offering circular (*note d'opération*) received the AMF visa no. 06-0404 on November 13, 2006. Its shares were listed on Euronext Paris S.A.'s Eurolist on November 28, 2006. Following the

initial public offering, the share capital of EDF Energies Nouvelles breaks down as follows: 50.00% is held by EDF, 25.09% by the Mouratoglou Group and 24.91% are held by the public (including employees).

In order to organize their relation following the initial public offering, EDF Energies Nouvelles, the EDF Group and Pâris Mouratoglou entered into a shareholders' agreement that settles the EDF Energies Nouvelles company project, determines Board of Directors seats' breakdown, corporate governance rules and liabilities related to the transfer by Pâris Mouratoglou and SIIF Luxembourg (the "Mouratoglou Group") of all or part of their shares of EDF Energies Nouvelles. The provisions of the shareholders' agreement came into force the same day as the EDF Energies Nouvelles's shares became listed on the Euronext Paris' Eurolist.

Under the terms and conditions of the shareholders' agreement and of the agreement entered into on July 2006, the EDF Group has a preemptive right if the Mouratoglou Group was to transfer part or all of its shareholding to an identified third party. Moreover, if the Mouratoglou Group was to hold less than 10% of the share capital of EDF Energies Nouvelles (following the initial public offering), the shareholders' agreement provides that the Mouratoglou Group can make the EDF Group purchase the remaining of its shareholding through a put option. Similarly, if the Mouratoglou Group does not exercise the put option, the EDF Group can buy the Mouratoglou Group's remaining shareholding in EDF Energies Nouvelles through a call option. Finally, M. Pâris Mouratoglou committed himself, under the shareholders' agreement, not to carry out any business, directly or indirectly through a subsidiary, that could be in competition with the business of EDF Energies Nouvelles and its subsidiaries, on the French territory as well as in any country where the company carries or will carry out a business.

Due to the existence of this shareholders' agreement, the EDF and Mouratoglou Group have filed a declaration with the AMF, on November 13, 2006, stating that they were acting in concert with respect to EDF Energies Nouvelles.

In addition, the Mouratoglou Group and the EDF Group entered into an agreement, on July 17, 2006, in order to acknowledge the completion of several sales of EDF Energies Nouvelles' shares and to state certain provisions in connection with the initial public offering. Call and put options provided for in the shareholders' agreement were also included in this agreement. An amendment of this agreement was entered into on November 10, 2006, in order to, notably, reflect the division by ten of EDF Energies Nouvelles' shares' par value, as decided by the extraordinary shareholders' meeting held in September 18, 2006.

According to these agreements, the financial commitments remain allocated to the EDF Group due to the sale of EDF Energies Nouvelles' shares by the Mouratoglou Group to the EDF Group, which took place at the same time as the initial public offering, in order to allow the EDF Group to maintain its shareholding at 50 %. In addition, the sale price being subject to the future evolution of the share market price of EDF Energies Nouvelles' shares, as provided for in the agreements entered into on July 17, 2006, this sale price could be readjusted in rise or fall, depending on the future evolution of the market price of the shares of the company. (see note 33 to the consolidated financial statements as of December 31, 2006).

### EDF Energies Nouvelles activities

EDF Energies Nouvelles carries out several activities:

- development, construction and operation of electricity generation assets, mainly from renewable energy sources;
- sales to third parties of electricity generation assets from renewable energy sources which it has developed and built; and
- operation and maintenance of wind farms on behalf of third parties and on its behalf mainly in the United States.

EDF Energies Nouvelles is present in European countries that have a strong development potential on renewable sources of energy, especially wind power (France, Portugal, Greece, the United Kingdom and Italy), as well as in the United States. EDF Energies Nouvelles also carries out activities in Belgium, Spain, Germany and Bulgaria.

The following table sets forth the breakdown by country of the installed capacity of EDF Energies Nouvelles (including all subsidiaries) as of December 31, 2006:

Installed capacity as of December 31, 2006	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
France	162	120
Portugal	144	87
Greece	75	74
United Kingdom	79	79
United States	438	306
Others	139	104
<b>TOTAL</b>	<b>1,037</b>	<b>770</b>
Italy <sup>(3)</sup>	92	44

(1) Total capacity of the facilities in which EDF Energies Nouvelles is a shareholder.

(2) Capacity corresponding to the stake of share capital held by EDF Energies Nouvelles.

(3) Facilities developed by EDF Energies Nouvelles and held by EDF Energies Nouvelles Group's shareholders.

The majority of projects being built and developed relates to the land-based wind power channel.

Besides wind power, EDF Energies Nouvelles also carries out hydropower (with 128 MW gross installed as of December 31, 2006), Biomass, with 26 MW gross installed as of December, 31 2006 and thermal and photovoltaic solar activities. EDF Energies Nouvelles also operates, within the framework of its historical activity, thermal and cogeneration power plants (69.5 MW gross installed as of December 31, 2006).

During the 2006 financial year, the main wind power projects launched were the following: Fenlands in the United-Kingdom (44 MW), Centro (40 MW) and Arga (36 MW) in Portugal; Didimon (36 MW), Rovas (9 MW) and Profitis Ilias (30 MW) in Greece; in the United States: Hawi (11 MW), enXco 5 repowering (9 MW) and Spearville (100.5 MW, build on behalf of third party), and in France: Lou Paou (14 MW) and Longue Epine, Frayssenet, Fécamp, St Martin des Besaces (total of 30.5 MW build on behalf of third party). During the financial year, EDF Energies Nouvelles has also commissioned the second part (13 MW) of the Lucena biomass plant in Spain.

Through its development and marketing activities, EDF Energies Nouvelles has built a portfolio of projects totaling 10,000 MW in Europe and in the United States (in building, having or in the process of obtaining all the required authorizations). These projects have been subject to a rigorous financial and risk management selection procedure:

- choice of countries where financing resources can be found without resorting to shareholders and where an effective local partnership has been set up; and ;
- measurement of investment profitability.

In March 2007, EDF Energies Nouvelles announced the execution of a memorandum of understanding with Alcofinance, a company specialized in the supply of ethanol. It is planned that, following the reserved capital increase of €23 million, EDF Energies Nouvelles will hold 25 % of a newly created company gathering generation and supply activities of Alcofinance's ethanol. EDF Energies Nouvelles will be able to raise its shareholding to 50% within 24 months.

EDF Energies Nouvelles employed a workforce of approximately 449 as of December 31, 2006.

#### 6.4.1.2.1.3 Wind power

The wind turbine or aero-generator is a wind sensor, where the force of the wind drives rotor blades attached to an electrical generator. For one MW of installed capacity, the average annual electricity generation can vary from 2 to 4 GWh, depending on the quality of the site and the type of machines used. The investment amount is of approximately €1.3-1.5 million per MW.

The progress of the wind power has been particularly strong in Europe since 1997, with the adoption of the Kyoto protocol and the reinforcement, in some countries, of the support of electric generation through wind power.

In addition to strengths in the wind power sector, through EDF Energies Nouvelles, the EDF Group has skills which are spread over different entities, such as the Research and Development Division for technical monitoring and expertise and the Generation and Engineering Division for project management, engineering and contracting.

Finally, the subsidiaries of EDF Energy and mainly Edison also have wind farms in operation and projects in development.

The industrial base in operation as of December 31, 2006, including all subsidiaries amounted to more than 1,300 MW of assets owned by project companies, in which the Group has an interest, whether controlling or not (over 800 MW held by EDF Energies Nouvelles).

The Group expects to achieve, alone or in partnership, an installed capacity of approximately 3,300 MW by 2010. The key geographical areas for future developments are the United Kingdom and Italy, where there is a quota system, France, and the rest of Europe and the United States. The objective is to build critical masses in countries where the profitability figures are the most attractive.

#### 6.4.1.2.1.4 Solar power

Photovoltaic solar power (electricity generation) is not the same as thermal solar power (heat production).

Photovoltaic panels were originally developed for independent applications which were not connected to electricity networks. In the last years, under the impetus of the renewable energy policies, the photovoltaic market, which is growing at the rate of 30 to 40% a year, has been developing mainly in the network-connected applications.

EDF Group controls 50% of the Tenesol group, jointly with Total, which manufactures and markets photovoltaic systems around the world.

In South Africa, Morocco and Mali, EDF is present in rural electricity companies which aim to install photovoltaic kits in more than 80,000 dwellings.

Confronted to the two major challenges of the photovoltaic, which are the sourcing of silicon of photovoltaic quality and the reduction of its cost, EDF is investing in research on future technologies: new processes of silicon purification and the clarification of the corresponding photovoltaic cells, new processes of manufacturing photovoltaic modules and an ambitious R&D project for the development of photovoltaic technologies of the "thin film" type (the CISEL project) (see Chapter 11 ("Research and development policy, patents and licenses")).

Finally, the EDF Group, through both Eco-Alternative and Everbat, offers solutions using renewable energy sources to private and local authority customers. The objective is to position itself for future growth, through integrated residential, service sector and local authority packages based on photovoltaic cells, thermal solar power and heat pumps.

#### 6.4.1.2.1.5 Geothermal energy

The temperature of the rocks in the earth's crust increases with depth: on average, 3 degrees Celcius every 100 meters. In some regions of the globe, the earth's heat reaches the surface as heat sources, water or steam. Hot water is exploited directly as heat: central heating in dwellings or greenhouse heating. Steam extracted from beneath the ground is used in the generation of electricity: it drives a turbine as it does in an oil-fired and coal-fired power plant. It is also possible to use hot and dry rocks as a source of energy. Water is circulated between two wells bored into the ground: water poured into one of the wells is heated as it passes into the dry rocks and emerges as steam ("enthalpy").

There are high temperature resources in France's overseas departments. The EDF Group is present in this activity notably through its shareholding in the company *Géothermie Bouillante* (held at 40 %) in Guadeloupe.

#### 6.4.1.2.1.6 Biomass

Technologies based on biomass mainly consist of burning certain waste, in particular from the timber and farming industries, to produce heat or electricity.

Thus, in addition to hydropower, wind power and geothermal, biomass can also, to a lesser degree, contribute to the objective of developing renewable energy sources.

Through its holdings, notably in Dalkia, the EDF Group owns shares in France and abroad in several dozen heating systems and small size generating facilities which are mainly fueled with wood.

EDF Energies Nouvelles owns a plant in Spain (Lucena) of a capacity of 26 MW, of which 13 MW come from biomass and 13 MW come from cogeneration, and develops other projects in France and Italy.

#### 6.4.1.2.1.7 Other technologies

In anticipation of, and positioning itself for, new technological solutions, the EDF Group devotes significant resources to Research & Development areas which may prove to be vehicles for growth in the medium term: tidal energy (submarine turbines using the energy in marine currents, in the same way that wind generators use the energy from air currents) and biomass gasification, as well as areas that have already been discussed (thin film photovoltaic cells, deep geothermal).

### 6.4.1.2.2 Program of activities

#### Electric Vehicles and Transports Program

Through this program, EDF aims to be the reference partner to local authorities and companies for sustainable development through "clean transportation", while at the same time developing profitable activities for the Group as well as electricity sales.

With this program, EDF is notably developing new transportation energy supply technologies (development of high density batteries). This program is being implemented, with support from R&D and with the cooperation of the Business Division, notably by means of industrial partnerships with the builders of tramways and of trolleybus (powered without overhead cables), buses and special vehicles (powered by batteries), and more generally, with the leading players of the mobility business.

#### Business Innovation Program

Through this program, EDF aims to work toward innovations and turn them into profitable businesses for the Group.

EDF also aims to accelerate the launch on the market of its new offers, linked to the "Aval Compteur" activities, making value for its customers, Individuals and Companies. Thus, the Business Innovation Program contributes, for example, to the emergence within the Group of Energy Offers dispatched for Individuals, Services of Energy Efficiency for the Companies and Contracts of Energy Performance for Local Authorities. It is also in the framework of this program that are studied the initiatives of the other energy actors in these fields in the whole world and in particular in the United States.

### 6.4.1.2.3 Main subsidiaries and holdings

#### 6.4.1.2.3.1 Electricité de Strasbourg

Electricité de Strasbourg is a French société anonyme, in which EDF has a 74.71% interest listed on the Paris stock exchange (*Eurolist d'Euronext Paris*). The other main reference shareholder of this company is Electricité de Laufenbourg, a Swiss company (13.8%), and the remaining shares are held by the public.

Electricité de Strasbourg distributes electricity to 376 municipalities in the Bas-Rhin region, and has 376 concession agreements, renewed between 1993 and 1999 for a 40-year term, which serve approximately 80% of the population of the Bas-Rhin department. Due to its electricity distribution business, Electricité de Strasbourg is subject to legal and operating restrictions related to the opening up of the markets and therefore created an independent distribution network operator on January 1, 2004, within the integrated company.

In addition, according to the law concerning the energy sector, Electricity de Strasbourg will be bound, as any electricity company with more than 100,000 customers, to make a legal separation between its activities as network manager and/or as energy supplier.

Electricité de Strasbourg sells electricity to approximately 446,000 customers, including almost 43,000 new sites that became eligible as of July 1, 2005, representing approximately 69% of the electricity sold (in GWh) in Alsace. Electricité de Strasbourg sold 6.3 TWh in 2006.

Electricité de Strasbourg, as a non nationalized distributor, benefits from the specific purchase conditions (aligned on a specific tariff, called sale tariff) for its regulated customers. On the contrary, the other customers will be supplied under conditions following the energy market logic (by operating on the private market and on Povernext), being understood that for approximately a third of its needs, Electricité de Strasbourg managed to enter into long term agreements to have access to generation.

Electricité de Strasbourg's Board of Directors has announced its intention to reinforce its supply activity, in particular, by investing in access to electricity generation, for an amount of approximately € 200 million over the next five years.

### 6.4.1.2.3.2 TIRU group

The Industrial Treatment of Urban Waste group (*Traitement Industriel des Résidus Urbains*, TIRU group) is one of the first European operators to specialize in the treatment of urban waste (sorting centers) and its use for energy generation (incineration plants). TIRU was founded in 1922 as the Controller of the City of Paris (Régisseur de la Ville de Paris) to be the sole operator of its incineration plants. TIRU became a service of EDF in 1946 due to the generation of electricity at its incineration plants: it has been turned into a subsidiary at the end of year 1985. EDF is the majority shareholder of the TIRU group (51%). The other shareholders are Suez (25%) and Veolia Environnement (24%).

The TIRU group treated approximately 2,800,000 tons of waste for more than 10 million people and sold 3,218 MWh of electricity and steam power in 2006.

The TIRU group is one of the main operators in waste treatment in France and it also operates internationally, ranking third among European operators in the household waste energy generation sector. Owing to this aspect of its business, the TIRU group is one of the EDF Group's companies involved in the development of a renewable energy system.

### 6.4.1.2.3.3 A.S.A. Abfall Service AG ("ASA")

The EDF Group sold, for an amount of €223.6 million, on March 8, 2006, to the Spanish group Fomento de Construcciones y Contratas, S.A. its 100% holding in ASA, an Austrian company involved in the management, collection, treatment (mechanical and biological) and long-term management of industrial, commercial, individual and municipal waste in central and eastern Europe.

### 6.4.1.2.3.4 EDF Capital Investissement

EDF sold, on November 24, 2006, its subsidiary EDF-CI to two private equity funds represented by the ARCIS Group, an independent company created in 1993, which gives advice to specialized funds in the second market of private equity.

By entering into this sale, the EDF Group continues the implementation of its industrial project aiming to refocus on its core business activities in Europe.

### 6.4.1.2.3.5 Other companies

Finally, besides interests in LDCs (SMEG, Enercal, Electricité de Mayotte, EDSB), EDEV holds interests in industrial subsidiaries and holdings. These companies contribute, in their respective business sectors – generation, fuel, engineering – to the Group's objectives, and in particular the Generation and Engineering Division, ensuring the performance in the short and medium term of EDF France's generation asset portfolio. These companies are as follows:

- COFIVA, a holding company of the EDF Group, which specializes in engineering;
- SAE, which specializes in fuel transmission and trading on behalf of the EDF Group;
- SOCODEI, which specializes in the treatment of low-level waste; and
- SOPROLIF, which operates the Gardanne circulating fluidized bed power plant furnace (*lit fluidifié circulant*, or "LFC").

## 6.4.2 Gas businesses

As part of its strategy, the Group intends to develop its gas activities with a pan – European approach, in order to take advantage of the opportunities related to the opening up of gas markets throughout Europe, and in particular in France, and to consolidate supplies for its gas-fired power plants.

In particular, the Group aims to leverage the gas businesses of its subsidiaries and holdings for its own gas-fired power plants in Europe, and to offer its customers, including those in France, a dual offer combining gas and electricity.

### 6.4.2.1 Regulatory context of the European gas market

For specific developments in the regulatory context of the European gas market, see Section 6.5.2 ("Legislation relating to the gas market").

### 6.4.2.2 The EDF Group's approach to the gas sector

The EDF Group is present in the gas sector mainly through EDF Energy (United Kingdom), EnBW (Germany), Edison (Italy) and EDF (France) (see sections 6.3.1.1 ("EDF Energy"), 6.3.1.2 ("Germany — EnBW"), 6.3.1.3.1 ("Edison") below). In 2006, the gas business of the Group totaled a global volume of approximately 290TWh<sup>29</sup> which places it among the major operators in the European gas market in terms of volumes handled.

The Group's objective is to continue to develop its gas businesses in France and in Europe. The Group wants to be an operator with a European dimension on the gas market by taking advantage of its access to the end-user market in the electricity sector and its needs in gas-fired electricity generation in certain countries in order to increase its bargaining power with major suppliers.

In France, the Group carries out a commercial strategy which is differentiated according to market segment:

- the residential customer market: EDF's presence on the dual market for supplying electricity and gas to eligible residential customers, beginning in 2007, is important because of high customer expectations concerning dual offers and the associated loyalty incentive potential;
- the small businesses market: a tight market that is highly dispersed, its cost structure does not allow EDF to focus exclusively on this market; nonetheless, EDF is present here as this market reflects the future of the market for residential customers;
- the large businesses market: a highly competitive market in which customers are relatively less sensitive to dual offers; therefore, EDF is present here as an electricity supplier that is also capable of offering a gas package in order to be assured of significant gas outlets.

The development of gas sales in France started in 2005 to reach 9.3 TWh in 2006. As of December 31, 2006, approximately 40,000 sites of professional customers and key account customers have chosen EDF as gas supplier.

Through EDF Belgium, EDF made its first sales of natural gas in 2006 in Belgium. In the Netherlands, EDF is developing a combined-cycle plant of natural gas with Delta.

In order to monitor the development of its gas business, EDF intends to secure its purchase contracts through the constitution of a diversified portfolio, secure and flexible, of purchase contracts and through the control of logistic infrastructure capacities (means of conveyance and routing through gas pipe lines or liquefied natural gas "GNL" and storages).

These orientations aim at improving the management by the Group of its supply agreements and of its supply undertakings (including gas purchases outside organized markets). EDF benefits from the different positions of the entities of the Group. In the medium term, the objective is to strengthen the Group's presence on four types of mid-stream assets:

- import capacities from current and future supply areas (Russia, North Sea, North Africa, and the Caspian);
- one or more LNG receiving terminals and the related sea transportation by methane tanker;
- transit capacities interconnecting the Group's various positions; and
- storage capacities close to the Group's markets.

Finally, to secure its gas supplies, the Group intends to make investments further upstream in gas production, allowing direct access to gas reserves, although pure exploration is not the Group's objective.

The Group has developed the necessary supply and logistic skills within the Gas Division which allow EDF to build a portfolio of diversified, secure and flexible purchase agreements. In addition, the Group's Chairman assigned to Umberto Quadrino, Chief Executive Officer of Edison, the responsibility of leading, in cooperation with the Gas Division, the debates of the so-called "gas assets steering committee" charged with examining gas assets development projects.

### 6.4.2.3 Securing gas supply

EDF has a supply portfolio mixing mid-term and long-term agreements (such as the agreements with Statoil, Eni or Gaz de France) and shorter term supply contracts, entered into, in particular, under "Gas Release" programs (historical operators being compelled to supply gas). In addition, the Group relies on EDF Trading to deal on the wholesale markets and to hedge risks.

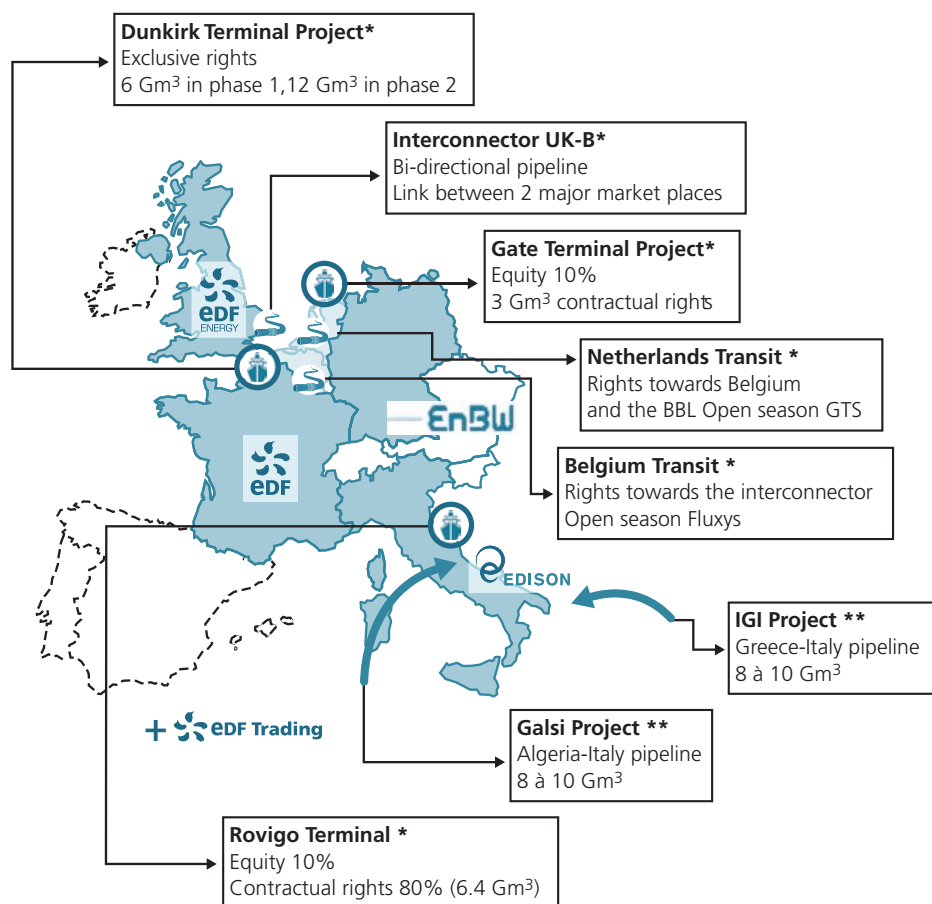
In 2006, EDF won a limited proposal tender organized by the Dunkirk autonomous port, in order to carry out, exclusively and for a period of three years, the feasibility studies for the construction of a methane terminal within the port's facilities. Should the studies be considered satisfactory, the commissioning of the terminal, which would be built and operated by EDF, should take place in 2012. The site's initial capacity will be of 6 billion cubic meter a year in phase 1 and at least 12 billion cubic meter a year in phase 2. A memorandum of agreement was entered into between the autonomous port of Dunkirk and EDF to determine the general conditions under which, on the one hand, the site will be available, and on the other hand, the parties will cooperate.

In addition, on October 3, 2006, EDF executed preliminary agreements with the Dutch Groups Gasunie (the operator of the Dutch gas transmission network) and Vopak (storage of chemicals and oil-gas products). The first agreement concerns the acquisition by EDF of 10 % of the share capital of the project of Gate's methane terminal, in Rotterdam and the second agreement concerns the reservation of

<sup>29</sup> Sales and self-consumption in electricity and/or heat power plants of the companies EDF Energy, EnBW, Edison, EDF and BERT (Hungary) for their total amount (100%) which means without taking into account the percentage of shareholding (including minority interests). The gas business of EDF-Trading and the sales of gas produced by Edison outside Italy are not taken into account in these figures.

rights of use of this terminal up to 3 billion cubic meter per year. EDF had previously confirmed its reservation of natural gas long term capacity transit for 3 billion cubic meter through the Netherlands and Belgium, respectively with GTS, a subsidiary of Gasunie, and of Fluxys, a subsidiary of Suez.

Through these agreements, EDF carries out its strategy and obtains consistent positions in the gas infrastructures in order to supply with natural gas the entire Group in France and in Northern Europe, and notably its subsidiaries in the United Kingdom, in Germany and in the Benelux. This strategy is complementary with the one developed by Edison in Southern Europe (methane terminal of Rovigo and gas pipeline of Galsi and IGI).



\* Rights owned by EDF or its subsidiaries.

\*\* Total project capacity.



### 6.4.3 Sustainable development, the environment and public service

With a long experience and deeply-rooted culture of public service and an ancient concern with the environmental matters, the EDF Group became very early committed to sustainable development before making it one of its strategic axis.

This commitment was ingrained and has been permanently developed. Focused on the Group's main concerns and daily taken into account in its choices and actions, it relies on an internal network and on governance principles based on dialogue and transparency.

#### 6.4.3.1 The great steps of the Group's sustainable development policy

In 2001, after having consulted the employees, trades unions and a panel whose members are external to the Group, the Group took a stronger commitment in his policy of sustainable development by adopting "Agenda 21" principles. The principles of Agenda 21 (Agenda for the twenty-first century) were adopted during the United Nations' conference in Rio de Janeiro in 1992 and have been adapted to the Group's requirements. At the same time, the Group subscribed in 2001 to a large corpus of international commitments for companies, the Global Compact initiated by the United Nations.

In 2003, the ethical approach was adopted. It formalizes the Group's commitment to respect companies' five principles: respect of the individual, respect of the environment, efficiency, solidarity and integrity. These five principles of public service and of sustainable development are broadcasted and posted, notably through the Group's websites, in an ethical charter in which the "*Principes d'action collective*" (principles of common action) and the "*Memento éthique*" (ethical memorandum) state implementation requirements of such principles.

The Group's ethical approach is the reference framework of the ethical commitments of EDF's subsidiaries and of the behavior codes of some fields or lines of work. It is also a reference to essential processes such as staffing (reference for hiring), training (employees' awareness) and performance assessment.

In 2005, several agreements have consolidated and strengthened this commitment:

- the execution of the RSE agreement (agreement on the Company's Social Liability) entered into with employees' representatives, under which the sustainable development is integrated into social dialogue (for a description of this agreement, see section 17.6.3 ("Social dialogue and representation of Group of employees")) below);
- the execution in France of public service agreement with the French State;
- the execution of a new environment policy.

In 2006, this approach was carried out through, among others, the execution of biodiversity policy (a policy stemming from the environment policy), the execution of the diversity charter, a new 3-year agreement concerning handicap, an agreement in relation with the solidarity in sensitive neighborhoods (only applicable in France) and an agreement on socially responsible subcontracting (entered into with the employees' representatives after the RSE agreement).

#### 6.4.3.2 The major principles of sustainable development policy

The policy focuses on three main axis: transparency and dialogue, contribution to the great global matters and integration of sustainable development in all of the Group's activities.

##### 6.4.3.2.1 Transparency and dialogue

The Group has enlisted the support of a panel whose members come from outside the Group and who are independent: *Sustainable Development Panel (SD Panel)*. This panel, chaired by a person who comes from outside the Group, has an advisory role and provides a critical assessment on the manner in which the Group implements and reports on its commitment to sustainable development. The panel generally meets twice a year and the minutes of its meetings are available on the Group's website ([www.edf.com](http://www.edf.com)).

Other councils composed of members from outside the Group (Environment council, Scientific council) give the Group their advice on certain of its policies. In addition, dialogue structures and regular dialogue are created with the Group's main participants (employees, consumers, local authorities, suppliers, shareholders, etc.). Dialogue is also carried out in more specific entities, such as the National avifauna committee.

Every year, the Group prepares a report on results obtained (including ways of improvement) in connection with sustainable development.

##### 6.4.3.2.2 Contribution to Global Matters

As an energy operator, the EDF Group is willing to contribute to the three main global matters:

###### 6.4.3.2.2.1 Fight against climate change

The struggle against climate change is a major environment challenge. EDF is already a low contributor to the emission of greenhouse gases, thanks to the characteristics of its electric generation facilities which are for 95 % of them non CO<sub>2</sub> emitting in France and for around 78 % in the rest of the world, while electric industry represents on a world scale, approximately 23 % of greenhouse gases emissions (GES). The Group's ambition is to remain the one with the smallest number of GES emissions of the seven major European electricity generators. To do so the Group is developing a policy based on the development of non carbonated energy sources, the development of new and renewable energy sources, whether by centralized or semi centralized generation methods (wind power program of 3,300 MW for 2010) or relocated (integrated to the building line of business), the construction of an hydroelectric program of a power capacity of 1,070 MW (Nam Theun 2 in Laos) (see section 6.3.3.2.2.2 ("Laos")) and the holding of a balanced combined energy generation, with the launch of a new nuclear power plant (of the EPR kind) of 1,600 MW in Flamanville, France (see section 6.2.1.1.3.5 ("Preparation of the future of the nuclear park")).

The Group's commercial offers are clearly oriented towards energy saving and energy efficiency, notably in France, benefiting from the energy saving certificates (*Certificats d'économie d'énergie* or "CEE"). EDF is also actively taking part in international negotiations on the climate change and the implementation of the Kyoto protocol (emissions' quotas, flexibility mechanisms).

Finally EDF, whose activity is influenced by climate change, is carrying out research studies concerning its consequences and has already designed adaptation plans (climatic contingency plan).

### 6.4.3.2.2 Access to energy

Access to energy is one of the keys of development. However, an important part of world population does not have access to energy, especially in rural areas. In addition, the increase in financial uncertainty in developed countries is raising the question of the continuity of access to electricity. The EDF Group is working on both issues through:

- significant efforts, with other social actors, to ensure access to electricity to customers in financial uncertainty from places where the Group is a distributor;
- an access to electricity program in rural areas (more than 258,000 persons in 2006 in the Access to energy program).

### 6.4.3.2.3 Preservation of biodiversity

The preservation of biodiversity is now considered as the second main environment matter, as important as the climate change.

The transversal aspect of this matter led to the development of a specific biodiversity policy, a "subsidiary" of the Group's environmental policy. This policy, executed in May 2006, is implemented in accordance with the Group's environmental management system. It structures EDF's action towards biodiversity matters in connection with EDF Group's activities (water, aquatic biodiversity, through fossil-fuel and hydropower generation, as well as fauna and flora, affected by transmission and distribution facilities) based on three axis:

- knowledge of the environments, evaluation of the impacts and reporting;
- preservation, protection, and restoration of environments;
- information, consciousness raising and monitoring programs.

A first reporting of its activity will be carried out by mid-2007.

### 6.4.3.2.3 Integration of the sustainable development to all the Group's activities

In addition to its contribution to these main matters, the EDF's commitment aims to integrate the sustainable development in its activities, projects and actions:

- an active social policy (professional equality agreement, handicap agreement, employee training, execution of the diversity charter, etc.). In 2006, EDF obtained the label for call center in France (social liability label for the customers relation centers created by the professional associations of this business sector as agreed with trade unions);
- the respect of human rights (strong presence in the RSE agreement, assisting in the creation of a French speaking BLIHR (Business Leaders Initiative for Human Rights), health and safety policy, handicap agreement, solidarity policy, etc.);
- a purchase policy which takes all these matters into account, and namely providing for a commitment to sustainable development by suppliers (suppliers' charter, socially responsible subcontracting agreement executed in 2006), and working with the suppliers to analyze how to implement it and the difficulties possibly met;
- the analysis of the integration of sustainable development into the Group's various projects, as it is the case for the dam of Nam Theun in Laos (see section 6.3.3.2.2.2 ("Laos"));

- the environmental policy of the EDF Group, updated in 2005;
- a partnership approach with the territories and shared actions to the benefit of their sustainable development (dialogue with local authorities, integration of networks in the landscape, tools to integrate sustainable development and struggle against climate change, sustainable neighborhood's project, agreement with the DIV (inter minister delegation of the city) on the city's policy, taking part in the territorial ecology experiment, etc.);
- multiple partnerships, as the one entered into by the EDF Group with the Nicolas Hulot's foundation for environmental protection.

## 6.4.3.3 Organization and implementation of the sustainable development policy

### Organization

To ensure the implementation of the sustainable development policy, the Group has a sustainable development division ("DDD") which leads a network of correspondents in each entity of the Group, the network having its own external correspondents. Similarly, an agency for sustainable development, chaired by the Group's Sustainable Development Director meets every month to share the best practices, to analyze and exchange information.

In 2002, the EDF Group was granted the ISO 14001 certification of its environmental management system, including EDF and its French and foreign subsidiaries. This certification was renewed in 2005.

### Awareness, initiative stimulation

Because a sustainable development policy would be senseless if not shared by the EDF's employees, EDF focused, in a first stage, on the direct awareness of its employees (45,000 employees sensitized in France in 2002/2003). In a second stage, an approach aiming at gathering employees through pioneer initiatives has been implemented (organization of sustainable development trophies to encourage and to promote Group's employees pioneer initiatives - second edition launched in December 2006).

### Integration of the sustainable development in processes and management

The integration of the sustainable development in all of the Group's projects (investments, commercial offers, etc.) is one of the main principles of its strategy. To make this analysis easier, a screening tool of the evaluated projects with regard to the criteria of sustainable development has been created, based on an approach developed by the different Group entities and made available to the Group. The projects presented to the Group's commitments committee are systematically and closely examined on the basis of sustainable development requirements.

In addition, the sustainable development has been integrated, since 2005, to the management system and to criteria used for the employees' bonuses, by the taking into account of the accomplishment of environmental goals.

### Reporting

The Sustainable Development report is based, notably on the indicators of the sustainable development reporting. To allow comparative analyses, these indicators are based on the criteria established by the Global Reporting Initiative ("GRI"), an association affiliated with the United Nations Program for the Environment, which aims to develop and disseminate sustainable development reporting methods.

Since 2005, the sustainable development Division has committed itself in a policy of reliability of its reporting, notably by:

- applying the regulations of the European Directive on the inclusion of environmental aspects in entity and consolidated financial statements;
- applying every year an approach of checking the diffusion process of social and environment information by the statutory auditors.

### 6.4.3.4 Public service

#### Legal definition of public service in France

The fundamental principles of public service (*service public*) (mutability, continuity and equality of access) were set forth in the French law n° 2000-108 of February 10, 2000 relating to the modernization and expansion of the public electricity service which applies to all operators of such public service (see Section 6.5.1.2 ("French legislation") for a description of these regulations).

#### The public service contract

A public service contract between the French State and EDF was entered into on October 24, 2005, of an unlimited term, as the Law of August 9, 2004 did not set a fixed term, but simply provided that a performance report be presented to the French Parliament every three years. It sets forth the commitments of EDF over the 2005 to 2007 period and specifies the terms of compensation for public service commitments (i.e., the integrated tariff, the CSPE or the TURP). Beyond this period, modifications made to the contract will take into account the three-year implementation report to be presented to the French Parliament, provided for by the Law of August 9, 2004, and the possible changes in the regulatory or legislative framework. The contract also provides that, in the event that difficulties are encountered with respect to the implementation of the measures relating to the compensation of additional costs incurred by virtue of executing the contract, the French State and EDF agree to meet as quickly as possible in order to adjust the financial balance of the public service commitments entrusted to EDF.

#### Subject matter of the public service contract

The public service contract seeks to constitute a frame of reference for the public service commitments in the electricity sector within the context of EDF's transformation and the opening of its capital to the public. It thereby constitutes a guarantee of public service commitments within the context of the opening of the electricity markets in which EDF operates, particularly in France.

#### Multi-year evolution in the integrated tariff

In accordance with Article 1 of the Law of August 9, 2004, one of the commitments in the public service contract relates to the multi-year evolution in the integrated tariff. In accordance with Article 4 of the French law of February 10, 2000, the integrated tariff for non-eligible customers and eligible customers that have not exercised their eligibility remains regulated. Article 4 specifies that such prices must cover "the total costs incurred (...) by EDF and the non-nationalized distributors".

Within the framework of these provisions, the French State and EDF have agreed in the new public service contract on the need to progressively modify the integrated tariff such that the general structure of sale tariffs and the structure that is specific to certain price options reflect the cost structure.

Regulated prices have increased by 1.7% since August 15, 2006. This

evolution is applicable to the residential customers and to the companies which have chosen, in accordance with the opening of the market, to remain subject to the regulated price. This increase complies with the public service agreement (see section 6.4.3.4 ("Public service")) entered into between EDF and the French state on October 24, 2005, which guarantees that the increase of the integrated tariffs for residential customers will not exceed the inflation rate over the first five years.

#### Commitments of EDF (excluding network operators)

EDF's public service commitments relate to:

- access to public service relating to electricity and the supply of electricity to non-eligible customers. This concerns, in particular, commitments relating to:
  - the supply of electricity to non-eligible customers and demand-side management. The costs related to these two commitments are financed by the integrated tariff;
  - social cohesion. The French law of February 10, 2000 sets forth the terms of compensation for this commitment by the CSPE and the integrated tariff;
  - access to public service. These actions are financed by the integrated tariff as well as by the TURP.
- Generation and supply. These fields involve:
  - The implementation of the energy policy (in particular participating in the preparation of the multi-year investment program and contributing to its objectives, energy savings/energy savings certificates, etc.);
  - The preservation of secure and environmentally-conscious means of energy generation.

EDF will generate the resources required for these two commitments from the revenues derived from the integrated tariff or from the sale price of electricity sold to customers that have exercised their right of eligibility or from the sale price of electricity sold on the markets.

- Contribution to the safety of the electricity system. EDF commits itself to entering into contracts with RTE-EDF Transport relating, in particular, to the optimization of generation equipment interventions and to the availability of the means necessary to balance the network.

#### Commitments of network operators

The network operators, EDF Réseau de Distribution and RTE-EDF Transport, have undertaken obligations in the public service contract with respect to the management of the public networks and the safety of the electricity system. These obligations will be financed by the network usage tariff.

These commitments relate, in particular, to network safety, the quality of supply, the safety of third parties and the protection of the environment, which are four areas where the expectations of customers and local authorities are particularly high.

In particular, the French State estimates that RTE-EDF Transport will spend approximately €100 million per year for network safety.

In order to implement these security, safety and environmental measures, EDF is committed to increasing its gross investments in distribution activities by at least 6% in 2006 and by another 6% in 2007. The CRE's tariff proposal, approved on September 23, 2005 by the authorities was based on the assumption of stable investments.

#### Monitoring of the Public service Contract

The public service contract entered into between the French State

and EDF in 2005 is the object of an annual monitoring by the parties and a report is transmitted every three years to the French Parliament. The Monitoring committee met for the first time in June 2006 in order to examine the 2005 report of commitments taken by EDF and the State. In Autumn 2006, this report was presented to the governance entities of the EDF Group (strategic committee of the Board of

Directors for EDF and Supervisory Board for RTE-EDF Transport). The results of this first report are positive: they meet the figured goals and the quality commitments of EDF and guarantee the level of public service expected as for what concerns the distribution and transmission networks' management, of social and territorial cohesion and of political contribution to the national energy policy.

## ➔ 6.5 - LEGISLATIVE AND REGULATORY ENVIRONMENT

The EDF Group entities are subject to various regulations in relation to their business. In particular, EDF is subject to the European legislation applicable to the electricity and gas markets, which has been transposed into French law. EDF is also subject in particular to the regulations governing electricity distribution concessions and to the applicable environmental, nuclear and safety regulations.

The following discussion of legal and regulatory provisions is not an exhaustive description of all the legal and regulatory provisions applicable to the EDF Group.

### 6.5.1 Legislation relating to the electricity market

#### 6.5.1.1 European legislation

The European directive 96/92/EC of the European Parliament and the European Council, dated December 19, 1996, relating to common rules for the domestic electricity market was the starting point for opening up the electricity market to competition.

This directive, which stated in particular the principle of the eligibility of the most important industrial customers, was repealed by the Directive 2003/54/EC of June 26, 2003 which set out common rules applicable to electricity generation, transmission, distribution and supply and which is the basis of the current French regulation of the electricity market.

This directive sets out arrangements for the organization and operation of the electricity sector, the rules concerning access to the market, the criteria and procedures applicable to tendering exercises and the granting of licenses, as well as public transmission and distribution network operations.

The provisions of directive 2003/54/EC were transposed into French law by the law n° 2004-803 of August 9, 2004 and law n° 2006-137 of December 7, 2006 relative to the energy sector.

#### Opening up the market

The European directive of June 2003 sets out a timetable for opening up the electricity market to competition. All non-household customers, i.e., private individuals or legal entities purchasing electricity not intended for their personal domestic use, including generators and wholesalers, became eligible customers as of July 1<sup>st</sup>, 2004 and also as a result of law n° 2006-137 of December 7, 2006 concerning the energy sector.

With effect from July 1, 2007, all customers, including household customers, will be considered as eligible.

#### Investigations concerning the energy sector

The European Commission announced, on June 13, 2005, a sector investigation, pursuant to Article 17 of regulation n° 1/2003 EC, in order to identify any possible distortions to competition and dysfunc-

tionings whether behavioral or structural in the gas and electricity markets. This investigation came as an addition to the monitoring that is currently in place and conducted by the European Commission to ensure the application of European legislation related to energy, as well as in addition to a detailed report on the energy market, dated November 15, 2005.

The investigation essentially focuses on the electricity market, the proper operation of the wholesale markets and the manner in which prices are established, as well as the examination of the way in which national markets are integrating, the operation of cross-border interconnections, and the conditions of supplies. The investigation is also examining any possible barriers to entry on these markets, resulting from, for example, long-term agreements. Finally, the investigation is analyzing the relationships between network operators and their subsidiaries as well as their parent companies, both for gas and electricity. On January 10, 2007 the European Commission published its "Final Report" and suggested an integrated group of measures for the 21<sup>st</sup> century concerning the energy field and climate change. This report includes, in particular, a presentation of the perspectives in relation to the European gas and electricity market.

The "Final Report" also confirms the five obstacles to the competitive electricity and gas markets, already mentioned in the preliminary report of February 16, 2006 (see Section 6.5.4.5.1.1 ("Presentation of the "Energy and climate change package")):

- wholesale markets generally retain the high level of concentration reached in the pre-liberalisation period, allowing the incumbent operators to raise prices;
- consumers are deprived of choice due to the difficulties for new suppliers to enter the markets. Insufficient separation of infrastructure and supply functions prevents new entrants from reaching the final consumer;
- there is no significant cross-border competition. New entrants in the gas market are unable to secure transit capacity on key routes, and integration on the electricity market is hampered by insufficient inter-connector capacity and long-term capacity reservations;
- new entrants cannot get the information they need to compete effectively. This lack of transparency benefits incumbents and undermines new entrants;
- prices are often not determined on the basis of effective competition, and many electricity users distrust the way prices are set.

On April 4, 2006, the European Commission had announced being "deeply committed to monitor the implementation of the legislation relating to the internal market for energy and to scrutinize all the laws adopted by the Member States, transposing the gas and electricity directives for compliance with it". It had also indicated having sent 28 formal notices to 17 Member States, including France.

Furthermore, the European Commission had started an investigation concerning the supply of electricity in France and Belgium through

long-term agreements and the potential anti-competition effects of such contracts in the markets concerned.

In connection with that investigation, EDF received on November 7, 2006 an official information request, as defined in article 18.2 of the 1/2003 EC Regulation.

The purpose of such request is to allow the Commission to evaluate the compliance of EDF's long-term electricity supply agreements to articles 81 and/or 82 of the EC Treaty.

In addition, a formal investigation was opened in the United Kingdom by Ofgem against EDF Energy on July 28, 2005 under the Competition Act resulting from the suppression of services supply to third parties (see section 6.3.1.1.4 ("Recent events - Anti-competitive investigation with respect to EDF Energy")). In its request, Ofgem indicated that it could reasonably believe that EDF Energy had violated the terms of Chapter II of the Competition Act and/or the provisions of article 82 of the EC Treaty by suppressing the data-gathering and consolidating services that had been provided to third party suppliers in London and SWEB areas.

In July 2006, Ofgem had issued a project of a "non-violation decision" that specified that EDF Energy had not violated the abovementioned provisions since it did not have a dominant position in the concerned markets. Accordingly, there was no cause of action.

Ofgem's final decision putting an end to this investigation was published on January 24, 2007.

Finally, on December 12 and 13, 2006, the European Commission carried out a search in the headquarters of the main groups acting on the German energy market, including EnBW, in relation to its investigation on behaviors possibly contrary to European competition regulations and namely to articles 81 and 82 of the EC Treaty. Nevertheless, such searches do not imply that the companies involved are accused of any anti-competitive behavior.

### Accounting dissociation and transparency of accounting

The European directive of June 26, 2003 stipulates that electricity companies must have their annual accounts audited and published in accordance with national regulations relating to the annual accounts of corporations and that, pursuant to the principle of accounting dissociation, they must prepare separate accounts for each of their transmission and distribution businesses. Until July 1, 2007, they must also keep separate accounts for their businesses supplying eligible customers and their businesses supplying non-eligible customers. As of July 1, 2007, such companies will be required by article 13 of the law of December 7, 2006 to hold an internal accounting that distinguishes the supply to customers having exercised their eligibility rights from the supply to customers under regulated tariffs.

Member States or any other duly appointed authority will have a right of access to the electricity companies' accounts.

### Direct lines

Member States must implement the necessary measures to allow (i) all electricity generators and all electricity supply companies to supply, by means of a direct line, their own establishments, subsidiaries and eligible customers, and (ii) any eligible customer to be supplied with electricity through a direct line by a generator and supply companies.

### Regulation (EC) n° 1228/2003 of June 26, 2003

Regulation (EC) n° 1228/2003 of the European Parliament and the

European Council of June 26, 2003 relating to the conditions of access to the network for cross-border electricity exchanges was passed in order to amend the European directive of June 26, 2003. The provisions of this regulation became effective on July 1, 2004.

This regulation provides, in particular, for a compensation mechanism between transmission system operators for the costs occasioned by accepting cross-border electricity flows on their networks. This compensation is paid by the national transmission system operators who operate the networks where the cross-border flows originate and the networks where these flows end.

In addition, it sets forth the principle of transparency for access charges to the networks, which also take into account the need to guarantee the security of the networks and reflect the costs effectively incurred.

### Directive 2005/89/EC on security of electricity supply dated January 18, 2006

The directive (n° 2005/89/EC) on security of electricity supply, adopted on January 18, 2006, aims at better defining the responsibilities of various parties, ensuring that minimum operation norms are respected, keeping an equilibrium between demand and supply, and finally directing investments towards the networks. The challenge for EDF is to reinforce the legal regime in force, and to promote the development of interconnections.

### European Commission recommendation on "financial resources for the decommissioning" dated October 24, 2006

EDF Group's nuclear installations were included in the scope of the two "Euratom" directive proposals dated January 30, 2003. These directive proposals concerned, on the one hand, the definition of basic obligations and general principles related to the safety of nuclear installations, and on the other hand, the management of the nuclear fuel irradiated and radioactive waste (nuclear package). Although these directive proposals were not adopted, a consultation process was opened and in October 24, 2006 the European Commission adopted a recommendation on "financial resources for the decommissioning" which states the following: adequate resources must be available when required; such resources must cover all operations, including burnt fuel and radioactive waste; each Member State is required to create a national independent entity as an expert in the estimate of costs and funds management which will publish an annual report and a five-year estimate of the costs. The preferable option would be a separate decommissioning "fund", external or internal, that would assure strict accounting identification and traceability; the State (external management) or the operator (internal management) must guarantee the availability of necessary resources, which it must manage in a cautious (low-risk assets) and clear way.

### 6.5.1.2 French legislation

European directive 96/92/EC, dated December 19, 1996, was transposed into French law by the French law of February 10, 2000 modified notably by the French law of January 3, 2003, and the European directive of June 26, 2003 was transposed into French law by the Law of August 9, 2004, which amended the French law of February 10, 2000 and by the law n°2006-1537 of December 7, 2006 concerning to the energy sector.

In addition, the law defining energy policy guidelines (*Loi de Programme fixant les Orientations de la Politique Énergétique* or "LPOPE"), dated July 13, 2005, defined energy policy priorities in France (supply security, a competitive price for energy, the effort



against greenhouse emissions and social and regional cohesion), it also reinforced the position of EDF's generation facilities, in particular, the nuclear fleet, by explicitly providing for the construction of EPR reactor and by reaffirming the role of nuclear power, and finally, it also reorganized the measures designed to promote the development of wind power and confirmed the role of hydropower among new renewable energies.

Regarding management of energy requests (*maîtrise de la demande d'énergie* or "MDE"), LPOPE created an innovative system of energy saving certificates, also called "white certificates", that combines regulatory restrictions (obligation upon energy suppliers to save energy) and market mechanisms. The coming into force of this system was subject to publication of several implementation decrees which were published on May 23, 2006 and have determined that EDF's obligations concerning energy savings for the first two fiscal years (July 1, 2006 – June 30, 2007 and July 1, 2007 – June 30, 2008) would amount to around 10 TWh of final energy per fiscal year. Finally, an order dated September 27, 2006, settled the amount of EDF's obligations for the period 2006 – 2009 to about 30 TWh.

EDF will have to prove having attained its obligations by returning the energy saving certificates which it will have obtained, either through taking actions that allowed energy savings to third parties or on its own assets, or through other energy operators who were offering their certificates. The law creates an obligation to achieve a particular result upon "compelled" entities, such as EDF, which is sanctioned by a penalty amount to two cents for each KWh missing at the end of the obligations' period.

### Public service commitments

Pursuant to Articles 1 and 2 of the French law of February 10, 2000, EDF is responsible for certain public service commitments.

### Public service objectives for electricity

The law specifies that the purpose of the public service is, in particular, to guarantee electricity supplies across France, in the interest of the general public.

### Responsibility for balanced development of the supply

The aim of the balanced development of the supply is to achieve the objectives set in accordance with the multi-year generation investment program prepared by the Minister of Energy and to guarantee supplies to areas of France which are not interconnected with the network in metropolitan France.

The pluriannual generation investment program sets the objective of dividing the generation capacity by primary energy source and, where necessary, by generation technique and by geographic area, while ensuring opportunities for decentralized generation, cogeneration and new technologies. The generation investment program was established by an order of the Minister of Energy dated July 7, 2006.

As an electricity generator, EDF contributes, with the other generators, to the achievement of the investment objectives defined in this program.

### Responsibility of developing and operating the public transmission and distribution networks

Developing and operating the public electricity transmission and distribution networks consists of ensuring reliable and efficient service in France and its overseas departments, with respect for the environment, and ensuring interconnection with neighboring countries, together with connection and access, under non-discriminatory conditions, to the public transmission and distribution networks.

Public network managers are responsible for this task.

### Responsibility to supply electricity

Supplying electricity consists in providing across France and its overseas departments an electricity supply to non-eligible customers (see the definition of eligible customer below), supplying electricity in case of emergency and electricity of the last resort to eligible customers in the event that the balance responsible entity defaults in its supply obligations. In supplying electricity, EDF helps to supply electricity to those persons who are in a precarious situation.

Accordingly, law n°2006-872 of July 13, 2006, also called "Borloo" law, contains a provision that aims to prohibit electricity suppliers from carrying out, during the winter period (November 1<sup>st</sup> to March 15<sup>th</sup>), discontinuations in electricity supply resulting from a default of payment of the electricity bill in the main residence of individuals benefiting or having benefited from a decision in favor of the allowance of an aid from the solidarity fund for housing, within the last twelve months.

As of July 1, 2007, all customers will be eligible and the public service entrusted to EDF (and the NND) will concern the supply of electricity to customers who will not have exercised their eligibility rights (article 2 of the law concerning the energy sector).

### Social harmony

The Law of August 9, 2004 stipulates that, in the course of its business, EDF shall contribute to social harmony, mainly through tariff equalization for the sale of electricity to domestic users and through tariff equalization for the use of public distribution networks.

### Public service contracts

Article 1 of the Law of August 9, 2004 provides that the objectives and arrangements for discharging the public service commitments assigned to EDF shall be the subject of an agreement entered into with the French State (for a description of the new public service contract entered into by the French State and EDF, see Section 6.4.3.4 ("Public service")).

### Generation facilities

The French law of February 10, 2000 opened up the electricity generation market to competition. Any person can operate an electricity generation facility, provided he has an operating license pursuant to Article 7 of the aforementioned French law and the French Decree n° 2000-877 of September 7, 2000.

### Eligible customers

To allow the electricity market to be opened up to competition, Article 22-III of the French law of February 10, 2000 provides that an eligible customer can enter into an electricity purchase agreement with a generator or supplier of his choice that operates within the European Union or in the territory of a State that is a party to an international agreement with France.

As of July 1, 2007, all customers are eligible.

Article 66 of the LPOPE has specified that an eligible customer may request, for a given site, access to integrated tariffs if neither the customer, nor anyone else before him has exercised their right of eligibility for this site.



Consequently, if an eligible customer has exercised its rights concerning one site, it cannot afterwards benefit from the regulated tariffs for that same site.

In order to compensate industrial customers from the increase of market prices, the law of December 7, 2006 (article 30-1 of the Law of August 9, 2004), created nevertheless, a temporary tariff for customers having exercised their rights, also called "return tariff": this transitory regulated tariff for market adjustment ("*tarif réglementé transitoire d'ajustement du marché*" ("*TaRTAM*")) is applicable, for a period of no more than two years, to customers who will have made a written request to the supplier before July 1, 2007.

According to the law, this TaRTAM cannot exceed by more than 25% the regulated tariff applicable to a site that shows the same characteristics. This limit was settled by an order of January 3, 2007 (see section 6.2.1.2.2.2 ("*The prices of electricity sales applicable to eligible customers*")).

The compensation of the charges borne by the suppliers as a result of this system is assured partially by using the amounts collected under the CSPE, and mostly by a contribution due by the largest hydropower and nuclear electricity producers, of which EDF is the most important one (article 30-2 of Law dated August 9, 2004).

In its November 30, 2006 decision in connection with the law concerning the energy sector, the French Constitutional court (*Conseil Constitutionnel*) censured some of the provisions related to regulated tariffs of article 17 of such law, considering that they are clearly contrary to the aims of opening the market to competition settled by the European "energy" directives.

In so doing, the Constitutional court contradicted the legislator's purpose and suppressed the possibility for a residential customer to benefit from another tariff after having exercised its eligibility.

Law n° 2007-290 dated March 5, 2007 creating the opposable right to obtain a lodging (*droit au logement opposable*) added an article 66-2 to the law of July 13, 2005 which specifies that article 66 of the latter is also applicable to new consumption sites connected to the public networks before July 1, 2010.

### Third-party access to the networks

Article 23 of the French law of February 10, 2000 states that network operators must guarantee access to the public transmission and distribution networks in order to:

- ensure the public service responsibility relating to the supply of electricity;
- ensure that the supply contracts with eligible customers are performed;
- allow a generator to supply its establishments, subsidiaries and parent company, within the limits of its own generation; and
- ensure that the electricity export agreements entered into by a generator or by a supplier to purchase electricity for resale in metropolitan France and the overseas departments are performed.

The tariffs for using the public transmission and distribution networks mentioned in Article 4 of the French law of February 10, 2000 and currently in force were established by the ministerial decision of September 23, 2005. For more details on the tariffs for using the public transmission and distribution networks, please see Section 6.2.2.4 ("*Tariffs for Using the Public Electricity Transmission and*

*Distribution Networks (Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité, or "TURP")*") above.

Article 23 of the French law of February 10, 2000 also provides that access to the networks is ensured through agreements to be entered into between the public transmission and distribution network operators and the users of these networks. Moreover, if it so wishes, any company selling electricity to eligible customers may enter into an agreement with the public distribution network operators relating to access to the networks for the performance of supply agreements entered into by such company with eligible end-users.

Finally, the same article stipulates that any refusal to enter into an agreement for access to the public networks must be justified and notified to the applicant and the Energy Regulation Commission (*Commission de Régulation de l'Energie* or "CRE"). Refusals must be in accordance with public, objective and non-discriminatory criteria and can be founded only on the imperatives related to the accomplishment of public service responsibilities and on technical reasons affecting the safety and security of the networks, together with the quality of their operation.

### Electricity purchase obligations

EDF is subject to electricity purchase obligations pursuant to the French law of February 10, 2000.

Article 8 of this law provides that the French minister in charge of the energy sector may, under certain conditions, allow the creation of an electricity generation plant following a call for tenders procedure. EDF as a "Producer" can apply to such a procedure. EDF as a "Buyer" is then bound to enter into an agreement with the selected applicants or into a special kind of agreement (protocol) if EDF "Producer" is a selected applicant.

Article 10 of the French law of February 10, 2000 provides that EDF and the NND are bound to enter into an agreement upon producers' request if such agreements concerns the purchase of electricity generated by:

- plants which value municipal solid waste or which aim to supply a heat network;
- plants which generating capacity does not exceed 12 megawatts and which use renewable energies or highly capable techniques in terms of energy efficiency, such as cogeneration;
- plants which use wind power and which are based in a wind power development area;
- plants which value recovery energies.

Nevertheless, the abovementioned plants can only benefit once from the purchase obligation agreements and the possible excess costs resulting from such agreements, which are borne by EDF and the NND, are compensated by the electricity public service contribution (*contribution pour le service public d'électricité* or "CSPE").

Finally, the French Decree n° 2001-410 of May 10, 2001 provided that a generator benefiting from a purchase obligation should sell all of its generation to EDF and the non-binding model of purchase agreements binding EDF and the generators should be approved by the Minister of Energy. Purchasing terms and conditions and, specifically, the electricity purchase prices, are set by order of the Minister of Energy, after consultation with the High Council for Energy ("*Conseil Supérieur de l'Energie*") and the CRE.

## Mechanism for compensating excess costs of public service

### The CSPE

The contribution to the public services charges for electricity (*Contribution aux Charges de Service Public de l'Electricité*, or "CSPE") is intended to compensate for charges attributable to the public service responsibilities assigned to EDF and to the NND.

The public service charges compensated by the CSPE are as follows:

Insofar as electricity generation is involved:

- excess costs resulting, on the one hand, from electricity purchase agreements following call for tender procedures (article 8 of the law of 2000) and, on the other hand, from purchase obligation agreements entered into pursuant to article 10 of the law of 2000, including cases where facilities operated by EDF or a NND are involved;
- excess generation costs in non-interconnected zones, which are not covered by the portion of the tariff for non-eligible customers relating to generation.

Insofar as electricity supply is involved, electricity suppliers are compensated for:

- loss of income and excess costs incurred while implementing the special pricing for an "essential commodity" set forth in Article 4 of the French law of February 10, 2000; and
- costs incurred as a result of their participation in the plan established for lowest-income people.

Expenses borne by suppliers in accordance with TaRTAM supply are partially financed by a fraction of the CSPE, pursuant to article 30-2 of the Law of August 9, 2004, but that contribution cannot exceed €0.55 per megawatt-hour.

The CSPE is collected in full directly from the final customer either:

- as an additional levy on electricity tariffs (for non-eligible customers and eligible customers that have not exercised their right of eligibility) or on network usage tariffs (for eligible customers that have exercised their right of eligibility); or
- directly from electricity generators that generate for their own use, or other end-users who do not use the public electricity transmission or distribution networks.

The amount of the contribution, by consumer site, due by eligible customers may not exceed €500,000. In addition, the LPOPE provided that as of January 1, 2006 the total amount due for CSPE by any industrial company consuming more than 7 GWh electricity a year is limited to a maximum of 0.5% of its added value.

### Compensation for excess distribution costs

Tariff equalization is intended to spread the charges incurred as a result of public service commitments assigned for managing the electricity distribution networks between the operators involved (EDF and the NND).

## Regulation of the electricity sector

### The Energy Regulation Commission

The Energy Regulation Commission (*Commission de Régulation de l'Energie*, or "CRE") is an independent administrative authority created by Article 28 of the French law of February 10, 2000. The amounts required for the CRE to carry out of its missions are registered in the French State general budget.

The law concerning to the energy sector gives a general definition of CRE's mission: *"In accordance with the powers given to it, the Energy Regulation Commission contributes, to the benefit of the final consumers, to the right functioning of electricity and natural gas markets. In particular, it assures that the access conditions to electricity and natural gas transmission and distribution networks do not inhibit the development of competition. Also, concerning electricity and natural gas, it supervises the transactions carried out between suppliers, merchants and producers, transactions carried out on organized markets, as well as over-the-border exchange transactions. It assures the consistency of suppliers, merchants and producers' offers with their technical and economical restrictions."*

The CRE does not only have an advisory power (proposal power, concerning in particular the tariffs in transmission and distribution public networks, the amount of the expenses resulting from public service missions attributed to electricity producers, including the amount of the related net contributions, as well as the amount of the expenses defined at article 48 of the law dated February 10, 2000 and of the related net contributions, and the power to render an opinion), but also a decision power (approval power and regulatory power).

It also has important information and investigation powers, as well as the authority to settle disputes and to apply penalties, which the law of December 7, 2006 granted to an *ad hoc* committee within the commission: the dispute settlement and penalty committee, which is composed of members of the *Conseil d'Etat* and of the *Cour de cassation*.

The CRE proposes to the ministers in charge of the economy and industry usage tariffs for public transmission and distribution networks, the charges attributable to public service commitments assigned to electricity generators and the net amount of the related contributions, as well as the charges set forth in Article 48 of the French law 2000 and the related net contributions.

## 6.5.2 Legislation relating to the Gas market

### 6.5.2.1 European legislation

On June 22, 1998, the European Parliament and the European Council passed European directive 98/30/EC, intended to establish a European gas market in the Member States. This directive was repealed by European directive 2003/55/EC of June 26, 2003 relating to common rules for the European natural gas market.

#### European directive 2003/55/EC of June 26, 2003

With the objectives of (i) improving the operation of the gas market by taking concrete measures, and (ii) accelerating the opening to competition of national gas markets, this directive establishes the documentary foundation for the creation of a fully operational European natural gas market in which there is fair competition.

Like its predecessor, this directive sets forth common rules concerning transmission, distribution, supply and storage of natural gas, including LNG, biogas, gas output from biomass, and other types of gas.

This directive establishes the general terms relating to the organization and operation of the natural gas sector, non-discriminatory access to the market, and the criteria and procedures applicable to the granting of licenses for the transmission, distribution, supply and storage of natural gas and for operating the networks.

It accelerated the opening of the natural gas markets to competition by extending this opening to all customers other than residential customers (*i.e.*, for customers purchasing gas for purposes other than for their domestic use) from July 1, 2004, and specified that this opening will be extended to all customers from July 1, 2007.

European directive 2003/55/EC was transposed into French law mainly by the Law of August 9, 2004, although certain provisions of the directive had already been incorporated into French law before the transposition.

### 6.5.2.2 French legislation

The first European directive of 1998 was transposed into French law by the law n° 2003-8 of January 3, 2003 relating to the gas and electricity markets and to the public service for energy, as modified and amended by the French law n° 2004-803 of August 9, 2004 and by the LPOPE.

Finally, the law of December 2006 concerning the energy sector completes and organizes the opening up to competition of the French market for natural gas.

#### Law n° 2003-8 of January 3, 2003

##### Access to natural gas systems

This law provides that eligible customers, suppliers and their agents have a right of access to natural gas transportation and distribution facilities, and to LNG facilities, under the terms and conditions set forth in an agreement with the operators.

Natural gas network operators must refrain from any discrimination between users or categories of users.

##### Eligible customers

The French law of January 3, 2003 provides, in particular, that eligible customers have the option to be supplied with natural gas by the supplier of their choice.

This law and the French Decree n° 2003-302 of April 1, 2003, as amended by the French Decree n° 2004-420 of May 18, 2004, define as eligible all customers that are non-residential customers, *i.e.*, all customers who buy natural gas for purposes other than for their domestic use, regardless of their gas consumption threshold.

As of July 1, 2007, in accordance with the European directive 2003/55/EC and following the implementation of the law concerning the energy sector, all customers will be able to freely choose their supplier.

##### Suppliers

Suppliers supply electricity to eligible and non-eligible customers. French law defines suppliers as persons who (i) are based in the territory of a Member State of the European Union or in the territory of another State pursuant to international agreements, and (ii) possess a license issued by the Minister of Energy.

EDF is licensed, pursuant to an order of the Deputy Minister of Industry, dated September 14, 2004, and published in the *Journal Officiel* on November 24, 2004, to operate as a natural gas supplier to non-domestic customers that do not provide a service of general interest, and pursuant to an order dated August 9, 2005,

and published in the *Journal Officiel* on August 30, 2005, to non-domestic customers that do provide a service of general interest as well as to gas distributors and suppliers.

##### Transmission and distribution of natural gas

The French law of January 3, 2003 provides, in particular, that carriers and distributors must ensure the safety and efficiency of their network and the balance of natural gas flows, taking into account technical constraints.

##### Determination of tariffs

The tariffs for using the transmission and distribution networks and LNG facilities and natural gas sale tariffs for non-eligible customers are determined, according to public, objective, and non-discriminatory criteria and taking into account the type of service and the associated costs, jointly by the Minister of Economy and the Minister of Energy upon the recommendation of the CRE.

##### Underground storage and third-party access to natural gas stocks

The French law of January 3, 2003 requires all suppliers to hold, on October 31 of each year, directly or indirectly through an agent, sufficient inventories of natural gas in France to comply, for the period between November 1 and March 31, with its direct or indirect contractual obligations to supply its domestic customers and other customers that are charged with public service obligations or that have not contractually accepted interruptible gas supply.

The Decree n° 2006-1034 of August 21, 2006 specifies the laws and regulations applicable to underground storage of natural gas.

##### Audit and penalties

The law of January 3, 2003 grants authority to the Minister of Energy and the Minister of Economy to inquire into matters concerning the regulation of the gas market. The Minister of Energy may also levy a fine, or withdraw, or suspend for a term which may not exceed one year, a license to supply natural gas.

## 6.5.3 Public electricity distribution concessions

### Concession system

Under Article 6 of the French law of June 15, 1906, a public electricity distribution concession is awarded either by a municipality or by a syndicate formed by a number of municipalities, if the application for the concession is only made for the geographic area administered by the municipality or syndicate, or by the department if the application covers the territory of the department, or by the French State.

The concession system was upheld by the French law of April 8, 1946, which transferred to EDF existing concessions and upheld the rights of the NND, as confirmed by the French law of February 10, 2000. Pursuant to the above, the licensors organize the public electricity distribution service through concession agreements and specifications which set forth the rights and obligations of the authority, in its capacity as licensor, and the licensee, respectively.

The licensors are most often syndicates of municipalities or departments, whose administration is set forth by Articles L. 5212-1 to L. 5212-34 of the General Code for Local Authorities (*Code Général des Collectivités Territoriales*, or "CGCT"). Concessions may be granted by a municipality or by a syndicate of municipalities only to EDF or to NND.

The French law of December 7, 2006 which introduced a public service of supply to customers who do not exercise their rights, provides that, as of July 1, 2007, the amendments and restatements of the concession agreements will have to be executed by the three parties: the public entity granting the concession, the distribution network managers and EDF, as far as supply is concerned. The ongoing agreements are deemed to have been signed by these three entities.

### Rights of authorities granting a concession

Authorities granting a concession have the following rights:

- the possibility of personally managing the expansion of distribution networks;
- ownership of the facilities covered by the concession (property to be returned);
- right to collect rents (see Section 6.2.2.2.2 ("Concessions") above);
- electricity generation, limited to facilities that are in sufficiently close proximity to allow for extension or upgrade savings and whose power does not exceed 1 MW, as set forth in the French Decree n° 2004-46 of January 6, 2004;
- demand-side management for consumers supplied with low voltage with a view to saving energy when extending or upgrading the public distribution network; and
- audit of the licensee's business, carried out by an auditor appointed by the licensor which is distinct from the public distribution network operator.

For more details concerning the content of the concession agreement and the specifications, see Section 6.2.2.2.2 ("Concessions") above.

## 6.5.4 Regulations relating to the environment, nuclear facilities, health, hygiene and safety

EDF's business in France, as well as in other countries where EDF operates, is subject to regulations related to the environment, nuclear power, health, hygiene and safety. Compliance with these regulations, which are increasingly restrictive and subject to constant change, exposes the Group to significant costs.

### 6.5.4.1 Regulations applicable to classified facilities for the protection of the environment

#### Licenses and permits

The EDF Group's business in most countries where it operates, is subject to obtaining permits or licenses, or to the completion of formalities prior to beginning operations. These obligations notably stem from regulations related to the environment, urban planning, health, hygiene and safety.

Some facilities operated in France by EDF, mainly fossil-fired power plants, are subject to the legislation relating to Classified Facilities for the Protection of the Environment (*Installations Classées pour la Protection de l'Environnement*, or "ICPE"). Pursuant to the French Environment Code (*Code de l'environnement*), facilities which may present dangers or disadvantages, mainly to public health and safety, are subject, according to the magnitude of the dangers or disadvantages presented by their use, either to a prior declaration or to an authorization. In the latter case, the authorization to operate will take the form of an order of the *préfet* issued after consultation with various bodies and a public inquiry, containing specific operating instructions.

The ICPE regulations also require, when a facility is taken out of service, the restoration of the site, depending on the expected use of the land.

ICPEs are placed under the control of the *préfet* and the regional departments for industry, research and the environment (*Directions Régionales de l'Industrie, de la Recherche et de l'Environnement*, or "DRIRE"), which are responsible for organizing inspections of classified facilities. If the operator of an ICPE fails to comply with the instructions imposed on its operations, and regardless of any potential criminal proceedings, the *préfet* may impose administrative penalties, such as the deposit of a sum equal to the cost of the work to be done to make the facilities compliant, forced execution of the measures prescribed by order, suspension of operations, or a proposal for the shutdown or removal of the facility by decree rendered upon review by the French *Conseil d'Etat*.

#### Health and safety provisions

The safety provisions in the ICPE regulations require, prior to the authorization of a facility, the completion of a study setting forth the dangers, including an analysis of the risk of accidents, as well as the appropriate measures to reduce the probability and impacts of these accidents. The project for creating an ICPE, which is subject to authorization, must also be the subject of a public inquiry regarding any effects it might have on public health, safety and salubrity and on the protection of the environment. In addition to technical instructions for the protection of health and safety, the authorization order may also impose on the operator of a classified facility the preparation of an Internal Operation Plan (*Plan d'Opération Interne*, or "POI") setting out organizational measures, action measures and the necessary resources to protect employees, the population and the environment in the event of an accident.

### 6.5.4.2 Special regulations applicable to nuclear facilities

From now on, EDF is subject in France to law n° 2006-686 of June 13, 2006 concerning transparency and security in the nuclear field ("TSN law"), which determines the main provisions applicable to Basic Nuclear Facilities (*Installations Nucléaires de Base*, or "INB") and also transformed the Nuclear Security Authority (*Autorité de Sûreté Nucléaire* or "ASN") into an independent administrative authority. Pursuant to this law, the decree n° 1228 of December 11, 1963, as amended, should be replaced by a new decree shortly. The TSN law provides, in particular, that the establishment of an INB will be authorized, following a public inquiry, by a decree, countersigned by the minister in charge of health, issued following a report by the ministers in charge of nuclear security after advice of the ASN. This new decree will define the scope, the characteristics of the facilities and the time by which those facilities should start to be operated. This commissioning authorization will be granted by the ASN. Safety check reviews will take place every 10 years in order to evaluate the compliance of the facilities to the applicable regulations. The lifespan of an INB is not defined by regulation.

In addition, water pumping, liquid radioactive waste discharges and discharges into the atmosphere of gaseous effluents, whether radioactive or not, which are likely to cause atmospheric pollution or specific odors, should be subject to an authorization, in the shape of instructions which settle the limits of effluents' rejects, granted by the ASN and subject to approval by the ministers in charge of nuclear safety.

The ASN could give other instructions, in particular, to prevent or limit the effects of any incidents, to define individual and collective means of protection of the populations, to limit noise annoyances and manage the waste generated or stored by the facilities.

### Rules for the safety and control of nuclear facilities

EDF's nuclear facilities are subject, as soon as they are established, to nuclear safety regulations. Accordingly, the application for an authorization namely includes a preliminary version of the safety report which consists of, for what concerns the INB, a study of the impact on the environment, a study of the dangers that sets forth the measures taken to reduce the risks inherent to operating an INB and to limit the consequences of any accident and an environmental study, a decommissioning plan and a risk management study. INBs must also comply with the general rules of the ministerial order for the protection from risks in the safety, health, sanitary and nature and environment protection fields. An Internal Emergency Plan (*Plan d'Urgence Interne*, or "PUI") specifying the organization and resources to be implemented in the event of an accident must be drafted by the operator. In addition, the latter must also prepare an annual report, submitted to the CHSCT and published, namely describing the measures taken in terms of nuclear safety and radiation protection. Moreover, any accident or incident, nuclear or not, which has or may have significant consequences for the safety of an INB must be declared immediately, in particular, to the ASN, which will ensure the adoption of appropriate measures to remediate the accident or incident and to avoid such an accident or incident being repeated.

The ASN can make technical regulatory decisions to complete the implementation methods of the decrees and orders passed in the nuclear safety and radiation protection fields. Such decisions are subject to the relevant ministers' approval.

The TSN law also includes provisions concerning public information and transparency, such as the creation of a high committee for transparency and information on nuclear safety.

Finally, increasingly stricter administrative and criminal penalties have been created to sanction INB operators who do not comply with their legal and regulatory obligations, such as three years of imprisonment and a €150,000 fine if the INB is operated without an authorization, or one year of imprisonment and a €30,000 fine if radioactive substances are transported without authorization.

### Decommissioning nuclear facilities

The final shutdown and decommissioning of an INB are authorized by decree after the ASN has given its opinion. The latter gives instructions concerning the decommissioning and the decree will notably determine the decommissioning's characteristics and delay. Once the decommissioning is completed, the ASN will render a decommissioning decision for the relevant facility after approval by the ministers in charge of nuclear safety.

### Radioactive waste

The EDF Group's business is subject to French regulations for the handling, storage and long-term management of nuclear waste. EDF is legally responsible for the nuclear waste resulting from its business. In France, radioactive waste is managed by the National Agency for Radioactive Waste Management (*Agence Nationale pour la Gestion des Déchets Radioactifs*, or "ANDRA"), an EPIC created by the French law of December 30, 1991. The method for the storage of nuclear

waste in France depends on its degree of radioactivity and its nuclear activity period. In addition to certain temporary storage on EDF sites, very low-level waste produced by EDF (from, for example, concrete or metal waste left over after decommissioning a nuclear power plant) is stored on an ANDRA site, known as "TFA", opened in 2003. Short life, low- or medium-level waste that is produced by EDF's business is stored above ground at the ANDRA's Aube storage center (see Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues")). Long life, high-level waste produced from the treatment of burnt fuel is vitrified and stored temporarily at the Areva NC (formerly Cogema) center at The Hague pending the adoption of a long-term management solution (see Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues") below).

Long life, medium-level waste (for example, from shells, ends and clad pieces) is either cemented or compacted and confined in stainless steel containers. They are currently in intermediate, temporary storage pending a final decision concerning long-time management (see Section 6.2.1.1.3.4 ("The nuclear fuel cycle and related issues")).

The National Commission for the evaluation of research concerning the management of radioactive waste has presented its final evaluation report on January 18, 2006. The report opts for "reversible deep geological underground storage" as an option that should be retained for ultimate waste, even if the conditions for a possible final decision on storage were not yet fulfilled. Following the passing of program law no. 2006-739 of June 28, 2006 concerning the long-term management of radioactive materials and waste, research and studies concerning HAVL and MAVL waste are carried out in accordance with the three complementary axis hereunder:

- Separation and transformation of long-life radioactive elements, in order to obtain, by 2012, an evaluation of industrial prospects in such fields and to commission a new prototype facility before December 31, 2020;
- Reversible storage in deep geological layers: choice and conception of a storage center, for which an authorization request should be filed in 2015 and which should be commissioned in 2025, subject to such authorization;
- Storage: in order to create new storage facilities or change the existing facilities at latest by 2015.

The question of what option should be retained in France regarding the management of a long-life high-level waste was the subject of a public debate organized by the "Commission Nationale du Débat Public" ("CNDP"). The report of this debate, as well as the conclusions of its President, were made available on January 27, 2006. The CNDP's most remarkable contribution is the appearance of a new possible strategy which includes both the carrying out of test on the geological storage and the creation of a long-term storage prototype.

In addition to the three axis mentioned above, the program law of June 28, 2006 provides for a national radioactive materials and waste management plan, updated every three years, which will consist of a report of the existing management methods and determine expected storage and stockage needs; the law sets forth that a deep geological layer storage center is a basis nuclear facility for which the creation authorization by a decree of "Conseil d'Etat" will be preceded by a public debate. This law also sets forth for the organization and the financing of radioactive waste management.



Finally, it also provides for the framework of the evaluation and hedging of basis nuclear facilities decommissioning costs and for the management of burnt fuels and radioactive waste. In particular, assets dedicated to the hedging of provisions cannot be used for any other purpose by the operator, and should be subject to a different accounting. The implementation of such provisions will be controlled by the administrative authority, which consists of the ministers in charge of the economy and energy, themselves under the control of a National Commission for the evaluation of financing of INB's decommissioning costs and for the management of burnt fuels and radioactive waste.

Transportation of radioactive waste is subject in France to Articles L. 1333-1 *et seq.* of the French Defense Code (*Code de la défense*), governing the protection and control of nuclear materials, and the regulations for the international and national transportation of hazardous goods, under the control of the ASN. The latter carries out a critical analysis of the security files submitted by applicants to obtain approval for their prototype package. The objective of these regulations is to prevent the loss or disappearance of packages containing nuclear materials, mainly while in transit, and to ensure human and environmental safety, while controlling the risks of contamination by packages containing nuclear materials.

Decree n° 2007-243 of February 23, 2007 concerning the securing of nuclear costs financing sets forth the implementation conditions and methods of the program law of June 2006, applicable as of June 29, 2007.

Accordingly, the operator can evaluate costs according to five categories (nuclear facilities decommissioning costs, burnt fuels management costs, etc.) which are themselves divided into several kinds of operations following a list provided by an administrative authority's order. The costs are evaluated according to a method based on an analysis of the different contemplated options for the implementation of the operation and on that basis, prudently choose a standard strategy.

The discount rate, used for the calculation of provisions, is determined by the operator and can exceed neither the profitability rate expected from hedging assets managed according to a sufficient safety and liquidity degree nor a ceiling determined by an administrative authority's order.

Different kinds of hedging assets are accepted within a certain percentage, such as bonds, claims or securities issued or guaranteed by a member state of the European Community or of the OECD, or shares and other securities giving access to the share capital of companies whose headquarters are based on a member state of the European Community or the OECD.

Property assets, claims' acts or titles, deposit accounts must be kept or opened in France. The operator must keep a currently updated register of hedging assets and have summary report be transferred every three-months to the administrative authority. The operator's board of directors determines the framework of the hedging assets creation and management policy, in accordance with the assets' purpose and general principles of prudence and risk sharing.

In addition, a committee should be created by the board of directors which will be in charge of examining and giving its opinion on the framework of the hedging assets creation and management policy, as well as a permanent procedure for the internal control of costs finan-

cing and in particular, their evaluation and of the management of hedging assets. In companies which have issued listed securities such procedures are the subject of a special chapter of the Chairman of the Board's annual report concerning internal controls.

Finally, a report is filed with the administrative authority and the ASN every three years, a copy of which is sent to the statutory auditor, which includes a description of namely the costs evaluation, the methods used for the calculation of provisions and the composition of the assets. In June 2007, EDF will file a first report with the relevant administrative authority and the ASN, with copy to the statutory auditors. Information protected by laws can be removed from the report. The administrative authority can require any additional explanation, have an external entity prepare a study or require that an expertise of the assets value be carried out, at operator's expenses.

### Radiation protection regulations

In France, the French Public Health Code (*Code de la santé publique*) states that all nuclear activities where there is a risk of exposure of persons to ionizing radiation fall under the authority of the ASN. General protection of the population against radiation is based mainly on the subordination of any nuclear activity to a declaration or an authorization. Authorizations issued for the establishment of an INB as described above encompasses such authorization. The French Decree n° 2002-460 of April 4, 2002 relating to the protection of persons against the dangers of ionizing radiation, which transposes the provisions of European directive 92/29/EURATOM of May 13, 1996 and European directive 97/43/EURATOM of June 30, 1997, sets the maximum exposure by the general public at 1 mSv per year.

French regulations relating to the protection of workers against the dangers of ionizing radiation, based on European directive 96/29/EURATOM and on French Decree n° 2003-296 of March 31, 2003, specifically impose a limit on exposure of workers to ionizing radiation of 20 mSv for 12 consecutive months.

### Civil liability of nuclear facility operators

A number of international agreements govern the civil liability of nuclear facility operators: the Paris Convention of July 29, 1960 on Third-Party Liability in the Field of Nuclear Energy and the Brussels Convention of January 31, 1963, supplementary to the Paris Convention and the Vienna Convention of May 21, 1963 on Civil Liability for Nuclear Damage. These different conventions are applicable to the signatory countries that have ratified them, including France and Germany, countries in which the Group operates nuclear facilities (in France, through EDF and in Germany, through EnBW). In France, pursuant to these conventions, nuclear civil liability is governed by the French law n° 68-943 of October 30, 1968, as amended.

The Paris Convention institutes a specific liability scheme, which has the following characteristics:

- **Damage covered:** repair of any damage to persons and property;
- **Type of liability:** "responsabilité objective", i.e., strict liability ;
- **Exemptions :** the operator is not liable for damage caused by a nuclear accident if such accident is due directly to acts of armed conflict, hostilities, civil war, insurrection or a natural catastrophe of an exceptional nature; however, acts of terrorism are not an exemption;
- **Responsible person:** the principle of channeling liability to one person or entity: the operator of the nuclear facility where the nuclear substances that caused the damage are held or where they originated;



- **Limits of liability:** the operator's liability may be limited both in its amount and its term by national legislation, provided this complies with the common minimum liability amount as set by the Conventions:
  - if the facility is in France, the operator's liability is limited to approximately €91.5 million per nuclear accident in a facility and to approximately €22.9 million per nuclear accident during transportation. The time granted to make a claim for compensation is 10 years from the date of the accident;
  - over and above the maximum amount for which the operator is liable, the State in which the accident occurred will be liable for the compensation of victims up to a maximum of €228.6 million; and
  - over and above this amount, member States that are signatories of the Paris and Brussels Conventions (which includes France) contribute collectively to compensation up to a ceiling of €381.1 million; and
- **Financial guarantee :** there is an obligation of insurance or financial guarantee by the operator up to the fixed liability amounts, in order to guarantee the availability of funds. This insurance or financial guarantee must be approved by the State in which the insured or guaranteed facility is located. EDF has opted for insurance and has complied with the applicable requirements for coverage (see Section 4.1.3 ("Insurance")).

Protocols amending the Paris Convention and the Brussels Convention were signed on February 12, 2004. They require the availability of compensation amounts which are much greater, in order to cover a greater number of victims and types of collateral damage. The operator's liability is accordingly at least €700 million per nuclear accident in a facility and €80 million per nuclear accident during transportation. The State where the nuclear facility responsible for the damage is located will be liable for amounts above the €700 million for which the operator is liable, up to a maximum amount of €1,200 million. Above this amount, the States that are a party to these Conventions will be liable up to a maximum amount of €1,500 million.

In addition, for physical injury only, the time granted to claim compensation will change from 10 years to 30 years from the date of the accident.

Another important change is the introduction of a detailed definition of the concept of "nuclear damage", which includes non-economic loss, the cost of preventive measures, the cost of restoring a damaged environment and certain other losses resulting from damage to the environment.

Finally, the protocols provide that exemptions of an operator's liability will be limited to cases of armed conflict, hostilities, civil war or insurrection (natural disasters no longer entitle the operator to an exemption).

These new provisions were transposed into French law by the above mentioned TSN law of June 13, 2006. These provisions will only be applicable, however, when the protocols mentioned above come into force which requires two-thirds of the signatory states to ratify them. France has ratified both protocols through law n° 2006-786 of July 5, 2006 but has not yet filed the relevant ratification instruments as initialized by the minister of foreign affairs.

### 6.5.4.3 Regulations applicable to other generation methods used by the EDF Group

#### Specific regulations for fossil-fired generation

The EDF Group's fossil-fired generation business is subject in France to the regulations relating to ICPEs. EDF's fleet of fossil-fired facilities must also comply with specific regulations relating to the quality of the air, adopted mainly as a result of the European directive 2001/81/EC of October 23, 2001 on national emissions ceilings for certain atmospheric pollutants (NEC directive), and European directive 2001/80/EC of October 23, 2001 relating to the limitation of emissions of certain pollutants into the air from large combustion plants (LCP directive) (see Section 6.5.4.5 ("Principal draft regulations likely to have an effect on the EDF Group's activities")) for a description of these specific regulations).

Exemptions are possible for facilities working at most 20,000 hours between 2008 and 2015 and a pollutants issuance reduction plan (SNR) has also been provided for which could allow a sharing of the disposals following the gathering of several facilities and therefore lead to an increased flexibility. European directive 2003/105/CE of December 16, 2003 (so called Seveso 3), was transposed into French law by decree n° 2005-989 of August 10, 2005 (higher thresholds) and by the order of September 29, 2005 (lower thresholds). It amends the European Council directive 96/82/CE concerning the management of risks related to major incidents with dangerous substances (so called "Seveso 2" directive) and could have a significant impact on EDF Group's activities. In particular, this directive reduces the level of authorized quantities of carcinogenic or environmentally dangerous substances, for facilities generating, using or storing such substances. Accordingly, some of EDF's fossil-fired power plants could be subject to Seveso stricter regulations and therefore be imposed upon reinforced obligations in terms of safety and constitution of financial guaranties.

#### Specific regulations for hydropower facilities

Hydropower facilities are subject in France to the rules established by the French law of October 16, 1919, as amended. They require concessions granted by the Minister of Industry (for facilities generating more than 100 MW) or by the *préfet* (for facilities generating between 4.5 MW and 100 MW), or authorizations attributed by the *préfet* (for facilities under 4.5 MW)), see Section 6.2.1.1.4.4 ("Current and future hydropower generation issues") concerning hydropower concessions).

EDF Group's hydropower generation business is subject to water regulations. Such regulations relate to variations in water levels and flow rates, and to the safety of areas in the vicinity and downstream of the hydropower facility (see Section 6.5.4.4 ("Other regulations relating to the environment, health, hygiene and safety")) below).

#### Conditions for the renewal of hydropower concessions

Pursuant to the French law of October 16, 1919, French Decree n° 94-894 of October 13, 1994, as amended, specifies the conditions for the award or renewal of a concession. This decree includes the implementation terms of French law n° 93/122 of January 29, 1993 (known as the loi Sapin), which provide for a competitive tender procedure in the context of public service delegations.

The former preference right for the incumbent concessionary has been suppressed by the amended Finance Act for 2006 because it did not comply with the competition procedures. The amended Finance Act for 2006 also provides for, as for what concerns hydro-power concessions, the creation, at the time of their renewal, of a new annual royalty of at most 25% of the profits resulting from the sale of electricity generated by the conceded hydroelectric sites. This royalty is paid to the French State and partly allocated to departments. The implementation decrees are currently being prepared.

#### Specific regulations for wind energy generation

In France, the construction of wind farms is subject, pursuant to Articles L. 553-1 *et seq.* of the Environment Code, to obtaining a construction permit for wind farms with a height of 12 meters and above, together with a public inquiry and an impact study for a generation site exceeding 2.5 MW.

### 6.5.4.4 Other regulations relating to the environment, health, hygiene and safety

#### Environmental regulations

##### The law concerning water and the aquatic environment

The law concerning water and the aquatic environment of December 30, 2006, which mainly aims at recovering the ecological quality of water streams and improving water management, includes several provisions which may concern EDF, but also allows to include in water management policy issues related to electric supply security and hydroelectric generation priorities.

Accordingly, due to the ecological quality recovery goal, certain restrictions will be increased, namely due to the increase of the minimum rate of flow on the downstream of dams, to the possibility of amending or canceling the operation permit if significant disturbances are caused to certain migrating fish by the operation of the site, or to changes in waterstream ranks to inhibit the construction of new sites or set forth instructions for the renewal of operation permits. Nevertheless, the minimum rate flow system will be less stricter in some cases, namely for sites of state-of-the-art generation, and a certain flexibility in administrative proceedings has been organized in order to facilitate the set up of supplemental hydroelectric equipments.

#### PCB

The Group is subject to regulations relating to polychlorobiphenyls (PCB) and polychloroterphenyls (PCT) in the various countries where it operates, mainly in Europe and in Latin America.

European directive 96/59/EC of September 16, 1996 requires an inventory of equipment containing PCB and PCT, together with a national plan for decontamination and the gradual elimination of these substances, which are principally contained in certain electricity transformers and condensers. Decontamination of equipment containing these substances must be completed by December 31, 2010. In France, EDF negotiated with the Minister of the Environment an individual plan for the elimination and treatment of equipment containing PCB (approximately 9,000), which was approved by an order dated February 26, 2003.

#### Greenhouse gases

Some of the EDF Group's activities are subject to European directive 2003/87/EC (the "GHG directive") of October 13, 2003, which provides for a system for exchanging greenhouse gas emission quotas in the European Union, in accordance with the mechanisms set forth in the Kyoto Protocol. The directive provides, in particular, that greenhouse gas emission quotas must be allocated to the relevant companies under a "National Allocation Plan" (*Plan National d'Allocation des Quotas*, or "PNAQ") for the period from 2005 to 2007. In France, the GHG directive has principally been transposed by order n° 2004-330 of April 15, 2004 creating a greenhouse gas emission quota exchange system, and by the French Decree n° 2004-832 of August 19, 2004 relating to the greenhouse gas emission quota exchange system. Under these regulations, a PNAQ allocating greenhouse gas emission quotas to the relevant companies for the period from 2005 to 2007 was approved in France by the French Decree n° 2005-190 of February 25, 2005. This plan was finally approved by the European Commission on May 18, 2005. Under the French PNAQ 1, EDF was granted an allocation of approximately 23.5 million tons of CO<sub>2</sub> each year for the period from 2005 to 2007 for its relevant facilities in France, *i.e.*, for combustion facilities of more than 20 MW. The PNAQ for the second stage (2008-2012) is currently being prepared: a first draft had been prepared, subject to a public consultation and notified to the European Commission on September 15, 2006 but was finally withdrawn, since the Commission required a more significant reduction of the emission quotas. On December 29, 2006, the French government notified a new and stricter draft (total amount of quotas of 132.8 Mt against 155.6 Mt in the first draft), in particular, for the energy sector, and which could lead EDF to buy quotas.

Regulations transposing the GES directive have already been passed or are currently being prepared in other European countries.

European directive 2004/101/EC of October 27, 2004 ("emissions credits" Directive) modifying directive 2003/87 was transposed into French law, in the Environment code (articles L.229-5 *et seq.*), by French Law n° 2005-1319 of October 26, 2005 and implementation decree n°2006-622 of May 29, 2006. Emissions credits generated by project activities that are eligible for the mechanisms provided for by Articles 6 and 12 of the Kyoto protocol (Joint Implementation and Clean Development Mechanism) may be used in the context of the European market for the exchange of greenhouse gas emission quotas, to satisfy, subject to certain conditions, the annual obligations of quota restitutions that are borne by operators.

#### Natural sites and classified sites (buried lines)

The EDF Group is also subject to the regulations for classified and protected sites, under which electricity lines in France must be buried if they are located on classified sites or in national parks.

#### Regulations relating to health, hygiene and safety

##### Asbestos

The EDF Group is also subject to laws and regulations concerning asbestos. In France, regulations namely require the identification of asbestos-containing materials ("ACM") in buildings and, if necessary, monitoring measures or removal of the asbestos-containing materials. EDF is also subject to regulatory obligations regarding information disclosure and the protection of workers likely to inhale asbestos dust.

### Legionella

EDF operates air cooling towers, in particular, for the requirements of its electricity generation business, which are now subject to ICPE regulations. EDF must, among other obligations, carry out a methodical analysis of the risks of the proliferation of Legionella in its air cooling towers and implement a preventive maintenance plan for cleaning and disinfection. EDF is also obliged to carry out monthly or bimonthly analyses, depending on the type of facility involved. In the absence of any regulations relating to INB air cooling towers, the ASN requested in 2004 that EDF not exceed, pending the adoption of a specific order, certain concentrations of Legionella in its air cooling towers.

### 6.5.4.5 Principal draft regulations likely to have an impact on the EDF Group's business

A number of draft regulations, both at the European Union level and in France, of which the principal ones are described below, are likely to have a significant impact on the EDF Group's business.

#### 6.5.4.5.1 Future European Union regulations

##### 6.5.4.5.1.1 The "Energy and climate change package"

#### Presentation of the European Commission's "Energy and climate change package" on January 10, 2007

On January 10, 2007 the European Commission presented its "Energy and climate change package" (see Section 6.5.1.1 ("European legislation")), which gathers all energy sector strategic guidelines presented to the European Council and Parliament, aiming at creating the basis of a true European policy destined to fight against climate change and reinforce energy safety and European Union competitiveness. The "Energy and climate change package" includes a strategic analysis report and several other documents concerning the Internal Market of energy, the energy mix, renewable energies and climate change:

- The strategic analysis short report, "a European Energy Policy" summarizes the guidelines recommended both in the energy and the climate fields.

The European Commission's main purpose is to be able by 2020, to reduce CO<sub>2</sub> emissions due to energy consumption until they reach 20% below their 1990 level. The effort would be continued afterwards with a 35% reduction by 2030 and a 50% reduction by 2050. The 20% reduction goal for 2020 only concerns CO<sub>2</sub> emissions resulting from energy consumption waste.

Other aims are also set for 2020, such as a 20% improvement of energetic efficiency and the supply of 20% of all energy consumed through renewable sources.

- Internal Market: energy sector enquiry report (see section 6.5.1.1. ("European legislation")) completed by a benchmark report, in addition to the plan of priority interconnections.

The final energy sector enquiry report is structured on the basis of preliminary findings presented on February 16, 2006, with chapters which deal successively, for gas and then for electricity, with the main concerns of the Competition Division of the European Commission, namely: market concentration and power; the effects of vertical integration; the integration of national markets; transparency; and price-related matters. In conclusion, the report of the Competition Division

of the European Commission underlines the necessity of:

- Vigorous and coordinated implementation of European competition policies (antitrust, concentration controls, control of State aids).
- The treatment of structural issues and the improvement of the regulatory environment. To this effect, the report principally targets 4 presumed dysfunctions:
  1. conflict of interests due to insufficient separation between the networks and competitive activities;
  2. the gaps in regulation, in particular dealing with cross-border issues;
  3. the lack of liquidity;
  4. a general lack of transparency.

The benchmark report provides a comprehensive review of the functioning of the gas and electricity markets: the European Commission accordingly came to the conclusion that the foundations for the internal market were well implanted in Europe but that its construction is still largely incomplete. Amongst the obstacles to competition, it particularly criticizes large integrated companies because of their control of GRTs. The obstacle related to the heterogeneity of national regulations is also highlighted.

- The European Commission's first approach is "to ensure non-discriminatory access to the networks thanks to unbundling". The European Commission is developing theoretical advantages of assets and liabilities unbundling and comes to the conclusion that a reinforcement of the existing dissociation rules is necessary but must leave two options open to the GRT: a strict separation or an Independent System Operator ("ISO") model in which the assets stay within the control of the parent company and are made available to the GRT, in exchange of compensation.
- The second approach consists of "improving the regulation on network access at national and European levels". The European Commission plans to reinforce the powers of national regulators and their independence, and studies the issue of coordination between regulators and has suggested three options:
  1. The reinforcement of cooperation between national regulators, by introducing a mechanism which allows the European Commission to control regulators' decisions which could influence the internal market.
  2. The reinforcement of the role of the group of regulators which would be granted with decision making powers having the force of law, notably vis-a-vis national regulators.
  3. "a new entity at the Community level" whose structure is not yet defined.
- The third approach is: "the reduction of the possible range of unfair competition". The European Commission is developing 3 issues to be considered: to define restrictive rules in relation to transparency; to toughen the system applicable to the access to gas transmission networks and rules relating to long-term gas agreements (transmission and downstream); and eventually to define a new regulatory framework for gas storage.
- The fourth approach concerns the coordination of the GRTs. The European Commission refers to two options:
  1. option "ETSO+" or "GIE+" : it entails creating a group of GRTs which will be collectively responsible for developing technical standards and rules relating to the networks' security and to monitor the development of the networks;

2. option of regional system operators i.e., cross-border operators.

- The fifth approach aims “to provide a clear framework for investment in power plants and for the import and gas transmission infrastructure”, making reference to the European monitoring project already mentioned in the Green Paper and suggests several issues to be considered.
- The sixth chapter includes “questions pertaining to small consumers” (private individuals and “small professionals”). It discusses the dissociation rules concerning GRDs indicating that the European Commission will continue to pursue the States who do not apply the existing rules and plans to reinforce powers of regulators to ensure that they are applied. The European Commission also plans to reexamine the relevance of threshold of 100,000 customers below which GRDs are discharged of the essential demands of dissociation set forth by the directives in force.

The report also examines consumer protection and “energy precariousness”, destitute clients protection and metering. The European Commission reiterates the legitimacy of public service commitments subject to the condition that they do not represent an obstacle to effective competition. Concerning tariffs, the report indicates that controlling prices may introduce imbalances but may be necessary subject to being targeted “in order to protect consumers in certain specific circumstances, for example during the transitional period towards effective competition.”

- Energy mix: the essential document is the Nuclear Tentative Program (*Programme indicatif nucléaire* or “PINC”). It is accompanied by a communication relating to fossil energy and a strategic plan for energy technologies. The PINC emphasises notably the contribution made by nuclear energy to the pursuit of all of the European Union’s key objectives (competitiveness, safety of supply, climate change).
- Renewable energy: in addition to two strategic documents concerning renewable energy, this chapter includes a report on biofuel and a proposal for a “heat and cold generated by renewable energy sources” directive, announced but yet to be published. The European Commission suggests that Member States replace the 3 current indicative objectives with two restrictive objectives for 2020: that 20 % of all energy consumed within the European Union comes from renewable sources and that 10 % of fuel oils intended for land transport be composed of biofuel. These objectives will be implemented by country in order to take national specificities into account ; each State must submit to the European Commission an action plan enabling their fulfillment.
- Climate: this involves a communication entitled “Limiting global climate change to 2 degrees Celsius: the way ahead for 2020 and beyond”. The “Energy and climate change package” asks States to endorse two ways:
  - presenting other developed countries an objective of greenhouse gas emissions in 2020 which are 30% lower than their 1990 level. If an international agreement is signed, the European Union will give itself this objective of 30%;
  - retain an objective of 20% for the European Union only for 2020 if no international agreement is signed.

## The Energy Council of February 15, 2007

The European Union’s Energy Ministers, meeting at the Energy Council on February 15, 2007, examined the package of proposals “Energy and climate change” presented by the European Commission on January 10, 2007. The Energy Council “endorses the ambitious global objectives to reduce greenhouse gas emissions settled by the Union for 2020” and approved the European Commission’s proposals concerning supply safety and solidarity between Member States, energy technologies and international energy policy.

The Energy Council asked the European Commission to draft the measures which, taking into account the characteristics of the gas and electricity sectors, as well as those of the regional and national markets, provide for an effective dissociation of generation activities and network operations “based on independently run network operation systems which are sufficiently regulated, which guarantee open and equitable access to transmission infrastructures and the independence of decisions concerning investment in the infrastructures”.

The Energy Council also approved the principle of a greater harmonization of powers and reinforcement of the independence of national energy regulators, the development of an independent mechanism allowing for national regulators to cooperate and make decisions on important cross-border matters, the creation of a new European mechanism for GRTs in order to better coordinate the functioning of the networks and their safety and a more performant integrated system for cross-border electricity trading, including the drafting of technical standards.

As for what concerns the chapter on “energy efficiency and renewable energies”, the Energy Council approves the figure of 20% for the proportion of renewable energy within the Union’s total energy consumption by 2020, as well as the minimum proportion of 10% of biofuels within the total consumption of petrol and diesel oil meant for transport within the European Union by 2020.

## The European Union Council of March 8 and 9, 2007

European Union heads of States and governments, meeting at the Brussels European Council on March 8 and 9, examined the Union’s energy policy and its role in the fight against climate change. Presided by the German chancellor, Mrs. Angela Merkel, they decided upon stringent objectives to help fight global warming and reduce EU greenhouse gas emissions by at least 20% by 2020, and fixed an objective, concerning the proportion of renewable energy sources in the total European consumption of energy, of 20% by 2020. It is specified that national objectives will be determined in order to respect this objective of an average of 20% “will be elaborated with full entailment by Member States, taking care to proceed to a “just and adequate allotment”, taking into account their current alternatives of renewable energy, their “energy mix” and their respective potentials. The Council stresses that it acknowledges the evaluation by the European Commission relating to “the contribution of nuclear energy in the context of growing concerns relating to the safety of energy supplies and the reduction of CO<sub>2</sub> emissions” and in addition it reminds “that it is up to each Member State to decide whether they will use the option of nuclear energy or not “.

The main measures of the energy action plan 2007-2009 adopted by the head of States and governments of the European Union during the Council are the following:

### • Global warming

- The European Union is taking “independently, a firm commitment to reduce greenhouse gas emissions by at least 20% of the 1990 levels before 2020”.
- this objective could be 30% in the context of an international agreement if “other developed countries commit themselves to attaining similar reductions” and that “the more advanced developing countries make a contribution adapted to their responsibilities and capacities”.
- Developed countries should reduce their emissions by 60 to 80% compared to 1990 by 2050.
- Renewable energy sources (wind, solar, etc.) must represent 20% of the European Union's energy consumption in 2020. The share of this effort between the 27 states will be in close collaboration with Member States and will take into account “the different national starting points” (the current level of renewable energies, energy mix and potential of each country).
- Biofuels must compulsorily represent less than 10% of the total petrol and diesel oil consumption for transport
- Energy efficiency: to economize 20% of the total consumption of energy by 2020 (in relation to the consumption predicted by the unchanged policy) thanks to a more efficient use of energy notably in buildings, in industry and transport. The 27 Member States concretely asked the European Commission to make specific suggestions relating to office and street lighting (to be adopted by 2008) and incandescent lamps or other private lighting (to be adopted by 2009).
- It is up to each Member State to decide whether they will use the option of nuclear energy or not.
- To develop CO<sub>2</sub> trapping and storing technologies (for future carbon power plants).

### • Single market for gas and electricity

- The Commission must clarify by June the measures contemplated to increase competition, for example the “effective” separation of networks management and generation activities (unbundling).
- Assign European coordinators to energys network projects priority interconnections, like between France and Spain or Germany, Poland and Lithuania.

### • Secure and diversify sources of supply

- Ensure that the European Union speaks as one.
- Finalize the new cooperation agreement with Russia, in particular in the energy field.
- Strengthen European Union relations with central Asia, the regions of the Caspian Sea and Black Sea.
- Strengthen relations with Algeria, Egypt and other producing countries.

Based upon the guidelines issued by the Council in its conclusions of the beginning of March, the European Commission will specify its proposals for the next meeting of the Energy Ministers Council which will take place on June 7 and 8, 2007. These proposals must then take the form of European legislative projects during the second semester of 2007, under the Portuguese presidency.

### 6.5.4.5.1.2 Other future European regulations

The Member States should submit to the European Commission their drafts of quota allocation plans for the second stage (2008-2012) before June 30, 2006 in order for them to be approved by the end of 2006.

Some States have already submitted their drafts, on which the Commission pronounced on November 29, 2006. France submitted its allocation plan draft (second version) to the European Commission on December 29, 2006 (see Section 6.5.4.4 (“Other regulations relating to the environment, health, hygiene and safety”)).

The European Commission has announced that it does not intend to revise the greenhouse gas emissions quota directive, but rather to use the adaptation options which the directive contains, in order to introduce certain changes in its application for the period from 2008 to 2012. At the European level, the European Commission must gather feedback on the implementation of European directive 2003/87/EC, in order to prepare the future directive covering the post-2012 period. At the same time, international negotiations for the post-2012 period (post “Kyoto”) will take place, for which no deadline has yet to be formally announced. The positions that will be adopted will certainly call for significant reductions in greenhouse gas emissions and the carbon market will become more and more popular.

The European directive relating to energy efficiency during final use and to energy-related services, which sets an indicative target for reducing consumption, to be achieved at the level of Member States, was adopted by the Council on March 14, 2006. Each state will have to present an energy efficiency action plan on three dates (June 30, 2007, June 30, 2011, and June 30, 2014) and the public sector will have to play an “exemplary role”. In addition to the special effort energy suppliers will have to put into informing customers, (requirements relating to invoicing and accounting), the determination of the role of such energy suppliers is left to the Member States. The effect of the directive will thus have to be assessed in the context of the transposing laws.

The CAFE (Clean Air For Europe) program, launched in 2001 by the European Commission to improve the quality of air in Europe, culminated on September 21, 2005 in the adoption by the European Commission of a topical strategy setting out the integrated actions to be taken to reduce the harmful effects of atmospheric pollution on human health and the environment by 2020. This strategy should then result in strengthening the existing regulatory framework regarding air quality, including the European directive 2001/81/EC (NEC) setting national emission ceilings for certain atmospheric pollutants and the European directive 2001/80/EC (LCP) limiting emissions of certain pollutants by large combustion plants into the air.

The European directive draft of October 24, 2005 which intends to create an European framework in order to protect and preserve the aquatic environment, sets forth that the States will determine the strategy for European maritime waters to obtain, by 2021, a good ecological level of the aquatic environment; monitoring and implementation measures programs will be adopted. Some of EDF's generation facilities (offshore wind turbines, sea-side power plants or even inland power plants if they can directly or indirectly affect the aquatic environment) could in time be subject to new restrictions.

#### 6.5.4.5.2 Future regulations in France

Some of the EDF Group's industrial facilities are subject to certain provisions of the French law n° 2003-699 of July 30, 2003 relating to the prevention of technological and natural risks and damage compensation. This law specifically creates technological risk prevention plans (plans de prévention des risques technologiques, or "PPRT") for all sites classified as being at risk, thereby prohibiting new construction projects in the areas listed. It also increases the obligation to restore a classified facility and covers subcontracting in plants at risk. One of the main decrees for application of this law, which has not yet been adopted, may broaden the obligation with respect to financial guarantees to a larger number of facilities.

For what concerns greenhouse gas, a draft of order (which completes the existing regulations) relating to the clean development mechanism and dams of a capacity superior to 20 MW is expected to complete the transposition of directive 2004/101/EC which amends directive 2003/87/EC which provided for a system of greenhouse gas emission quotas exchange within the European Union, in accordance with the Kyoto protocol project.

EDF's liability for environmental damages caused by some of its non-nuclear activities should be increased by the coming transposition into French law of European directive 2004/35/EC of April 21, 2004. The directive provides for a non-retroactive system of objective liability, limited to certain environmental damages. Accordingly, the operator of a facility shall be liable if it is possible to establish a

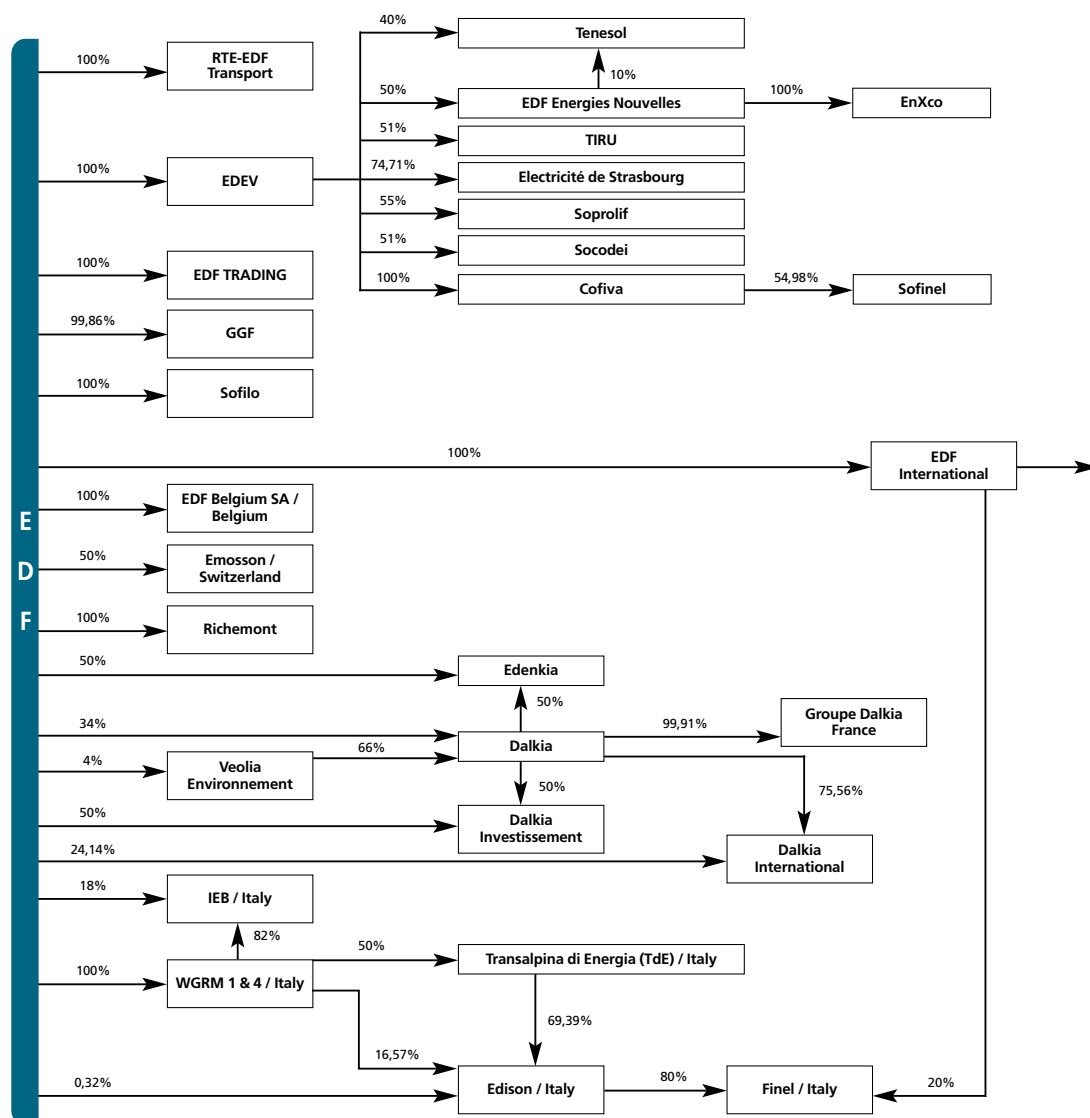
causal relation between the damage and its activity. The directive also allows public administrative authorities to obtain guarantees on operators' assets, without creating a compulsory financial guarantee system.

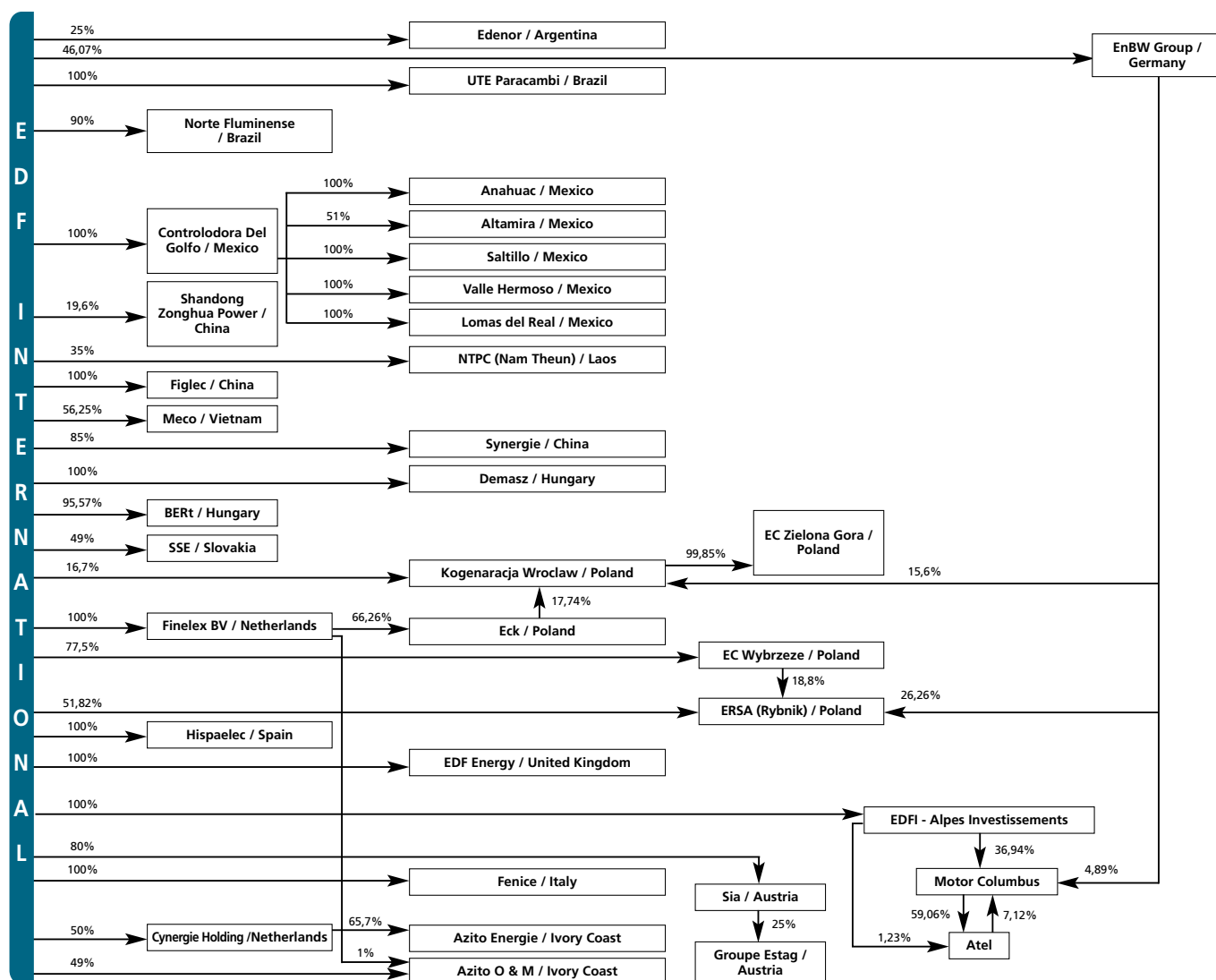
The Group, and EDF in particular, are also subject to European directive 2004/40/EC of April 29, 2004 concerning the minimum safety and health requirements as for what concerns employee exposure to risks due to physical agents (electromagnetic fields), which shall be transposed at latest by April 30, 2008. This directive sets forth the minimum requirements concerning risks evaluation and reduction, as well as requirements applicable to employee information and training. Such requirements could have a significant impact namely on the Group's Generation-Engineering Division which employs electric maintenance employees close to the alternators placed near the exit of the protection power plant, but also on Distribution, taking into account the electromagnetic fields generated by source-substations and work under voltage.

European directive on energy efficiency in final utilizations and energy services, which sets forth a tentative goal for consumption reductions for Member States and leaves a significant place for the subsidiarity principle (see Section 6.5.4.5.1.2 ("Other future European Regulations")), should be transposed into French law by May 17, 2008.



A simplified organizational chart for the Group, as of December 31, 2006, is presented below. The percentages for each entity represent the ownership interest in share capital (as used for the purposes of consolidation).





The names of all the companies within the Group's consolidation scope are mentioned in note 39 to the consolidated financial statements for the year ended December 31, 2006.

### Information about the subsidiaries.

For a description of the activities of EDF's subsidiaries, their recent acquisitions, their consolidated financial statements and/or their economic weight in the Group, see Section 6.3 ("Presentation of the EDF Group's International Activity") of this *Document de Référence*. In addition, note 7.1 to the consolidated financial statements for the year ended December 31, 2006 provides further financial information on the Group's companies presented by geographical zone.

### Functions exercised by EDF's managers

Functions exercised by EDF's managers in the Group's subsidiaries are set out in Annex C of this *Document de Référence*.

### Contracts within the Group

#### Cash pooling agreements entered into between EDF and its subsidiaries:

Thanks to the system for cash pooling set up by EDF, all the cash positions of the subsidiaries can be centralized and the Group's liquidity can be optimized. This cash pooling consists in grouping all the cash balances of the subsidiaries with that of the parent company. All the subsidiaries, French or international, in which EDF has effective control participate. RTE-EDF Transport does not participate.

The system for cash pooling in place for the companies of the EDF Group is provided for by the liquidity agreements. Bilateral agreements between EDF and each subsidiary define the specific conditions for each arrangement, such as: remuneration of the balances, etc.

On the international level, subsidiaries taking part in the system enter into a framework agreement, whereby EDF serves as the Liquidity Center.

EDF also centralizes all the currency flows from its French subsidiaries.

#### Financial flows between EDF and its subsidiaries

Apart from the financial flows relating to cash pooling agreements mentioned above, financial flows between EDF and its subsidiaries also relate to distributions of dividends within the Group. Although a substantial part of the dividends paid by some of the Group's subsidiaries (including EnBW and EDF Energy) are exclusively paid to EDF International (approximately €568 million for the financial year ended December 31, 2006), EDF received approximately €616 million from its other consolidated subsidiaries for the same financial year.

Other financial flows between EDF and its subsidiaries are loans, asset transfers and guarantees effected by the parent company of the Group for the benefit of certain subsidiaries.

The financial flows relating to the fees paid by the subsidiaries are not significant. In effect, the Group's subsidiaries usually have their own central services and operate under their own brands.

A description of the financial flows relating to contracts between EDF and its subsidiaries is set forth in Chapter 19 ("Related party transactions") below.

## ➔ 8.1 - INDUSTRIAL ASSETS

As of December 31, 2006, the net book value of the EDF Group's Property, plant, and equipment was approximately €104 billion (see note 20 to the consolidated financial statements for the fiscal year ending December 31, 2006).

## ➔ 8.2 - SERVICE SECTOR REAL ESTATE ASSETS

The Real Estate Pole (which includes the Real Estate Division (*Direction de l'Immobilier*, or "DIRIM") and its real estate attached subsidiaries) is in charge in France of providing the Group entities with real estate services by managing and optimizing a service sector real estate portfolio of nearly 4.5 million square meters of service premises, of which approximately 77% is owned outright by the Group and 23% is leased from third parties (leases and concessions).

The Real Estate Division is in charge of real estate assets' management, lease management, the technical use of the premises as well as of the maintenance of the premises and of the services provided to the space users, by creating a sub-lease system for Group entities and units. By taking leases from third parties, the DIRIM has taken commitments amounting to €899 million for the period 2007-2015, as developed in the notes to the consolidated financial statements.

## ➔ 8.3 - EMPLOYERS' PARTICIPATION IN THE CONSTRUCTION EFFORT (PARTICIPATION DES EMPLOYEURS À L'EFFORT DE CONSTRUCTION, OR "PEEC")

EDF is subject to an obligation to participate each year in the construction effort. Its contribution was 0.45% of its payroll, which represented €18.4 million for 2006. In exchange for this payment,

EDF's employees benefit from services intended to facilitate their residential mobility: assistance with renting, assistance with house purchase, assistance with mobility, advice on financing.

## ➔ 8.4 - SUBSIDIZED HOME OWNERSHIP LOANS

As part of its social policy, EDF supports its employees in purchasing their principal residence. Following the conclusion of a cooperation arrangement with the *Crédit Immobilier de France* ("CIF"), the latter now takes care of granting, financing, and managing loans to the company's employees. EDF grants compensation to the CIF for the gap resulting from the difference between the subsidized rate (at which CIF grants loans to EDF employees) and the rate resulting from the bank survey carried out in 2005 on the basis of which the CIF was chosen.

As of December 31, 2006, the "non-securitized", outstanding balance for personal residence mortgages was €17.3 million on EDF's balance sheet.

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### Inclusion by reference

In application of article 28 of EU Regulation 809/2004 of April 29, 2004, the operating and financial review for the year ended December 31, 2005 contained in chapter 9 (pages 136 à 177) of the 2005 *Document de Référence* is incorporated by reference in the present document.

### Restatements for the years 2005 and 2004

For purposes of comparison between 2005 and 2006, the consolidated financial statements published for 2005 have been restated to reflect the changes in accounting methods and presentation described in Section 9.4 ("Comparability") of this document.

In addition, Section 20.3 of the present document describes the restatements for the year 2004 for purposes of comparison between the 2004 consolidated financial statements and the 2005 restated financial statements.

### Introduction to the operating and financial review for the year ended December 31, 2006

The analysis below has been prepared on the basis of the financial information for the years 2006 and 2005 and must be read with the Group's consolidated financial statements for the year 2006 included in section 20.1 of the present document.

The Group's consolidated financial statements have been prepared under the international accounting standards published by the IASB and approved by the European Union for application at December 31, 2006. These international standards include IAS (International Accounting Standards), IFRS (International Financial Reporting Standards), and interpretations (SIC and IFRIC).

The financial statements for 2006 contain comparative information for the financial year 2005 prepared on the same basis. The financial information at December 31, 2005 has been restated to reflect the retrospective application of interpretation IFRIC 4 and changes in presentation (see section 9.4 ("Comparability") of the present document).

The accounting and valuation methods applied by the Group in these consolidated financial statements for the year ended December 31, 2006 are identical to those used in the consolidated financial statements for the year ended December 31, 2005, except for the standards, amendments and interpretations which became mandatory from January 1, 2006 and which are described in note 1.2 to the 2006 consolidated financial statements.

With the exception of IFRIC 4, these changes have no significant effect on the financial information reported.

The Group did not opt for early application of the following standards, amendments and interpretations adopted by the European Union at December 31, 2006:

- Amendment to IAS 1, "Presentation of financial statements – capital disclosures",
- IFRS 7, "Financial instruments: disclosures": this standard introduces new requirements for disclosures on financial instruments,
- IFRIC 7, "Applying the restatement approach under IAS 29: financial reporting in hyperinflationary economies",
- IFRIC 8, "Scope of IFRS 2, Share-based payment",
- IFRIC 9, "Reassessment of embedded derivatives".

The Group has not opted for early application of the following standards, amendments and interpretations likely to be endorsed for application by the European Union in 2007:

- IFRS 8, "Operating segments",
- IFRIC 10, "Interim Financial Reporting and Impairment",
- IFRIC 11, "Group and Treasury Share Transactions",
- and IFRIC 12, "Service Concession Arrangements".

The potential impact of all of these standards, amendments and interpretations is currently being evaluated.

## 9.1 - KEY FIGURES

### Extracts from the consolidated income statements

(in millions of euros)	Year Ended December 31,	
	2006	2005 <sup>(1)</sup>
Sales	58,932	51,047
Operating profit before depreciation and amortization (EBITDA)	13,930	12,906
Operating profit (EBIT)	9,356	7,993
Income before taxes of consolidated companies <sup>(2)</sup>	6,655	4,578
<b>EDF NET INCOME</b>	<b>5,605</b>	<b>3,230</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of the IFRIC 4 interpretation and of certain income statement reclassifications (see note 4 to the consolidated financial statements at December 31, 2006).

(2) The income before taxes of consolidated companies is the Group's net income before income taxes, share in income of companies accounted for under the equity method, net income from discontinued operations and minority interests.

### Extracts from the consolidated balance sheets

(in millions of euros)	December 31, 2006	December 31, 2005 <sup>(1)</sup>
Non-current assets	130,824	123,524
Current assets	48,122	46,884
Assets classified as held for sale	140	728
<b>Total assets</b>	<b>179,086</b>	<b>171,136</b>
Equity (EDF's share)	23,309	19,313
Minority interests	1,490	961
Non-current provisions	43,124	41,974
Special concession liabilities	36,227	34,907
Non-current financial liabilities	19,983	23,511
Other non-current liabilities <sup>(2)</sup>	10,031	10,538
Current financial liabilities	15,110	11,933
Other current liabilities <sup>(3)</sup>	29,696	27,407
Liabilities related to assets classified as held for sale	116	592
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>179,086</b>	<b>171,136</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of IFRIC 4 interpretation (see note 4 to the consolidated financial statements at December 31, 2006).

(2) Including "Other liabilities" (non-current fraction) and "Deferred tax liabilities".

(3) Including "Provisions" (current liabilities), "Trade payables and other current liabilities payable", "Current tax liabilities" and "Other liabilities" (current fraction).

### Extracts from the consolidated cash flow statements

(in millions of euros)	December 31, 2006	December 31, 2005 <sup>(1)</sup>
Net cash flow from operating activities	11,795	8,439
Net cash flow used in investing activities	(13,769)	(10,621)
Net cash flow used from (used in) financing activities	(1,794)	5,555
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,768)</b>	<b>3,373</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of the IFRIC 4 interpretation (see note 4 to the consolidated financial statements at December 31, 2006).

### Information concerning net indebtedness

(in millions of euros)	December 31, 2006	December 31, 2005 <sup>(1)</sup>
Loans and other financial liabilities	28,142	29,718
Derivatives used to hedge liabilities	237	240
Cash and cash equivalents	(3,308)	(7,220)
Liquid assets	(10,154)	(4,580)
Net financial liabilities from companies disclosed in non-current liabilities related to assets classified as held for sale	15	434
<b>NET INDEBTEDNESS</b>	<b>14,932</b>	<b>18,592</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of the IFRIC 4 interpretation (see note 4 to the consolidated financial statements at December 31, 2006).



### ➔ 9.2 - RESULTS FOR 2006

#### 9.2.1 Sales

Consolidated sales reached €58,932 million in 2006, an increase of 15.4% (€7,885 million) from 2005, with particularly strong growth in Europe excluding France. This increase includes the effects of changes in the scope of consolidation (€2,129 million, primarily due to consolidation of Edison over the full year in 2006 compared to one quarter in 2005), and relatively marginal foreign exchange effects (€122 million) mainly concerning the rise in the Brazilian real. Organic growth<sup>30</sup> in sales was 11.0%, driven principally by business in Europe excluding France.

Sales growth in **France**<sup>31</sup> (6.4%) reflects market price and tariff rises (60%) and volume increases (40%) (natural gas sales and electricity volumes sold). The 1.7% rise in regulated electricity sales tariffs that took effect from August 15, 2006 had a limited impact on the increase in sales. France contributed 54.2% of the Group's consolidated sales in 2006 compared to 58.8% in 2005.

In **Europe excluding France**<sup>32</sup> (the United Kingdom, Germany, Italy and Rest of Europe segments), sales growth reached 37.1% (19.7% in organic growth). The major factors in the organic sales growth were price and tariff rises, together with sales volume rises in the United Kingdom and Germany. In 2006, sales in Europe excluding France represented 42.2% of consolidated sales, compared to 35.6% in 2005.

#### 9.2.2 EBITDA

Consolidated EBITDA for 2006 increased by 7.9% (€1,024 million) to reach €13,930 million. The impact of changes in the scope of consolidation was €310 million, primarily relating to the consolidation of Edison over a full year in 2006 (impact of €632 million) and more than offset the negative scope changes resulting from the deconsolidation of Light in the second half of 2006, accounting for Edenor under the equity method from August 2005 and the sales of ASA and two Egyptian power plants in March 2006, as well as the negligible impact of exchange rate fluctuations (€26 million). Organic growth in consolidated EBITDA was 5.3%, mainly driven by the Rest of Europe and Germany segments. EBITDA includes a €470 million provision to cover compensation to competitors relating to the implementation of the transition tariff ("*Tarif transitoire d'ajustement du marché*" or TaRTAM) introduced by the Energy Law of December 7, 2006.

In **France**, EBITDA rose by 4.1%, and includes recognition of the €470 million provision in 2006 mentioned above. France contributed 63.8% of Group EBITDA in 2006, compared to 66.2% in 2005.

In **Europe excluding France**, growth in EBITDA was 23.0% and organic growth was 7.9%. The organic growth was observed in the Rest of Europe (22.6%), boosted by EDF Trading (which accounted for almost all of this growth), and to a lesser degree in Germany (7.2%). Europe excluding France contributed 32.7% of Group EBITDA in 2006 compared to 28.7% in 2005.

#### 9.2.3 EBIT

**Consolidated Group's EBIT** was €9,356 million in 2006, 17.1% higher (€1,363 million) than in 2005. The organic growth of consolidated Group's EBIT is 16.1%.

The increase in the Group's EBIT, which is much higher than EBITDA growth, relates to recovery of impairment losses following the sale of Light (€624 million), the discontinuation in France of the exceptional additional pension benefit (€328 million) and capital gains on the sale of ASA and Egyptian power plants (€345 million). However, the growth was limited by recognition of EDF's goodwill impairment on EnBW in the Group's consolidated financial statements (negative impact of €318 million on Group EBIT) following the regulator's decision to reduce transmission and distribution tariffs, and smaller scale impairments recorded by several Group entities.

#### 9.2.4 EDF Net income

The **EDF net income** was €5,605 million, an increase of 73.5% (€2,375 million) from 2005, mostly attributable to the increase in EBIT (+ €1,363 million) and financial result (+ €714 million) and the decrease in income taxes (-€299 million).

#### 9.2.5 Net indebtedness

The **Group's net indebtedness** amounted to €14,932 million at December 31, 2006, a decrease of €3,660 million compared to December 31, 2005 (€18,592 million).

This decrease was largely achieved by the free cash flow<sup>33</sup> generated (€6,683 million) and the positive impacts of the changes in the scope of consolidation on the net indebtedness (€1,287 million) which more than offset the sum of capital expenditures (€2,704 million), dividends distributed (€1,532 million) and the payment related to the dismantling of the Marcoule site (€551 million) in 2006.

<sup>30</sup> For the entire Chapter 9, "organic" growth is growth that does not incorporate the positive or negative effects of changes in the scope of consolidation (acquisitions or disposals of subsidiaries), or in exchange rates or accounting methods.

<sup>31</sup> For France, organic growth is equal to nominal growth.

<sup>32</sup> For the entire Chapter 9, "Europe excluding France" means the United Kingdom, Germany, Italy and Rest of Europe segments.

<sup>33</sup> The reconciliation between the net cash flow from operations and the free cash flow is detailed in section 9.9.2 of the present document.

## ➔ 9.3 - PRINCIPAL SENSITIVE ACCOUNTING METHODS SUBJECT TO ESTIMATES AND JUDGMENTS

The main accounting and valuation methods are presented in note 2 to the Group's 2006 consolidated financial statements.

The preparation of the financial statements requires the use of judgments, best estimates and assumptions in determining the value of assets and liabilities, income and expenses recorded for the period, and positive and negative contingencies at the year-end. The figures in future financial statements may differ from current estimates due to changes in these assumptions or economic conditions.

The principal sensitive accounting methods involving use of estimates and judgments are described below. Given their importance in the Group's financial statements, the impact of any change in assumption in these areas could be significant.

### • Nuclear provisions

The measurement of provisions for end of nuclear fuel cycle, decommissioning and last cores is sensitive to assumptions concerning costs, inflation rate, long-term discount rate, and disbursement schedules. A revised estimate is therefore established at each closing date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Group. Any significant differences resulting from these revised estimates could entail changes in the amounts accrued.

Nuclear provisions amounted to €28,713 million at December 31, 2006.

A change in the discount rate would be considered as a change in estimate in the same way as a change in disbursement schedule or contractor's quote, and the impacts would be recognized as follows:

- in the corresponding assets when the provision was initially covered by balance sheet assets,
- in the income statement in all other cases.

Such a change could have a significant impact on the Group's consolidated financial statements.

### • Pensions and other long-term and post-employment benefits

The measurement of pensions and other long-term and post-employment benefits is based on actuarial valuations that are particularly sensitive to assumptions concerning discount rates and wage increase rates.

The corresponding provisions amounted to €13,928 million at December 31, 2006.

### • Impairment of goodwill and long-term assets

Impairment tests on goodwill and long-term assets are sensitive to the macro-economic and segment assumptions used, and medium-term financial forecasts. The Group therefore revises the underlying estimates and assumptions based on regularly updated information.

The net value of goodwill on subsidiaries and joint ventures was €7,123 million at December 31, 2006.

### • Financial instruments

In measuring the fair value of unlisted financial instruments (essentially energy contracts), the Group uses valuation models involving a certain number of assumptions subject to uncertainty. Any change in those assumptions could have a significant impact on the financial statements.

### • Energy and delivery not yet metered

As explained in note 2.7 to the 2006 consolidated financial statements, the quantities of energy delivered but not yet measured nor billed are calculated at the reporting date based on consumption statistics and selling price estimates. These statistics and estimates are sensitive to the assumptions used in determining the portion of sales not billed at the closing date.

### • Valuation of obligations concerning French public distribution concession assets to be replaced

As mentioned in note 3 to the 2006 consolidated financial statements, the Group has continued to apply the same accounting treatments as previously. In view of the specific nature of French public distribution concession contracts, the Group has opted to present its obligation to renew property, plant and equipment in the balance sheet at a value consisting of the amount of contractual agreements as calculated and disclosed to the grantors in the annual business reports. An alternative approach would be to value the obligations based on the discounted value of future payments necessary for replacement of these assets at the end of their industrial useful life. The impacts this alternative approach would have had on the accounts are shown in note 3 to the 2006 consolidated financial statements for information. Whatever valuation method is used, measurement of the concession liability concerning assets to be replaced is notably subject to uncertainty in terms of cost and disbursement dates.

### • Transition tariff (*Tarif réglementé transitoire d'ajustement de marché* or TaRTAM)

To assess the contribution payable by the Group during the two years concerned by the transition tariff defined in the French law of December 7, 2006, various assumptions have been used based on the best available information and forecasts, particularly regarding the numbers of customers applying to benefit from this tariff, developments in electricity market prices and the share of the compensation to be financed by the Contribution to the Public Electricity Service (*Contribution au Service Public de l'Électricité* or CSPE).

Based on these assumptions, the provision recorded for the entire period of application of this transition tariff amounts to €470 million at December 31, 2006 (see note 5.1.1.4 to the 2006 consolidated financial statements).

### • Other management judgments

The use of estimates and assumptions is also particularly important in measuring the amounts of the Contribution to the Public Electricity Service (CSPE) receivable for the year, and in the recognition of deferred tax assets.

### ➔ 9.4 - COMPARABILITY

For purposes of comparison between 2005 and 2006, the consolidated financial statements published for 2005 have been restated to reflect the changes in valuation and presentation methods mentioned below.

#### • Income statement reclassifications

To provide a more economic analysis of energy-related costs, "Fuel and energy purchases" in the income statement have since January 1, 2005 included:

- energy delivery costs, previously reported under "Other external expenses";
- costs related to CO<sub>2</sub> emission rights, previously included in "Other operating income and expenses".

The impacts of these reclassifications are described in note 4.1 to the 2006 consolidated financial statements.

#### • Impact of application of IFRIC 4

The interpretation IFRIC 4, "Determining whether an arrangement contains a lease", came into force on January 1, 2006. This interpretation concerns the identification of agreements that convey the right to use an asset or group of specific assets to the purchaser although they do not have the legal form of a lease contract, in that the purchaser in the arrangement benefits from a substantial share of the asset's production and payment is not dependent on production or market price. Such agreements must be recognized as operating or finance leases in accordance with IAS 17.

After reviewing contracts for which IFRIC 4 might apply, the Group has proceeded to the necessary restatements in the financial statements for 2005. The principal types of contract concerned by this interpretation are agreements related to independent power plants (IPP), for example in Latin America and Asia, certain construction and management contracts for infrastructures belonging to third parties – as in the United Kingdom – and energy supply contracts.

Application of IFRIC 4 is considered as a change in accounting policy, and the comparative information has been restated accordingly. The resulting impact on Group equity at January 1, 2006 is €152 million, including a positive effect of €9 million on translation adjustments.

The detailed impact of the application of interpretation IFRIC 4 on the income statement, the balance sheet and the cash flow statement for the year 2005 is detailed in notes 4.2.1, 4.2.2 and 4.2.3 to the 2006 consolidated financial statements.

#### • Interest rate effect of cross currency swaps

Following a change in the interpretation of standard IAS 39 from January 1, 2006, the Group now records the change in fair value resulting from the interest rate effect of derivatives hedging a net investment in a foreign operation in equity in the same way as the change in value resulting from foreign exchange differences. These effects were previously included in the income statement. The interest rate impact on equity for 2006 amounts to €(101) million.

### ➔ 9.5 - ECONOMIC ENVIRONMENT AND SIGNIFICANT EVENTS

#### 9.5.1 Economic environment in the energy sector

##### 9.5.1.1 Trends in market prices and sales tariffs for electricity and natural gas

###### Spot prices

In 2006, spot electricity prices rose in **France** by 5.6% baseload and 8.2% peakload from the previous year, to an average €49.3/MWh baseload and €69.3/MWh peakload compared to €46.7/MWh and €64/MWh respectively in 2005<sup>34</sup>, against a background of oil price rises and considerable variations in the price of CO<sub>2</sub> emission quotas. 2006 was marked by high prices early in the year due to the long cold winter, and a price peak in late July (reaching its highest point of €417/MWh on July 26) resulting from the heatwave of the second half of the month. From the autumn onwards, prices settled at low-for-season levels because of the mild weather.

In **Germany**, average spot prices were €50.8/MWh baseload and €73.3/MWh peakload<sup>34</sup>, increases of 10.5% and 16.2% respectively from 2005.

In the **United Kingdom**, spot prices were higher by 7% for baseload and 9.2% for peakload, settling on average at €59.1/MWh baseload and €76.5/MWh peakload<sup>34</sup>. This is explained by the sustained rise in natural gas prices until April 2006. Late in the year, the fall in natural gas prices brought electricity spot prices down.

Spot prices in **Italy** rose by 27.6% baseload and 23.7% peakload, reaching an average of €74.7/MWh baseload and €106.2/MWh peakload<sup>34</sup>. Prices in Italy are traditionally higher than in the rest of continental Europe, as much of the country's electricity is generated using imported oil and natural gas.

###### Forward prices

As in 2005, the price of annual contracts on the major European electricity markets increased over 2006.

The price in France for the 2007 annual contract was €56.4/MWh on average<sup>35</sup> in 2006, a 33% rise compared to the 2006 annual contract which was negotiated on average at €42.2/MWh in 2005.

In Germany, the annual contract price was 32% higher in 2006, with the listed price of the annual contract rising from €41.2/MWh in 2005 to €54.9/MWh in 2006<sup>35</sup>. The price of the annual contract also

<sup>34</sup> Source: Powernext (intraday average).

<sup>35</sup> 2005-2006 change in Platts average baseload year ahead index for delivery in 2007 in France and Germany and for delivery from April 1, 2007 for the UK.

rose by 15% in the United Kingdom over 2006: in 2006 the annual contract price was negotiated at €71.4/MWh on average, compared to €61.9/MWh in 2005<sup>35</sup>.

In early 2006, the price of annual baseload contracts in **France** and **Germany** continued the significant upward trend begun in 2005. Pushed up by the rise in prices for CO<sub>2</sub> quotas and oil prices, they reached a peak in mid-April 2006 before dropping sharply, echoing the fall in CO<sub>2</sub> emission quotas. By the end of the summer, the low level of spot prices brought about a downward trend in annual contract prices in France and Germany, which were lower at December 31, 2006 than at January 1, 2006. The 2007 delivery annual contract for France ended the year at €50.5/MWh and the annual contract for Germany at €50/MWh, compared to €52.7/MWh and €50.2/MWh respectively at January 1<sup>35</sup>. By the end of 2006, the price differential between annual contracts in France and Germany had almost entirely disappeared.

In the **United Kingdom**, electricity prices followed the decline in natural gas prices that began at the end of the winter: over the year, the UK annual contract price fell from €80/MWh at January 1 to €82/MWh at December 31, 2006<sup>35</sup>.

## CO<sub>2</sub> emission quota prices

During 2006, the price of CO<sub>2</sub> emission quotas for the first phase (2005-2007) stood at an average €17.6/t, close to its 2005 level of €18.2/t<sup>36</sup>.

The price of CO<sub>2</sub> emission quotas for the first phase initially rose sharply from €22.3/t at January 1, 2006 to the record level of €30.4/t on April 19<sup>36</sup>. The price of CO<sub>2</sub> emission quotas subsequently declined significantly, as the European countries published their emissions for 2005. After falling to a low of €9.3/t in mid-May, the price of CO<sub>2</sub> emission quotas rose again at the end of the first half-year to settle in a range of €15/t to €20/t where they remained until mid-September<sup>36</sup>. From the autumn onwards, the prices of CO<sub>2</sub> emission quotas were in continual decline due to the low number of buyers, ending the year at their lowest level for 2006, €6.6/t<sup>36</sup>.

The price of CO<sub>2</sub> emission quotas for the second phase (2008-2012) followed the same trends as the price of first-phase CO<sub>2</sub> emission quotas through 2006 until October, when they stabilized at around €15/t<sup>36</sup>. This price level reflects the European Commission's efforts to tighten up CO<sub>2</sub> emission reduction targets applied to member states. At December 31, 2006, the price of CO<sub>2</sub> emission quotas for the second phase was €17.5/t<sup>36</sup>.

## Fossil fuel prices

Over the year, **coal prices** (delivery in Rotterdam)<sup>37</sup> increased by more than \$10/t, from \$56.7/t at January 1 to \$68.3/t at December 31. At the beginning of the year, this rise was explained by high European demand, then during the second quarter coal prices were pushed up by rising international maritime freight prices, an essential component of coal prices for European delivery. The average coal price for 2006 was \$66/t, higher than the average price for 2005 which stood at \$63.1/t.

**Oil prices** (Brent North Sea, Front Month)<sup>38</sup> amounted to \$66.1/barrel in 2006, compared to \$55.2/barrel in 2005, with supplies affected by geopolitical tensions in the oil-producing countries. Following a sustained rise in the first half of 2006, the price per barrel returned at the end of the year to a level close to its initial 2006 price. On August 7, 2006 it reached a peak of \$78.3/barrel, then declined until December 31 when it stood at \$60.9/barrel. This fall in price was brought about by improvements in the geopolitical situation in certain oil-producing countries (Iran, Nigeria, etc) and lower worldwide demand at the end of the year due to the mild winter in Europe, the USA and Japan.

**Natural gas prices** (United Kingdom, next Gas Year Contract) stood on average<sup>39</sup> at £0.58/therm in 2006, compared to £0.49/therm in 2005. The price of natural gas rose sharply in 2005 and early 2006 under the impact of considerable supply-demand tension in the United Kingdom in a particularly harsh winter. It subsequently lost £0.2/therm between June and December 2006, principally due to new sources of supply for the United Kingdom coming into operation, which should relieve the supply-demand tension at times of high gas consumption.

## Electricity sales tariffs and prices

In Germany, the regulator notified electricity operators of a reduction in transmission and distribution tariffs in the second half of the year. In connection with this decrease, EDF recorded an impairment loss of €318 million against EnBW's goodwill on June 30, 2006.

In France, a below-inflation rise in electricity sales tariffs (1.7%) came into effect from August 15, 2006, in compliance with the public service contract. This increase had only a limited impact on the growth in sales.

The order of January 3, 2007 ("arrêté du 3 janvier 2007") set the transitory regulated tariff for market adjustment ("*tarif réglementé transitoire d'ajustement du marché*" or TaRTAM). In connection with the TaRTAM, the Group recorded a €470 million provision in the 2006 consolidated financial statements (see section 9.5.2.1 ("Regulatory changes in France") of the present document).

<sup>36</sup> Source: CO<sub>2</sub> Front Calendar (December).

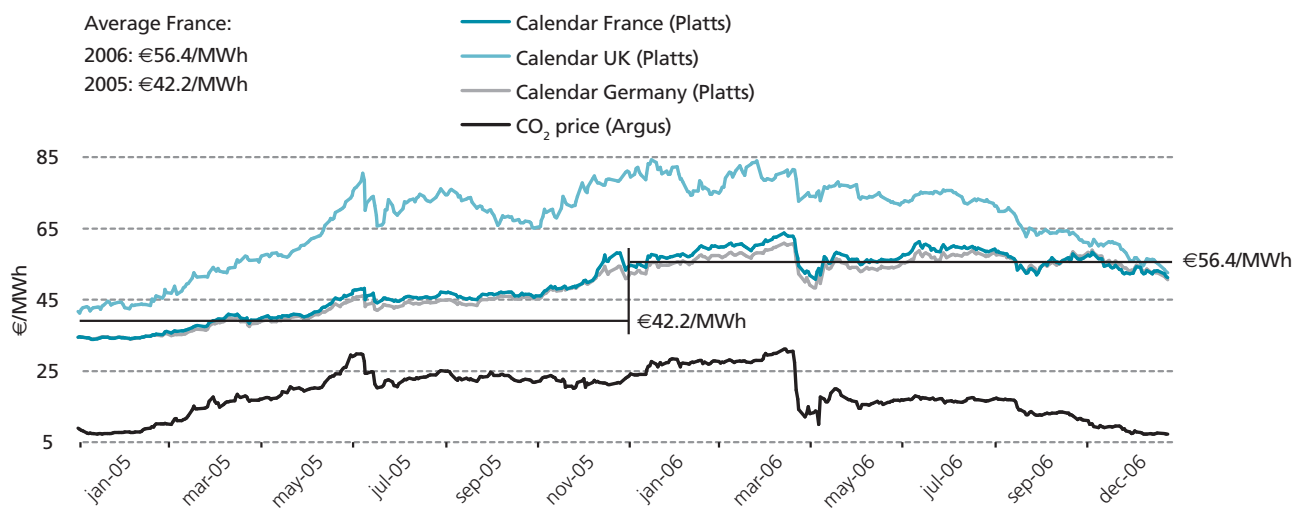
<sup>37</sup> Argus average market price on a contractual market for delivery in Europe (CIF ARA) in the next calendar year (in \$/t).

<sup>38</sup> Brent/first reference crude oil barrel IPE (in \$/barrel).

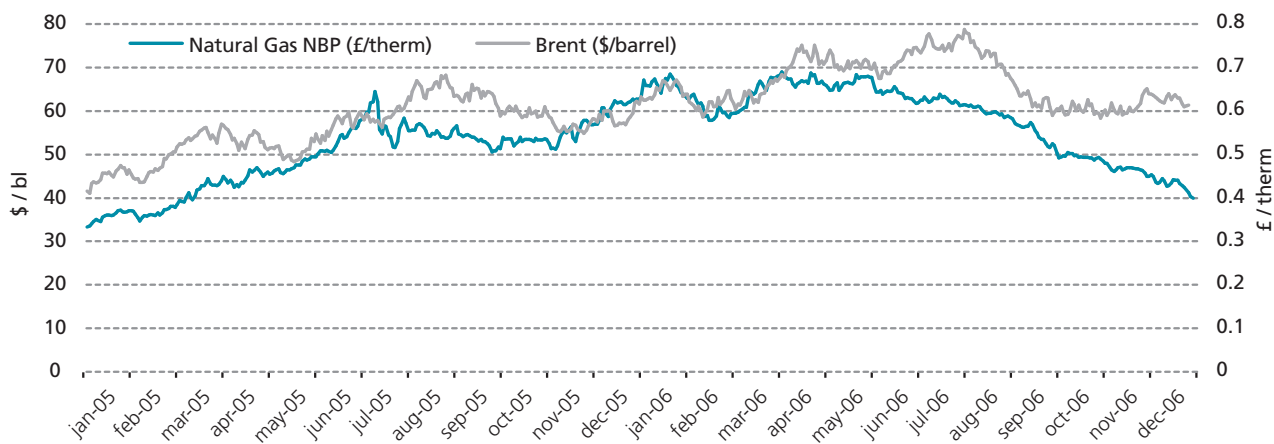
<sup>39</sup> 2005-2006 change in Platts average OTC index for delivery starting from October of the following year for the UK.

## Operating and financial review

The graphic below shows the evolution of forward electricity prices in France, the United Kingdom and Germany in 2005 and 2006, as well as the CO<sub>2</sub> emission quota prices.



The graphic below shows the evolution of gas and Brent forward prices in 2005 and 2006.

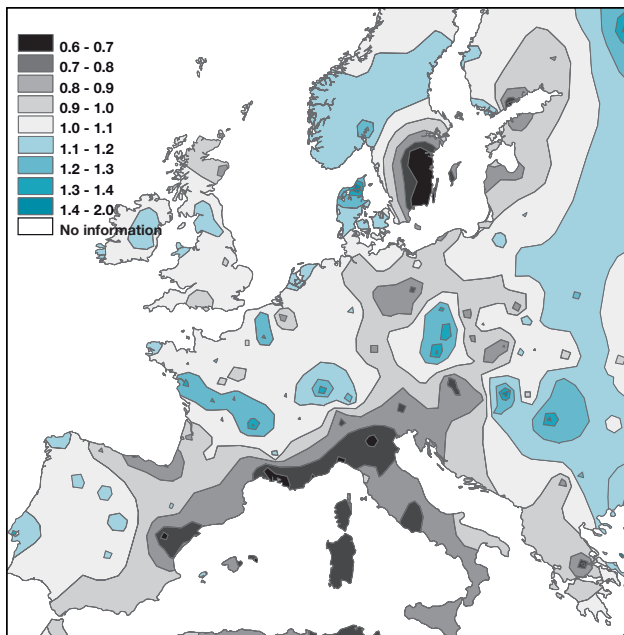


## 9.5.1.2 Weather conditions

Weather conditions can significantly affect the Group's business, in terms of volumes, prices and costs.

### Rainfall

The graph below shows the rainfall for 2006 compared to normal annual levels<sup>40</sup>.



Rainfall returned in 2006 close to normal levels i.e., significantly higher (+8.4%) than in 2005, which was a particularly dry year.

Hydropower generation was thus significantly higher than in 2005 (+1.9 TWh in France).

### Temperatures

With an annual average temperature of 12.7°C in France, equivalent to normal seasonal levels<sup>41</sup>, 2006 was warmer than 2005.

Unusual periods of weather punctuated the year 2006: a long cold spell in the first quarter, a heatwave in July, a cool month of August and one of the warmest autumns in France since 1950.

## 9.5.1.3 Economic environment

GDP growth<sup>42</sup> for 2006 was approximately 2.7% in the Euro zone, compared to 1.4% for 2005.

This growth is estimated at 2.1%<sup>43</sup> for France (1.2% in 2005), 2.6% for the UK (1.9% in 2005), 2.7% for Germany (1.1% in 2005) and 1.8% for Italy (0.1% in 2005).

Domestic electricity consumption in France in 2006 shrank by 1% from 2005, with the total annual consumption reaching 478.4 TWh<sup>44</sup>, 4.8 TWh less than in 2005<sup>45</sup>.

After adjustment for unusual weather conditions (a long cold spell in the first quarter, a heatwave in July, a cool month of August and one of the warmest autumns in France since 1950), French domestic consumption would be 470.9 TWh in 2006, practically stable from 2005 (-0.2%).

This stability encompasses a fall in consumption by one major company in the energy sector, and a 0.9% rise in gross value in other domestic consumption.

The rise in domestic consumption is estimated at 0.5% for the United Kingdom<sup>46</sup> and 1.8% for Italy<sup>47</sup>.

## 9.5.2 Significant events in 2006

### 9.5.2.1 Regulatory changes in France

Various important laws for EDF were enacted in 2006:

- Law n° 2006-739 of June 28, 2006 on sustainable management of radioactive materials and wastes.

This law defines a national policy for the sustainable management of radioactive materials and wastes, stipulating how the policy is to be organized and financed, and changing the financing method for certain obligations. It will apply to all nuclear operators, including EDF. Without excluding other complementary areas of research, the law confirms the industrial solution of reversible deep-level geological storage and the principle of provisions relating to decommissioning costs for nuclear facilities and waste management. It also introduces an obligation to cover these provisions by dedicated assets.

Based on the instructions of the Law and the information available at December 31, 2006, EDF has revised its provisions of renewal and storage of radioactive waste to reflect the new deadlines set by the law and the obligations related to ANDRA research and regional support projects. Provisions were thus adjusted upward by €373 million.

EDF's current accounting practices for nuclear provisions and the company's policy for establishing a portfolio of dedicated assets meet the requirements of this law.

- Law n° 2006-1537 on energy of December 7, 2006

This law requires distribution of electricity in mainland France should be carried out by an entity that is legally distinct from EDF in 2007, and introduces a transition tariff ("*Tarif réglementé transitoire d'ajustement de marché*" or TaRTAM). This tariff is automatically applicable for two years from the date of initial application for all end-users of electricity, provided they make a formal request to their supplier by July 1, 2007. The order of January 3, 2007 (Arrêté du 3 janvier 2007)

<sup>40</sup> Graph prepared by EDF according to information obtained from the NOAA (National Oceanic & Atmospheric Administration).

<sup>41</sup> Calculated over the past 30 years.

<sup>42</sup> Source: Note de conjoncture, INSEE, December 2006, GDP increase in volume (at 2000 prices).

<sup>43</sup> INSEE's early estimate of February 13, 2007 was of 2.0%.

<sup>44</sup> 1 TWh= 1 billion kWh.

<sup>45</sup> Source: RTE-EDF Transport.

<sup>46</sup> Source: Department Of Trade and Industry.

<sup>47</sup> Source: Gestore Mercato Elettrico.



states that this tariff will be equal to the regulated sales tariff, excluding taxes, applicable to a consumption site with the same characteristics, plus:

- 10% for end-users with low-voltage connections on supplies of no more than 36 kVA;
- 20% for end-users with low-voltage connections on supplies of more than 36 kVA; and
- 23% for end-users with high (HTA) and very high-voltage (HTB) connections.

According to information EDF Group possesses at the date of this Document de Référence, it estimates the cumulated impact of the implementation over two years of the transitory regulated tariff for market adjustment at €1.5 billion over its EBITDA for the period 2006-2008 (see section 6.2.1.2.2 ("Prices and Tariffs")). This impact includes both:

- an estimate of EDF's contribution to finance the compensation awarded to competitor suppliers<sup>48</sup> over the entire period, which has been estimated to amount to €470 million and funded by a provision over fiscal year 2006 (see notes 2.2.7, 5.1.1.4 and 13 to the 2006 consolidated financial statements; and
- the negative effects over the Group's sales for the time of implementation of this tariff (2 years).

This estimate takes into account several assumptions considered as relevant and, in particular, those concerning the following parameters: the number of customers who wish to benefit from the adjustment tariff and the related electricity volumes; electricity volumes concerned by compensation, the part of the compensation which will be financed by the CSPE, integrated tariff evolutions in 2007 and 2008 and electricity forward price in 2008.

- Law n° 2006-1772 of December 30, 2006 on water and aquatic environments

Article 7 of this law has removed the outgoing operator's preferential right in connection with hydroelectric facilities concessions.

In addition, French Law 2006-1771 of December 30, 2006, amending the 2006 finance law, sets out the principle of an indemnity for the outgoing operator in respect of the unamortized portion of investments made during the second half of execution of the contract (the final 10 years at least), with the exception of investments required to return the assets in good condition at the end of the concession. At the date of this *Document de Référence*, the decree stipulating how this principle should be applied had not yet been published.

### 9.5.2.2 Consolidation of the market

In 2006, the pace of mergers and acquisitions involving some of the largest actors in Europe's electricity and gas markets increased. Most of these operations are still ongoing (principally the Suez-Gaz de France, E.ON-Endesa, and Iberdrola-Scottish Power transactions).

<sup>48</sup> Suppliers that provide customers with electricity at this tariff at the customer's request, while being unable to generate or purchase the electricity supplied at a lower rate, will receive compensation for the differential between the cost of the electricity supplied and the income corresponding to supply at the transitory regulated tariff for market adjustment. This compensation paid to electricity suppliers is to be financed by a share of the Contribution to the Public Electricity Service (*Contribution au Service Public de l'Électricité* or CSPE), and a contribution paid by nuclear and hydro power generators who exceed certain generation levels (this includes EDF), up to the limit of €1.3/MWh. The amount of the electricity generators' contribution is calculated such that, taken together with the CSPE, it covers all expenses borne by suppliers.

In France, the takeover of Société Hydroélectrique du Midi by Electrabel was finalized in December 2006.

### 9.5.2.3 Reinforcement of generation capacities

**In France**, EDF has launched the construction of a first-of-a-kind EPR<sup>49</sup> on the Flamanville site. This investment is an essential stage in the renewal of EDF's nuclear generation facilities.

EDF is also reinforcing its fossil-fired generation facilities for peakload, as announced in the Group's Industrial Plan and reaffirmed when the Public Service Contract was signed. EDF has decided to reactivate 2,600 MW of oil generation capacity for peakload previously put on standby, and to develop 500 MW of combustion turbines by 2008. Porcheville's unit 2 (600 MW) was thus brought back on line in December 2006.

**EnBW** decided to begin construction work on a coal-fired plant in Karlsruhe, in order to maintain good coverage of sales by internal generation in a context of planned nuclear power plant closures. A preliminary study for the construction of another gas-fired plant is currently in process.

**Edison** continued to bring new generation capacities on line at a sustained pace: start-up of the Torviscosa plant in April 2006 (800 MW), full-capacity operation of the Candela plant in October 2005 (400 MW) and Altomonte in January 2006 (production 800 MW), and a new Edipower plant at Piacenza (800 MW). Edison is thus the leading contributor to renewal and growth capacity in Italy.

### 9.5.2.4 Dedicated assets in France

In accordance with the decisions made in 2005 by EDF, the pace of establishment of the dedicated assets portfolio to cover long-term nuclear commitments was significantly accelerated. The net allocation for 2006 was €2,845 million, compared to €300 million for 2005.

### 9.5.2.5 Development of nuclear power worldwide

The **United Kingdom's** energy policy is currently under review, with the accent on the need to diversify energy sources. This could open up several opportunities for the Group in the fields of both renewable energies and nuclear energy.

EDF has also confirmed its interest in current developments in the nuclear industry in the **United States**: on May 31, it signed a cooperation master agreement with the American electricity operator Constellation Energy. In accordance with this agreement, both companies will work together to define the terms and conditions under which EDF will provide Constellation Energy's subsidiary Constellation Generation Group (CGG) with a package of services sustaining the development of advanced EPR-type nuclear power plants in the United States of America. EDF and Constellation Energy also agreed to explore further areas of cooperation related to nuclear opportunities in the United States.

<sup>49</sup> European Pressurized Reactor.

In **China**, a cooperation master agreement has been signed with the country's largest electricity producer, China Datang Corporation (CDC). This agreement particularly concerns joint development of investment projects to build, operate and manage nuclear, but also fossil-fired and wind-powered electricity generation facilities in China. Another agreement, with China Guangdong National Power Company (CGNPC), extends the cooperation established between the two partners in the field of nuclear generation. EDF is prepared to invest in this field, drawing on all France's nuclear generation skills.

## 9.5.2.6 Exceptional additional pension

EDF has decided to discontinue the exceptional additional pension benefit (see note 29.5.2.2 to the 2006 consolidated financial statements). This led to the reversal of the provision of €328 million.

## 9.5.2.7 Changes in the scope of consolidation

Additional information regarding changes in the scope of consolidation is provided in note 6 to the 2006 consolidated financial statements.

### Germany: reinforcement of the investment in Stadtwerke Düsseldorf and EVN AG

In December 2005, the city of Düsseldorf exercised one of its two put options for 25.05% of the capital of Stadtwerke Düsseldorf AG (SWD). The transaction was completed in early 2006, resulting in EnBW holding 54.95% of the capital of SWD, which has been fully consolidated by EnBW since March 31, 2006 (the second put option granted by EnBW, also for 25.05% of SWD, remains open).

EnBW also increased its holding in the Austrian company EVN AG from 29.7% to 35.72%.

### Italy: first full year of consolidation for Edison; sale of network activities

Edison has been proportionately consolidated by the EDF Group on a 51.58% basis since October 1, 2005. The Group's financial statements thus include EDF's share in the Edison Group for the whole of 2006, whereas only the final quarter was reflected in the 2005 financial statements.

Edison sold its network activities with the sale of its subsidiary Rete in November 2006 for a price of €294 million.

### Rest of Europe

- **Switzerland:** EDF strengthens its position

Following the agreements entered into in September 2005, EDF acquired on March 23, 2006, a further 17.32% holding in Motor Columbus, the Atel Group's controlling entity, from the Swiss bank UBS.

Following this transaction, Motor Columbus and Atel were accounted in the Group's consolidated statements for under the equity method on a basis of 41.03% and 25.78% respectively (compared to 22.28% and 14.44% at December 31, 2005).

- **Austria:** sale of ASA

In November 2005, EDF signed an agreement with the Spanish group FCC for the sale of its Austrian subsidiary ASA Holding AG, which is Central and Western Europe's biggest household, commercial and industrial waste manager. The transaction was completed end of March 2006 for a price of €224 million.

- **Hungary:** EDF's public tender offer for Demasz

In the second half of 2006, the EDF Group successfully completed the public tender offer it launched for all ordinary shares in Demasz not yet owned.

As this operation brought the EDF Group's ownership above the required level, it was authorised to launch a takeover bid on the remaining ordinary Demasz shares. The EDF Group thus now owns 99.99% of Demasz. The company was delisted from the Budapest stock exchange on December 1, 2006.

- **EDF Energies nouvelles:** IPO and capital increase

EDF Energies Nouvelles, an EDF Group subsidiary specializing in green power generation, undertook a successful initial public offering on the Paris stock exchange in late 2006.

Following a capital increase of €530 million (€134.4 million of which were subscribed by EDEV<sup>50</sup> through a reserved offer), the new ownership structure was as follows at December 31, 2006: 50% held by the EDF Group, 27.2% by the Mouratoglou Group and 22.8% by the public (including 0.3% owned by EDF Energies Nouvelles employees).

This transaction resulted in full consolidation of EDF Energies Nouvelles and the recognition of provisional goodwill of €93 million.

- **EDF Capital Investissement**

In November 2006, EDF completed the sale of its fully-owned subsidiary EDF Capital-Investissement, to two investment funds represented by the ARCIS Group.

- **Egypt :** sale of two power plants

The sale of two fossil-fired electricity generating plants located in Egypt by EDF International to the Malaysian company Tanjong Energy, announced in late November 2005, was completed on March 2, 2006 for an amount of €198 million.

### Rest of the world

- **Brazil:** sale of 79.4% of Light

On August 10, 2006, EDF sold 79.4% of its share in the capital of Brazilian subsidiary Light, the electricity distribution company for Rio de Janeiro, to the Brazilian consortium RME<sup>51</sup> for USD 319.8 million. Light was deconsolidated as of the second half of 2006. EDF retains a 10% interest in Light, and the balance of its capital (10.6%) is held by the public (Light is listed on the Brazilian stock market).

This sale resulted in EDF reversing €624 million of impairment booked on long-term assets.

<sup>50</sup> EDF Développement Environnement SA

<sup>51</sup> Rio Minas Energia Participações SA

### ➔ 9.6 - SEGMENT REPORTING OF FINANCIAL INFORMATION

Segment information for the EDF Group is presented in note 7 to the 2006 consolidated financial statements.

The geographical areas are different from those used for 2005, with "Italy" no longer included in the "Rest of Europe". Details of the geographical areas used are as follows:

- **"France"**, which refers to EDF and its subsidiary RTE–EDF Transport, comprising their regulated activities (mainly Distribution and Transmission) and deregulated activities (mainly Generation and Supply);
- **"United Kingdom"**, which refers to the EDF Energy subgroup;
- **"Germany"**, which refers to the EnBW subgroup;
- **"Italy"** which covers all the entities located in Italy, in particular Edison subgroup entities, TdE, and Fenice,

- **"Rest of Europe"**, which groups together the other European subsidiaries, mostly located in continental Europe, and new investments and businesses including Electricité de Strasbourg, Dalkia, Tiru, Asa Holding AG (which was sold in 2006), EDF International, EDF Energies Nouvelles and EDF Trading;

- **"Rest of the World"**, which covers subsidiaries in Latin America and Asia.

For purposes of comparison between the segment information for 2006 and 2005, the information published at December 31, 2005 has been restated to reflect the new division of geographical areas, and the restatements described in Section 9.4 of this document.

In addition, some support functions and sales activities in Belgium, which were considered as part of France in 2005, have since January 1, 2006 been attached to their respective geographical area. The impact of this change is not material.

## 9.7 - ANALYSIS OF THE CONSOLIDATED INCOME STATEMENTS FOR 2006 AND 2005

(In millions of euros)	Year ended December 31 2006	Year ended December 31 2005 <sup>(1)</sup>
Sales	58,932	51,047
Fuel and energy purchases	(23,949)	(17,775)
Other external expenses	(8,721)	(8,229)
Personnel expenses	(9,709)	(9,834)
Taxes other than income taxes	(3,175)	(3,095)
Other operating income and expenses	552	792
<b>Operating profit before depreciation and amortization (EBITDA)</b>	<b>13,930</b>	<b>12,906</b>
Net depreciation and amortization	(5,363)	(5,017)
Impairments/reversals	121	(147)
Other income and expenses	668	251
<b>Operating profit (EBIT)</b>	<b>9,356</b>	<b>7,993</b>
<b>Financial result</b>	<b>(2,701)</b>	<b>(3,415)</b>
<b>Income before taxes of consolidated companies</b>	<b>6,655</b>	<b>4,578</b>
Income taxes	(1,146)	(1,445)
Share in income of companies accounted for under the equity method	263	190
Net income from discontinued operations	5	0
<b>GROUP NET INCOME</b>	<b>5,777</b>	<b>3,323</b>
Minority interests	172	93
<b>EDF NET INCOME</b>	<b>5,605</b>	<b>3,230</b>
<b>Earnings per share in euros</b>	<b>3.08</b>	<b>1.96</b>
<b>Diluted earnings per share in euros</b>	<b>3.07</b>	<b>1.96</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of the retrospective application of IFRIC 4 as well as changes in the presentation method (see note 4 to the 2006 consolidated financial statements).

### 9.7.1 Sales

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
<b>France</b>	<b>31,927</b>	<b>30,015</b>	<b>1,912</b>	<b>6.4</b>	<b>6.4</b>
United Kingdom	8,319	6,682	1,637	24.5	24.3
Germany	6,016	5,005	1,011	20.2	14.0
Italy	5,615	2,019	3,596	NA	23.3
Rest of Europe	4,930	4,446	484	10.9	18.1
<b>Europe excluding France</b>	<b>24,880</b>	<b>18,152</b>	<b>6,728</b>	<b>37.1</b>	<b>19.7</b>
<b>Rest of the World</b>	<b>2,125</b>	<b>2,880</b>	<b>(755)</b>	<b>(26.2)</b>	<b>4.3</b>
<b>GROUP SALES</b>	<b>58,932</b>	<b>51,047</b>	<b>7,885</b>	<b>15.4</b>	<b>11.0</b>

The EDF Group's consolidated sales totaled €58,932 million in 2006, a rise of 15.4% (+€7,885 million) from 2005. The increase in the consolidated Group's sales reflects essentially the increase in the sales of energy and energy-related services (+€7,198 million), the development of other sales of goods and services<sup>52</sup> (+€389 million) and trading (+€328 million) (for the details regarding the composition of the Group's consolidated sales, please refer to note 8 to the 2006 consolidated financial statements).

This increase includes important effects of the changes in the consolidation scope (+€2,129 million resulting mainly from the consolidation of Edison for the full year in 2006 compared to one quarter in 2005) and those relatively negligible of the exchange rate fluctuations (+€122 million) resulting mainly from the rise in the Brazilian real. Organic growth in Group's consolidated sales was 11.0% (6.4% in France and 19.7% in Europe excluding France).

<sup>52</sup> Other sales of goods and services are done, among others, by Dalkia whose sales comprise engineering services and energy services.

## Operating and financial review

### Organic sales growth of 6.4% in France

France's contribution to Group's consolidated sales increased in 2006 by 6.4%, reflecting market price rises, higher electricity sales volumes and the development of natural gas sales. Electricity sales accounted for 4.9% of the sales growth (3.9% price effect, 1.0% volume effect), while natural gas sales accounted for 1.5%. The 1.7% increase in regulated tariffs for electricity sales that took effect on August 15, 2006 had only a limited impact on sales growth.

### Organic sales growth of 19.7% in Europe excluding France

The contribution by **Europe excluding France** to Group's consolidated sales in 2006 rose by 37.1%, and its organic sales growth was 19.7%. This organic growth was mainly driven by rising prices and tariffs on all markets. The Group also registered sales volume increases in the United Kingdom and Germany.

The **United Kingdom's** contribution to Group's consolidated sales rose by 24.5%, with organic growth at 24.3%, in a market where competition between operators is intense. This performance mainly reflects price effects of 19.7% (price increases to major customers, rises in natural gas and electricity sales tariffs to private customers, and tariff rises on the distribution network), and volume effects of 4.6% achieved by sustained commercial development action.

**Germany's** contribution to Group's consolidated sales also rose by 20.2%, with organic growth at 14.0%. The increase in sales results from changes in the scope of consolidation (€310 million), largely related to full consolidation of Stadtwerke Düsseldorf by EnBW from March 31, 2006. Two thirds of the organic growth result from electri-

city activities and one third from gas activities, supported both by price effects (10.5%) and volume effects (3.5%).

**Italy's** contribution to Group's consolidated sales registered a 178.1% increase, with organic growth at 23.3%. This result is mainly attributable to the contribution by Edison, for which 2006 was the first full year of consolidation, and which has included EDF Energia Italia, the EDF Group's long-standing Italian commercial subsidiary, in its own scope of consolidation since October 2006. Based on its published sales figures, organic growth at Edison Group was 33% due to several power plants brought or brought back on line in late 2005 and 2006, and the rise in electricity and natural gas sale prices in Italy.

The contribution to Group's consolidated sales by the **Rest of Europe** was up by 10.9%, with organic growth at 18.1%. This organic growth reflects good performances by EDF Trading (sales increased by 73.3%) under a tightly controlled risk policy, and the greater contributions by Central and Eastern European subsidiaries. Disposals of assets (ASA and two Egyptian power plants) had a negative impact of €306 million on sales.

### Organic sales growth of 4.3% in the Rest of the World

The contribution by the **Rest of the World** to Group's sales declined by 26.2%, although it achieved organic sales growth of 4.3%. This development reflects changes in the scope of consolidation (-€1,002 million) following the deconsolidation of Light on June 30, 2006, and application of the equity method to Edenor since August 2005, as well as positive foreign exchange effects (€126 million). The organic growth is principally attributable to Light during the first half-year, and is related to the tariff rise of November 2005.

## 9.7.2 EBITDA

### EBITDA of 13.9 billion with an organic growth at 5.3%

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
<b>France</b>	<b>8,893</b>	<b>8,544</b>	<b>349</b>	<b>4.1</b>	<b>4.1</b>
United Kingdom	1,268	1,306	(38)	(2.9)	(3.1)
Germany	996	905	91	10.1	7.2
Italy	928	300	628	209.3	(0.3)
Rest of Europe	1,363	1,193	170	14.2	22.6
<b>Europe excluding France</b>	<b>4,555</b>	<b>3,704</b>	<b>851</b>	<b>23.0</b>	<b>7.9</b>
<b>Rest of the World</b>	<b>482</b>	<b>658</b>	<b>(176)</b>	<b>(26.7)</b>	<b>6.8</b>
<b>GROUP EBITDA</b>	<b>13,930</b>	<b>12,906</b>	<b>1,024</b>	<b>7.9</b>	<b>5.3</b>

Consolidated EBITDA at December 31, 2006 was €13,930 million, a rise of 7.9%, with organic growth of 5.3%. EBITDA includes a €470 million provision to cover compensation payable to competitors in connection with the transitory regulated tariff for market adjustment (TaRTAM) introduced by the law of December 7, 2006. Excluding this provision, EBITDA would have been €14,400 million.

Europe, including France, accounted for 96.4% of consolidated sales and 96.5% of consolidated EBITDA in 2006.

EBITDA saw sustained growth in Europe excluding France (23.0% in total, including 7.9% in organic growth), with very distinctive evolutions by segment, a lower level of growth in France (4.1%) and a marked decline in the Rest of the World (-26.7% in total, with organic growth of 6.8%).

The Group's EBITDA / sales ratio stands at 23.6% in 2006 versus 25.3% in 2005. This decrease mainly results from the mechanical effect of the price increase (which is a consequence of the increase of the cost of energy), the impact of the TaRTAM provision and the development of sales of natural gas in France. The decrease concerns the U.K. segments (-4.4 points), Germany (-1.6 point) and France (-0.6 point) while the ratio improves in Italy (+1.6 point) and in the Rest of Europe (+0.8 point).

Below is a presentation of the evolution of the "Fuel and energy purchases", "Personnel expenses", "Other external expenses", "Taxes other than income taxes" and "Other operating income and expenses" (allowing the transition from sales to EBITDA).

## 9.7.2.1 Fuel and energy purchases

Fuel and energy purchases amounted to €23,949 million, an increase of €6,174 million (+34.7%) from 2005. The various components constituting the fuel and energy purchases are presented in note 9 to the 2006 consolidated financial statements.

The increase of fuel and energy purchases was observed in all segments, except for the **Rest of the World** (decrease of 22.5%), mainly due to the deconsolidation of Light as of June 30, 2006, and application of the equity method to Edenor from August 2005.

The rise in fuel and energy purchases was particularly marked in **Italy** (+207.3% or +€2,826 million), primarily as a result of changes in the scope of consolidation (+€2,476 million) related to the consolidation of Edison over a full year in 2006 compared to one quarter in 2005.

The rise was also substantial in **France** (+21.3% or +€1,410 million). Such rise results from increased energy purchases to cover network and electricity purchase obligations up to €715 million and from the increase in nuclear provisions up to €265 million. The balance of €430 million results in particular from the increase of purchases of natural gas, in connection with the development of sales of natural gas.

The sharp increase in fuel and energy purchases in the **United Kingdom** (+36.3% or +€1,413 million) is explained by the rise in commodity prices, particularly during the first half-year, the higher generation volumes (+11.8%) (EDF Energy purchases natural gas and coal on wholesale markets in order to meet its production needs) and the impact of IAS 39<sup>53</sup> and by difficulties in production during the summer of 2006.

In **Germany**, the rise in fuel and energy purchases (+28.7% or +€759 million) is related to higher activity level but also incorporates €223 million effects of changes in the scope of consolidation, essentially due to the full consolidation of Stadtwerke Düsseldorf by EnBW from March 31, 2006.

## 9.7.2.2 Personnel expenses

Personnel expenses fell by 1.3% and are detailed by main components in note 12.1 to the 2006 consolidated financial statements.

In **France**, personnel expenses decreased by 4.2%, or €321 million. This decrease is related to the recognition in 2005 of €329 million of expenses in connection with the employee offering that was part of the initial public offering (application of IFRS 2). Excluding the impact of these expenses, personnel expenses were practically stable.

In the **United Kingdom**, personnel expenses rose by only 1.3% or €9 million. The increases resulting from recruitment of additional sales staff to develop the customer base and inclusion of meter-reading teams were partly offset by amounts recovered from the provision for pension obligations.

In the **Rest of Europe**, personnel expenses rose by €61 million (8.2%). Excluding the impact of the disposals of ASA and two Egyptian power plants in March 2006, the increase would be €101 million.

This rise primarily relates to EDF Trading and Dalkia International due to the activity of these companies.

The variations in personnel expenses registered in Germany, Italy and the Rest of the World mainly result from changes in the scope of consolidation. In **Italy**, these expenses increased by 79.6% (+€82 million) with the full-year consolidation of Edison. They also rose by 16.6% in **Germany** (+€94 million), largely as a result of full consolidation by EnBW of Stadtwerke Düsseldorf since March 31, 2006, but decreased by 43.9% (-€50 million) in the **Rest of the World** following deconsolidation of Light at June 30, 2006 and application of the equity method for Edenor from August 2005.

## 9.7.2.3 Other external expenses

Other external expenses increased by 6.0%. The various components constituting the other external expenses are presented in note 10 to the 2006 consolidated financial statements.

In **France**, other external expenses were down by 0.7%, from €5,128 million in 2005 to €5,094 million in 2006. This performance results from productivity actions, principally under the Altitude performance improvement plan.

Other external expenses rose by 24.2% in the **United Kingdom**, primarily due to growth in the private networks and public networks businesses, 11.8% in **Germany** as a result of business expansion, and 72.6% in Italy (with in particular the effect of consolidation of Edison for a full year in 2006). In the **Rest of Europe**, other external expenses progressed by 5.6%, the main factor being the development of Dalkia International, and declined by 26.8% in the **Rest of the World** due to the deconsolidation of Light and application of the equity method for Edenor.

## 9.7.2.4 Taxes other than income taxes

Taxes other than income taxes amounted to €3,175 million in 2006, an increase of €80 million (+2.6%) from 2005. Most of the increase concerns France, particularly with the rise in apprenticeship tax, land tax and the INB<sup>54</sup> nuclear tax.

## 9.7.2.5 Other operating income and expenses

Other operating income and expenses totaled €552 million (net income) in 2006, €240 million (-30.3%) lower than in 2005.

This decline primarily concerns **France** (€427 million), where a €470 million provision was established to cover compensation for competitors relating to implementation of the transitory regulated tariff for market adjustment (TaRTAM), which is partly offset by a €156 million increase in the CSPE. The **United Kingdom** registered a net expense of €36 million compared to net income of €38 million in 2005; this variation resulted from a higher provision for customer receivables due to growth in the customer base, and lower sales of real estate assets. These lower levels of net incomes more than offset the rises generated in other areas, for instance in **Italy** (+€169 million, essentially due to the effect of the full-year consolidation of Edison in 2006), and the reduction in net expenses in the **Rest of the World** (+€98 million, mainly due to the effect of deconsolidation of Light and accounting for Edenor under the equity method).

<sup>53</sup> IAS 39 standard requires that fair value be measured at the time of the closing of raw materials purchase-sale agreements which have not been closed at the end of the fiscal year. This standard has had an adverse effect on EDF Energy's "Fuel and energy purchases" item due to the long-term positions taken by EDF Energy in accordance with such agreements, in the context of a decreasing price at the closing of the fiscal year.

<sup>54</sup> Taxes on base nuclear facilities.



## 9.7.3 EBIT

	Financial year ended December 31			
	2006	2005	Variation	Variation in %
<i>(In millions of euros)</i>				
<b>EBITDA</b>	<b>13,930</b>	<b>12,906</b>	<b>1,024</b>	<b>7.9</b>
Net depreciation and amortization	(5,363)	(5,017)	(346)	6.9
Impairments / Reversals	121	(147)	268	(182.3)
Other income and expenses	668	251	417	166.1
<b>EBIT</b>	<b>9,356</b>	<b>7,993</b>	<b>1,363</b>	<b>17.1</b>

EBIT reached €9,356 billion in 2006, an increase of €1,363 million (+17.1%) from 2005. This increase, which is significantly higher than EBITDA growth, results, despite the increase in net depreciation and amortization, from variations observed in the impairments/reversals item and other income and expenses item. The organic increase of the Group's EBIT was 16.1%.

### 9.7.3.1 Net depreciation and amortization

Net depreciation and amortization stood at €5,363 million for 2006, €346 million (6.9%) higher than in 2005. €245 million of this increase resulted from changes in the scope of consolidation, principally the impact of Edison's consolidation over the full year of 2006.

### 9.7.3.2 Impairments / Reversals

Impairments showed a net reversal of €121 million in 2006, compared to a net allocation of €147 million in 2005. The main factor in this change is the reversal of provisions of €624 million upon the disposal of Light, and recognition of €318 million of impairment in the Group's

financial statements due to EnBW related goodwill impairments following the transmission and distribution tariffs' reduction introduced by the German regulator.

### 9.7.3.3 Other income and expenses

Other income and expenses amounted to €668 million, €417 million higher than in 2005.

This increase includes the gain of €345 million on disposals of the Egyptian power plants and ASA (compared to the €251 million gains on disposals in 2005 resulting from the disposal of assets in Latin America), and the reversal of the provision following the discontinuation of the exceptional additional pension system (€328 million) in France.

## 9.7.4 Financial result

	Financial year ended December 31			
	2006	2005	Variation	Variation in %
<i>(In millions of euros)</i>				
Cost of gross financial indebtedness	(1,606)	(1,472)	(134)	9.1
Discount expense	(2,530)	(2,526)	(4)	0.2
Other financial income and expenses	1,435	583	852	146.1
<b>GROUP TOTAL</b>	<b>(2,701)</b>	<b>(3,415)</b>	<b>714</b>	<b>(20.9)</b>

The Group's financial result stood at €(2,701) million for 2006, an improvement of €714 million (-20.9%) from 2005 namely due to two specific transactions:

- acquisition of Edison, which had had a negative impact of €356 million over 2005 financial result, with no equivalent in 2006; and
- the sale by EDF as part of the management of its dedicated asset portfolio, of its shareholding in Arcelor in August 2006, following

the transactions in connection with the tender offer initiated by Mittal Steel over Arcelor, that lead to a capital gain of €231 million.

Apart from these two specific transactions, the financial result improved by €127 million, mainly due to the rise in investment income.

The financial result breaks down as follows:

	Financial year ended December 31			
	2006	2005	Variation	Variation in %
<i>(In millions of euros)</i>				
France	(2,023)	(2,635)	612	(23.2)
United Kingdom	(228)	(272)	44	(16.2)
Germany	(175)	(149)	(26)	17.4
Italy	(20)	(93)	73	(78.5)
Rest of Europe	(82)	(49)	(33)	67.3
Rest of the World	(173)	(217)	44	(20.3)
<b>TOTAL GROUP</b>	<b>(2,701)</b>	<b>(3,415)</b>	<b>714</b>	<b>(20.9)</b>

In **France**, the improvement of the financial result is mainly due to the sale of Arcelor securities mentioned above, as well as to the purchase of Edison in 2005. In **Italy**, the improvement mainly results from Edison's consolidation : full-year consolidation in 2006 against only three months in 2005. The decrease observed for the **Rest of the World** mainly results from assets disposals in Latin America.

## 9.7.5 Income taxes

The Group's income taxes amounted to €1,146 million in 2006, €299 million (-20.7%) lower than in 2005. The difference between the Group's 2006 tax average effective rate (16.39%) and the rate applicable in France in 2006 (34.43%) is mainly due to :

- the tax saving resulting from the legal reorganization of the Light Group (€586 million) required by the Brazilian regulator;
- the tax-neutral effect of reversal of impairment on Light's long-term assets (€212 million);
- the favorable outcome of contestations to the UK tax authorities by EDF Energy (€104 million);
- the realignment to book value of the tax bases of certain Edison fixed assets, in accordance with the 2006 Italian Finance Law. The reversal of deferred tax liabilities in return for payment of a substitute tax of 12% resulted in a €104 million tax credit; and

- the recognition in Germany of tax credits on profits taxed at a higher rate, resulting from changes in the requirements for utilization of these credits (€76 million).

## 9.7.6 Net income, Group share

The Group share of net income was €5,605 million in 2006, €2,375 million higher than in 2005. This increase is mainly due to the increase of EBIT and of the financial result, and to the decrease of income taxes. The Group's share of net income represents 9.5% of Group's sales (compared to 6.3% in 2005).

The share in income of companies accounted for under the equity method amounted to €263 million in 2006, an increase of €73 million compared to 2005. This increase is mainly due to Group's shareholding increase in the share capital of Atel and Motor Columbus which largely offset Stadtwerke Düsseldorf's removal of the "share in income of companies accounted for under the equity method" item and the exceptional €73 million depreciation related to adverse factors on the evolution of a Group's shareholding in the United Kingdom.

## ➔ 9.8 - BREAKDOWN OF EBIT BY GEOGRAPHICAL AREA

EBIT breaks down by geographical segment as follows :

### 2006

(In millions of euros)

	France	United - Kingdom	Germany	Italy	Rest of Europe	Europe excluding France	Rest of the World	Total
<b>SALES</b>	<b>31,927</b>	<b>8,319</b>	<b>6,016</b>	<b>5,615</b>	<b>4,930</b>	<b>24,880</b>	<b>2,125</b>	<b>58,932</b>
Fuel and energy purchases	(8,025)	(5,302)	(3,406)	(4,189)	(1,719)	(14,616)	(1,308)	(23,949)
Other external expenses	(5,094)	(964)	(1,054)	(547)	(920)	(3,485)	(142)	(8,721)
Personnel expenses	(7,356)	(638)	(659)	(185)	(807)	(2,289)	(64)	(9,709)
Taxes other than income taxes	(2,839)	(111)	(8)	(1)	(198)	(318)	(18)	(3,175)
Other operating income and expenses	280	(36)	107	235	77	383	(111)	552
<b>OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)</b>	<b>8,893</b>	<b>1,268</b>	<b>996</b>	<b>928</b>	<b>1,363</b>	<b>4,555</b>	<b>482</b>	<b>13,930</b>
Net depreciation and amortization	(3,667)	(447)	(351)	(451)	(327)	(1,576)	(120)	(5,363)
Impairments	1	0	(359)	(47)	(64)	(470)	590	121
Other income and expenses	261	1	0	1	406	408	(1)	668
<b>OPERATING PROFIT (EBIT)</b>	<b>5,488</b>	<b>822</b>	<b>286</b>	<b>431</b>	<b>1,378</b>	<b>2,917</b>	<b>951</b>	<b>9,356</b>

### 2005

(In millions of euros)

	France	United - Kingdom	Germany	Italy	Rest of Europe	Europe excluding France	Rest of the World	Total
<b>SALES</b>	<b>30,015</b>	<b>6,682</b>	<b>5,005</b>	<b>2,019</b>	<b>4,446</b>	<b>18,152</b>	<b>2,880</b>	<b>51,047</b>
Fuel and energy purchases	(6,615)	(3,889)	(2,647)	(1,363)	(1,573)	(9,472)	(1,688)	(17,775)
Other external expenses	(5,128)	(776)	(943)	(317)	(871)	(2,907)	(194)	(8,229)
Personnel expenses	(7,677)	(629)	(565)	(103)	(746)	(2,043)	(114)	(9,834)
Taxes other than income taxes	(2,758)	(120)	(20)	(1)	(179)	(320)	(17)	(3,095)
Other operating income and expenses	707	38	75	65	116	294	(209)	792
<b>OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)</b>	<b>8,544</b>	<b>1,306</b>	<b>905</b>	<b>300</b>	<b>1,193</b>	<b>3,704</b>	<b>658</b>	<b>12,906</b>
Net depreciation and amortization	(3,634)	(434)	(314)	(155)	(329)	(1,232)	(151)	(5,017)
Impairments	1	0	(19)	(38)	(91)	(148)	0	(147)
Other income and expenses	1	0	(1)	7	243	249	1	251
<b>OPERATING PROFIT (EBIT)</b>	<b>4,912</b>	<b>872</b>	<b>571</b>	<b>114</b>	<b>1,016</b>	<b>2,573</b>	<b>508</b>	<b>7,993</b>

## 9.8.1 France

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
Sales	31,927	30,015	1,912	6.4	6.4
EBITDA	8,893	8,544	349	4.1	4.1
EBIT	5,488	4,912	576	11.7	11.7

### 9.8.1.1 Breakdown of financial information for the "France" segment

The following breakdown is applied to France's contribution to Group sales and EBITDA:

**"Regulated activities"**, comprising:

- Transmission in mainland France;
- Distribution in mainland France;
- All EDF's generation and distribution activities in the Island Energy Systems (*Systèmes Energétiques Insulaires*, or "SEI").

The **Transmission and Distribution** activities are regulated by the Tariffs for Using the Public Transmission and Distribution Networks (*Tarif d'Utilisation des Réseaux Publics de transport et de distribution d'électricité*, or "TURP").

Sales for the regulated activities include the delivery cost included in integrated tariffs.

Costs related to management of residential customers are recorded by the Distribution activity, then allocated between Distribution and Supply (deregulated activities) under principles presented to the Energy Regulation Commission ("*Commission de Régulation de l'Energie*", or "CRE").

**"Deregulated activities"**, comprising:

- Generation, Supply and Optimization in mainland France;
- Sales of engineering and consulting services.

### 9.8.1.2 Market opening

At December 31, 2006, two and a half years after opening of the market for all companies and business customers, EDF's market share for electricity in France for all eligible final customers was 82.4% versus 84.8% at December 31, 2005.

EDF is preparing for total opening of the market on July 1, 2007, as planned and scheduled by the CRE.

### 9.8.1.3 The supply-demand balance

Hydropower and nuclear generation were relatively stable in 2006 compared to 2005. Thanks to good performances by the nuclear plants (83.6% availability, a slight improvement in 2006 from 2005) nuclear generation produced 428.1 TWh, similar to 2005 level (429.2 TWh). Hydropower generation was slightly higher than 2005 (+1.9 TWh, an increase of +6%).

The energy sales structure, however, has changed considerably: despite growth in consumption by private customers, the lower EDF market share in a context of generally lower consumption by eligible customers led to lower sales to end-users, a factor accentuated by the mild weather of the final quarter of 2006. This decline in sales to end-users is partly offset by a rise in sales on the wholesale markets.

### 9.8.1.4 Sales

**France** contributed €31,927 million to Group sales, an increase of 6.4% (€1,912 million).

This increase includes a price effect of 3.9% and a volume effect of 1.0% concerning electricity sales. The price effect covers both changes in market prices and the 1.7% rise in regulated tariffs that took effect on August 15, 2006, which had only a limited impact on the increase in sales.

Natural gas sales contributed 1.5% of the sales increase. In 2006, EDF considerably reinforced its commercial positions, supplying 40,000 sites with natural gas at December 31, 2006, compared to 13,000 sites at December 31, 2005.

### 9.8.1.5 EBITDA

**France's** contribution to Group EBITDA was €8,893 million, an increase of 4.1% (€349 million) from 2005.

Excluding the effect of the €329 million expenses in 2005 for the employee offering (application of IFRS 2) and the €470 million provision recorded in 2006 to cover compensation to competitors in connection with introduction of the transitory regulated tariff for market adjustment (TaRTAM), the increase in EBITDA would be 5.5%.

The increase in France's contribution to consolidated EBITDA mainly reflects sales growth which was partially offset by the increase in fuel and energy purchases (€+1,410 million) and the "TaRTAM" provision of an amount of €470 million recorded in 2006 in the "Other Operating income and expenses" item.

#### Fuel and energy purchases

In France, fuel and energy purchases totalled €8,025 million in 2006, an increase of €1,410 million. This increase is due for an amount of €715 million, to the increase of purchases to compensate for network losses (affected by market price rises) and electricity purchase obligations (affected by rises in market price and volumes), and for €265 million, to the increase in nuclear provisions. The remaining increase (€430 million) is in particular due to the increase of natural gas purchases in connection with the development of natural gas sales.

#### Other external expenses and personnel expenses

Other external expenses and personnel expenses declined by 0.7% and 4.2% respectively. Excluding the effect of the €329 million expense in 2005 for the employee offering (application of IFRS 2), operating expenses (personnel expenses and other external expenses) would be €26 million lower than in 2005. This development reflects savings achieved under the Altitude plan and can be explained through productivity actions over purchases and personnel expenses, which offset costs increasing factors, namely those related to salary increases. Concerning purchases, they were the subject of proactive price negotiations and volume control, and more efficient management of the supplier portfolio.

## Operating and financial review

### Taxes other than income taxes

These taxes increased by 2.9% (+€81 million) despite the positive effect of the cap on RTE-EDF Transport's local tax on business (*taxe professionnelle*). This increase mainly concerns apprenticeship tax, land tax and the INB<sup>55</sup> nuclear tax.

### Other operating income and expenses

Other operating income and expenses declined by €427 million (-60.4%). This decrease mainly includes the €470 million provision to cover compensation to competitors in connection with the introduction of the transitory regulated tariff for market adjustment (TaRTAM) and the €156 million increase in the Contribution to the Public Electricity Service (*Contribution au Service Public de l'Electricité* or CSPE).

### 9.8.1.6 Breakdown of sales and EBITDA for the "France" segment between regulated and deregulated activities

The following table shows the changes in sales and EBITDA in France for the regulated and deregulated activities between 2005 and 2006:

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
<b>Sales</b>	<b>31,927</b>	<b>30,015</b>	<b>1,912</b>	<b>6.4</b>	<b>6.4</b>
deregulated	20,129	18,082	2,047	11.3	11.3
regulated	12,419	12,802	(383)	(3.0)	(3.0)
eliminations	(621)	(869)	248	(28.5)	(28.5)
<b>EBITDA</b>	<b>8,893</b>	<b>8,544</b>	<b>349</b>	<b>4.1</b>	<b>4.1</b>
deregulated	5,374	4,772	602	12.6	12.6
regulated	3,519	3,772	(253)	(6.7)	(6.7)
<b>EBIT</b>	<b>5,488</b>	<b>4,912</b>	<b>576</b>	<b>11.7</b>	<b>11.7</b>

As a reminder, the regulated activities (transmission and distribution activities) are regulated through Public network utilization tariffs (TURP). TURP 2, decreasing compared to TURP 1, came into force on January 1, 2006. The TURP is a component of the integrated tariff. If the integrated tariff remains unchanged, any TURP decrease will lead to a decrease in the sales of regulated activities and conversely, to an increase in the sales of deregulated activities.

Sales for the **regulated activities** declined by 3.0%, principally as a result of the application on January 1, 2006 of the TURP 2 (lower than TURP 1). This new TURP 2 tariff led to a corresponding increase in sales for the deregulated activities, causing a rise in income other than income on delivery. The **deregulated activities'** sales, which rose by 11.3%, also benefited from higher wholesale market prices, expanding natural gas sales, and to a lesser extent, the 1.7% rise in regulated tariffs that took effect from August 15, 2006, which had only a limited impact on sales growth.

The decline in the **regulated activities'** EBITDA (-€253 million) is mainly explained by the implementation of the TURP 2 tariff. Excluding the impact of TURP 2 and the 2005 expense for the employee offering (application of IFRS 2), EBITDA for the regulated activities would be slightly higher.

The increase in the **deregulated activities'** EBITDA (+€602 million) mainly reflects the favorable effect of the lower network use tariff (TURP 2).

The positive impact of the increase in market prices, the 1.7% rise in tariffs that took effect on August 15, 2006, and of the non-renewal of the 2005 expense for the employee offering (application of IFRS 2), is largely offset by the €373 million increase in allocations to nuclear provisions following the new Law of June 28, 2006 on waste management (see section 9.5.2.1 ("Regulatory changes in France")) and the €470 million provision recorded following implementation of the transitory regulated tariff for market adjustment (TaRTAM).

### 9.8.1.7 EBIT

France's contribution to Group EBIT was €5,488 million, 11.7% higher than in 2005. This increase mainly results from the increase in EBITDA, and the reversal of the €328 million provision following discontinuation of the exceptional additional pension system. Excluding the impact of the reversal of such provision, the increase would be 5.1%.

## 9.8.2 United Kingdom

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
<b>Sales</b>	<b>8,319</b>	<b>6,682</b>	<b>1,637</b>	<b>24.5</b>	<b>24.3</b>
<b>EBITDA</b>	<b>1,268</b>	<b>1,306</b>	<b>(38)</b>	<b>(2.9)</b>	<b>(3.1)</b>
<b>EBIT</b>	<b>822</b>	<b>872</b>	<b>(50)</b>	<b>(5.7)</b>	<b>(5.8)</b>

### 9.8.2.1 Sales

EDF Energy's contribution to consolidated sales was €8,319 million, showing overall growth of 24.5% and organic growth of 24.3% compared to 2005, resulting from:

- the increase in prices and tariffs for 19.7%: sale prices for industrial customers, an increase in distribution network access fees, and higher natural gas and electricity sales tariffs introduced in September 2005, and March and July 2006 for residential customers;
- volume growth for 4.6%, resulting from EDF Energy's commercial development policy, which won 450,000 new customer accounts (an increase of 9% of EDF Energy's customer accounts); and
- exchange rate effects for 0.2%.

### 9.8.2.2 EBITDA

EDF Energy's contribution to Group's EBITDA stood at €1,268 million in 2006, a decline of 2.9% despite the significant increase in sales largely explained by the following factors:

- a sharp rise in fuel and energy purchases (+€1,413 million or 36.3%) driven by the rise in commodity prices, particularly during the first half-year, the higher generation volumes (EDF Energy purchases gas and coal in wholesale markets to satisfy its generation needs), the impact of IAS 39<sup>56</sup> (€92 million impact on EBITDA) and by the generation issues that occurred during the summer of 2006; and

<sup>55</sup> Taxes on base nuclear facilities.

<sup>56</sup> See explanation at footnote 53.

- a significant increase in other external expenses (+€188 million or +24.2%) mainly associated with growth in the public networks and private networks businesses and the costs related to development of the customer base.

However, the decline in EBITDA was limited by the good performance of the public networks business, primarily driven by the rise in access fees and development of related services, and by growth in revenues following incentives to reduce the level of network losses.

## 9.8.2.3 EBIT

**EDF Energy's** contribution to the Group's EBIT was €822 million, 5.7% lower than in 2005, mainly due to the decrease in EBITDA and to a slight increase in depreciation and amortization.

## 9.8.3 Germany

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
Sales	6,016	5,005	1,011	20.2	14.0
EBITDA	996	905	91	10.1	7.2
EBIT	286	571	(285)	(49.9)	(49.6)

### 9.8.3.1 Sales

**EnBW's** contribution to Group's sales was €6,016 million, 20.2% higher than in 2005.

Two thirds of the 14.0% organic sales growth results from electricity activities and one third from gas activities. The organic growth was supported by both price effects (10.5%) and volume effects (3.5%). Sales volumes were higher due to growth in electricity sales on the wholesale markets and to industrial customers.

The growth in the sales of the electricity activities was equally attributable to higher volume sales and higher prices.

The rise in natural gas sales reflects the increase in gas supply costs, which was passed on to end-users. The volumes sold were slightly lower than in 2005 (-5.2%, excluding the impact of consolidation of Stadtwerke Düsseldorf).

The German regulator's decisions to reduce transmission tariffs from August 1, 2006, and distribution tariffs from September 1, 2006 (to levels respectively 8% and 14% lower than EnBW's requests) had a limited impact on the year's sales.

The rise in EnBW's contribution to Group's sales also relates to changes in the scope of consolidation (+6.2%), mainly full consolidation of Stadtwerke Düsseldorf by EnBW from March 31, 2006.

### 9.8.3.2 EBITDA

**EnBW's** contribution to Group's EBITDA amounted to €996 million, an increase of 10.1% compared to 2005, with organic growth at 7.2%.

This increase results from the significant rise in sales, which more than offset the effects of considerably higher fuel and energy purchases (+28.7%, including 8.4% associated with changes in the scope of consolidation), and to a lesser extent the increase in other external expenses (+11.8%) and personnel expenses (+16.6%, including 11.5% associated with changes in the scope of consolidation).

The progression in EnBW's EBITDA is mostly in evidence in the electricity activities, which benefited from high generation growth (better availability) and Trading (optimization of the production portfolio in a market where prices were high), as well as the marketing development with industrial customers.

The milder increase recorded in natural gas sales was due to a positive price effect and the higher revenues on transmission, which offset the slight fall in volumes sold.

The reduction in transmission and distribution tariffs implemented in the second half-year of 2006 had only a limited impact on EnBW's EBITDA.

As for environmental and energy services, EBITDA declined after the positive impact in 2005 of non-recurring items (connected to the sale of the Salamander Group) and recognition in 2006 of provisions for risks related to the waste treatment business (T-Plus facilities, see Section 6.3.1.2.3.3 ("Energy and environmental services") of the present document).

### 9.8.3.3 EBIT

**EnBW's** contribution to consolidated EBIT was €286 million, 49.9% lower than in 2005. This decline was essentially due to EnBW-related goodwill impairments of €318 million recognized in the Group's financial statements following reduction of the transmission and distribution tariffs by the German regulator, and a provision increase of €30 million following technical problems found in T-Plus facilities (see section 6.3.1.2.3.3 ("Energy and environmental services") of the present document), which largely offset the €91 million increase in EBITDA.

## 9.8.4 Italy

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
Sales	5,615	2,019	3,596	178.1	23.3
EBITDA	928	300	628	209.3	(0.3)
EBIT	431	114	317	278.1	(14.9)

### 9.8.4.1 Sales

**Italy's** contribution to consolidated sales was €5,615 million, a significant €3,596 million increase over 2005. €3,126 million of this increase is attributable to the impact of the consolidation of Edison only since October 1, 2005.

Excluding the impact of changes in the scope of consolidation, the growth in sales was 23.3%. This is mainly explained by the higher contribution to sales by EDF Energia Italia (+29.3% for the first nine months of the year), before its sale to Edison in October 2006. The main factor in EDF Energia Italia's higher sales was a rise in volumes sold.



## Operating and financial review

**Fenice's** contribution to Group's sales also increased by 3.8% to €498 million, primarily due to business development in Italy and Poland. Rising natural gas sales prices were almost entirely offset by lower sales following renegotiation of contracts with Fiat (a key factor for the company's long-term activity).

**Edison's** contribution to Group's sales was €4,434 million in 2006 versus €1,010 million in 2005, an increase of €3,424 million. In pro forma figures, Edison's contribution to the Group's sales would amount to €3,419 million in 2005.

Based on its published figures, Edison's sales grew by 28.6% in 2006. This increase is mainly due to rises in electricity and natural gas prices, and additional volumes of electricity sold on the market (+24%), thanks to higher generation capacities in late 2005 and 2006 (+2.4 GW, evenly distributed between the new and restored plants). Natural gas sales were stable in volume as a result of supply constraints.

### 9.8.4.2 EBITDA

**Italy** contributed €928 million to the Group's EBITDA, an increase of €628 million (+209.3%) from 2005. This increase is essentially explained by changes in the scope of consolidation (+€629 million) due to Edison. In terms of organic growth, Italy's contribution to Group's EBITDA was 0.3% lower than in 2005.

**Fenice's** EBITDA totaled €112 million, a decline of €19 million (-14.5%) principally related to contract renegotiations with Fiat.

**EDF Energia Italia's** EBITDA was stable.

**Edison** contributed €815 million to Group's EBITDA in 2006, compared to €165 million in 2005, an increase of €650 million.

Based on Edison's published figures, EBITDA rose by 19.3% in 2006. Two thirds of this increase result from improved performances by the electricity activities. Although there was an automatic decline in contributions by plants benefiting from the CIP6/92 system<sup>57</sup>, sales in the deregulated activities registered significant progression in both price and volume. Gas activities benefited from lower costs as a result of renegotiation of supply contracts.

### 9.8.4.3 EBIT

**Italy's** contribution to Group's EBIT rose by €317 million. The main factor in this increase was the €334 million effect of consolidation of Edison.

## 9.8.5 Rest of Europe

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
Sales	4,930	4,446	484	10.9	18.1
EBITDA	1,363	1,193	170	14.2	22.6
EBIT	1,378	1,016	362	35.6	41.6

<sup>57</sup> The CIP6/92 system provides incentives for construction of renewable energy and similar generation facilities (cogeneration) in Italy. Under this system, several independent producers have signed long-term 8 or 15-year contracts with ENEL (and subsequently GRTN, the Italian national transmission network operator), containing favorable terms for the sale of electricity generated from renewable and similar resources.

### 9.8.5.1 Sales

The **Rest of Europe's** contribution to Group's sales rose, to €4,930 million, a 10.9% increase.

Organic sales growth was 18.1%, reflecting the development of business at **EDF Trading**, which grew by 73.3% (EDF Trading's sales of €747 million consist of the margin on trades), and **Dalkia** (+17.2% amounting to €1,667 million) through its commercial expansion, particularly in Central Europe.

EDF Belgium also contributed to the sales growth (€69 million), as did Demasz and Bert in Hungary.

This organic growth more than offset negative effects of changes in the scope of consolidation (-€306million) resulting from the disposal of ASA, finalised in March 2006, and the disposal by EDF International of two power plants in Egypt completed the same month.

### 9.8.5.2 EBITDA

The contribution to consolidated EBITDA by the **Rest of Europe** was €1,363 million, an increase of 14.2%.

The organic growth of €270 million or 22.6% was supported by expansion and greater profitability at **EDF Trading** (€604 million, an increase of +80.8%) which accounted for almost all of the growth observed (see section 4.1.1.2 ("Management and control of energy market risks")). EDF Trading benefited from a market of volatile, rising energy and commodity prices, and improved coordination with production asset managers.

EBITDA for the **Central and Eastern European subsidiaries** in electricity totaled €215 million, with organic growth of 5.1%. The main contributor to this result was Poland thanks to productivity efforts.

The **real estate subsidiaries** reduced the level of asset disposals and contributed €176 million to Group's EBITDA.

**Electricité de Strasbourg** saw a decline in its contribution to Groups' EBITDA (€88 million in 2006 compared to €108 million in 2005), due to a non-recurrent income in 2005.

The organic growth more than offset negative impacts of changes in the scope of consolidation (-€96 million) related to the disposal by EDF International of ASA and two power plants in Egypt.

### 9.8.5.3 EBIT

The **Rest of Europe** contributed €1,378 million to Group's EBIT, an increase of €362 million (+35.6%) from 2005. This particularly reflects the progression in EBITDA (€170 million), but also capital gains on the disposals by EDF International of ASA and the Egyptian power plants (€345 million), compared to gains of €251 million on disposals in 2005.

## 9.8.6 Rest of the World

(In millions of euros)	2006	2005	Variation	Variation in %	Organic growth %
Sales	2,125	2,880	(755)	(26.2)	4.3
EBITDA	482	658	(176)	(26.7)	6.8
EBIT	951	508	443	87.2	125.8

### 9.8.6.1 Sales

The contribution by the **Rest of the World** to Group sales amounts to €2,125 million, a 26.2% decrease (–€755 million). This includes the negative effects of changes in the scope of consolidation (–€1,002 million) related to the deconsolidation of Light on June 30, 2006 and the application of the equity method to Edenor from August 2005, together with positive foreign exchange effects (€126 million) mainly due to the rise of the Brazilian real. The 4.3% organic sales growth relate mainly to Light's sales in the first half of the year, following the tariff increase of November 2005.

**Mexico's** contribution to consolidated sales reached €670 million, corresponding to overall growth of 1.7%, and organic growth of 3.8% with the higher generation output by the Rio Bravo 3 and 4 plants.

In **Asia**, the subsidiaries' contribution to Group's sales was down 5.0% to €325 million, with negative organic growth of 4.4%.

Excluding the non-recurring factors of 2005 (re invoicing of development expenses related to the Nam Theun project), their contribution registered a slight increase (+1.7%) thanks to the Phu My plant in Vietnam (which was in operation for an additional month in 2006).

### 9.8.6.2 EBITDA

The **Rest of the World's** contribution to Group EBITDA amounted to €482 million, a €176 million decrease. The change in EBITDA takes into account the negative effects of changes in the scope of consolidation (–€249 million), as well as positive exchange rate effects (+€28 million). Organic growth stood at 6.8% and was primarily attributable to Brazil, particularly Light in the first half of the year.

In **Mexico**, EBITDA remained practically stable.

In **Asia**, EBITDA was 12.8% lower than in 2005, largely due to the recognition in 2005 of non-recurring items (re invoicing of development expenses related to the Nam Theun project). Without this factor, EBITDA for Asia would show a slight increase.

### 9.8.6.3 EBIT

The contribution by the **Rest of the World** to Group's EBIT rose sharply (€443 million, or 87.2%). This reflects the reversal of impairment of €624 million following the sale of a shareholding in Light, which more than offset the decline in EBITDA.

## 9.9 - CASH FLOW AND INDEBTEDNESS

### 9.9.1 Cash Flow

The table below sets forth, in a summarized format, the cash flows generated by the Group over the 2005-2006 period:

(In millions of euros)	2006	2005	Variation	Variation in %
<b>Net cash flow from operating activities</b>	<b>11,795</b>	<b>8,439</b>	<b>3,356</b>	<b>39.8</b>
<b>Net cash flow used in investing activities</b>	<b>(13,769)</b>	<b>(10,621)</b>	<b>(3,148)</b>	<b>29.6</b>
<b>Net cash flow from financing activities</b>	<b>(1,794)</b>	<b>5,555</b>	<b>(7,349)</b>	<b>(132.3)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,768)</b>	<b>3,373</b>	<b>(7,141)</b>	<b>NA</b>
Cash and cash equivalents-opening balance	7,220	3,150	4,070	129.2
Effect of currency fluctuations	(3)	84	(87)	(103.6)
Reclassification upon application of IAS 32 and 39	-	670	(670)	NA
Financial income on cash and cash equivalents	76	56	20	35.7
Effect of other reclassifications	(217)	(113)	(104)	92.0
<b>Cash and cash equivalents-closing balance</b>	<b>3,308</b>	<b>7,220</b>	<b>(3,912)</b>	<b>(54.2)</b>

#### 9.9.1.1 Net cash flow from operating activities

(In millions of euros)	2006	2005	Variation	Variation in %
<b>Income before tax from consolidated companies</b>	<b>6,655</b>	<b>4,578</b>	<b>2,077</b>	<b>45.4</b>
Impairments	(121)	147	(268)	(182.3)
Accumulated depreciation and amortization, provisions and change in fair value	7,459	6,657	802	12.0
Financial income and expenses	789	1,108	(319)	(28.8)
Dividends received from companies accounted for under the equity method	92	90	2	2.2
Capital gains/losses	(789)	(487)	(302)	62.0
Other income and expenses without effect on cash	-	329	(329)	NA
Change in working capital	654	1,371	(717)	(52.3)
<b>Net cash flow from operations</b>	<b>14,739</b>	<b>13,793</b>	<b>946</b>	<b>6.9</b>
Net financial expenses disbursements	(931)	(1,143)	212	(18.5)
Income taxes paid	(1,462)	(392)	(1,070)	NA
Payment related to the pension reform	-	(3,296)	3,296	NA
Payment related to the dismantling of the Mancoule site	(551)	(523)	(28)	5.4
<b>Net cash flow from operating activities</b>	<b>11,795</b>	<b>8,439</b>	<b>3,356</b>	<b>39.8</b>

The net cash flow from operating activities amounted in 2006 to €11,795 million, an increase of €3,356 million compared to 2005, mainly due to:

- a €946 million improvement in net cash flow from operations. This improvement is due to an increase in income before tax (+ €2,077 million) which largely offset the decrease in the improvement in working capital, the decrease in financial income and expenses and the variation in the capital gains / losses item.

In 2006, the working capital improved by €654 million (against €1,371 million in 2005). This improvement is mainly experienced in France (€928 million) and is the result of the efforts carried out in purchase and sales cycles under the Altitude plan, as well as of a positive effect of weather conditions. On the contrary, international subsidiaries' working capital increased (€274 million): this increase is related to operational activities subject to prices and volumes effects generated by an activity increase.

- a variation in income taxes paid of - €1,070 million, which is mainly due to:
  - the reversion in 2005 by the Treasury of an overpayment of 2004 amounting to €1,146 million related to company income tax installments,
  - the taking into account in 2006, when calculating the 2006 installment, of the positive fiscal impact of the company legal reorganization prior to the sale of Light and which amounted to €527 million.
- a €3,296 million payment in 2005 in connection with exceptional contributions following the pension financing system reform, with no equivalent in 2006.

Details of the operating cash flow<sup>58</sup> are shown below:

(In millions of euros)	2006	2005	Variation	Variation in %
<b>Net cash flow from operations</b>	<b>14,739</b>	<b>13,793</b>	<b>946</b>	<b>6.9</b>
Net financial expenses disbursed	(931)	(1,143)	212	(21.6)
Income taxes paid	(1,462)	(392)	(1,070)	NA
Change in working capital	(654)	(1,371)	717	(52.3)
Taxes generated by non-recurring items	(527)	(1,410)	883	(62.6)
<b>Operating cash flow</b>	<b>11,165</b>	<b>9,477</b>	<b>1,688</b>	<b>17.8</b>

Operating cash flow amounted to €11,165 million in 2006, versus €9,477 in 2005, a 17.8% increase.

## 9.9.1.2 Net cash flow used in investing activities

Net cash flow used in investing activities amounted to €13,769 million in 2006 and €10,621 in 2005.

The following table sets forth the breakdown of net cash flow used in investing activities between purchases and disposals of property, plant and equipment and intangible assets, acquisition of companies net of cash acquired, and the change in financial assets:

(In millions of euros)	2006	2005	Variation	Variation in %
<b>Purchases of property, plant and equipment and intangible assets</b>	<b>(5,935)</b>	<b>(5,168)</b>	<b>(767)</b>	<b>14.8</b>
Disposals of property, plant and equipment and intangible assets	272	392	(120)	(30.6)
<b>Net CAPEX<sup>(1)</sup></b>	<b>(5,663)</b>	<b>(4,776)</b>	<b>(887)</b>	<b>18.6</b>
Acquisitions / Disposals of companies, net of cash acquired	691	(2,951)	3,642	NA
Changes on financial assets	(8,797)	(2,894)	(5,903)	204.0
<b>Net Cash flow used in investing activities</b>	<b>(13,769)</b>	<b>(10,621)</b>	<b>(3,148)</b>	<b>29.6</b>

(1) In managing its industrial assets, the Group uses the net CAPEX indicator ("Purchases of property, plant and equipment and intangible assets" net of "Disposals of property, plant and equipment and intangible assets") in order to monitor the evolution of its investments in tangible and intangible assets.

### Purchases and disposals of property, plant and equipment and intangible assets

The purchases of property, plant and equipment and intangible assets (gross capex) amounted to €5,935 million, increasing by €767 million (14.8%) compared to 2005 (see Section 6.1.4 ("Investment policy")).

<sup>58</sup> Operating cash flow, or funds from operations (FFO), is an indicator used by EDF to evaluate the Group's capacity to generate free cash flows. It is equal to net cash flow from operating activities, excluding changes in working capital, less net financial expenses disbursed and income taxes paid, adjusted for the impact of non-recurring tax effects (€527 million for 2006 and €1,410 million for 2005).

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The following table sets forth changes in the Group's purchases of property, plant and equipment and intangible assets by segment over the relevant period:

(In millions of euros)	2006	2005	Variation	Variation in %
France : Regulated activities	2,398	2,236	162	7.2
France: Non Regulated activities	1,430	914	516	56.5
<b>TOTAL FRANCE</b>	<b>3,828</b>	<b>3,150</b>	<b>678</b>	<b>21.5</b>
United Kingdom	932	997	(65)	(6.5)
Germany	283	270	13	4.8
Italy	351	184	167	90.8
Rest of Europe	438	352	86	24.4
Rest of the World	103	215	(112)	(52.1)
<b>Gross CAPEX</b>	<b>5,935</b>	<b>5,168</b>	<b>767</b>	<b>14.8</b>

This increase was mostly due to the progression in **France** (+ €678 million). It was mainly related to deregulated activities (+ €516 million) and in particular generation for which investments attained €1,201 million in 2006 compared to €783 million in 2005, a €418 million increase. Investments in transmission and distribution networks amounted to €2,398 million in 2006 compared to €2,236 million in 2005, a €162 million increase.

Investments also increased in **Italy** (+ €167 million) mainly due to consolidation of Edison over a full year in 2006, compared to one quarter in 2005 (€139 million); as well as in the **Rest of Europe** (+ €86 million) thanks to the development in renewable energy sources (EDF Energies Nouvelles) and in services (Dalkia International). In **Germany**, investments remained stable.

In the **United Kingdom**, the €65 million decrease takes into account the inclusion in 2006 of CO<sub>2</sub> emission quotas agreements in the working capital. Otherwise, investments, in particular those related to networks, progress.

In the **Rest of the World**, the evolution in investments reflects the disposal of several assets in Latin America.

### Tangible and intangible assets disposals

The €120 million variation in mainly due to the disposal of both tan-

gible and intangible assets in France and Germany.

### Acquisitions / Disposals of companies, net of cash acquired

This heading comprises acquisitions and disposals of consolidated companies' securities, net of cash acquired. In 2006, it mainly consisted of, as for what concerns disposals, those of Light, the Egyptian power plants, ASA, EDF Capital Investissement and Edison's network activities; and as for what concerned acquisitions, the tender offer launched by EDF over Desmasz, the increase of its shareholding in EVN and in Stadtwerke Düsseldorf and the acquisition of shareholdings in Atel, Motor Columbus and EDF Energies Nouvelles.

Changes observed in this item between 2005 and 2006 are mainly due to the fact that Edison entered the consolidation scope in 2005.

### Changes in financial assets

At December 31, 2006 the variation in financial assets amounted to €(8,797) million and is mainly due to the net purchase by EDF of financial assets for an amount of €8,332 million during 2006 (including €2,845 million of dedicated assets for nuclear activity).

### 9.9.1.3 Net cash flow from financing activities

The following table sets forth the breakdown of the net cash flow from financing activities over the relevant period:

(In millions of euros)	2006	2005	Variation	Variation in %
Issuance of borrowings	3,686	2,810	876	31.2
Repayment of borrowings	(4,254)	(3,247)	(1,007)	31.0
Dividends paid by the parent company	(1,439)	(374)	(1,065)	284.8
Dividends paid to minority interests	(93)	(54)	(39)	72.2
Capital increase subscribed by minority interests	24	27	(3)	(11.1)
Increase in special concession liabilities	219	196	23	11.7
Investment subsidies	63	70	(7)	(10.0)
Capital increase of EDF	-	6,350	(6,350)	NA
Other	-	223	(223)	NA
<b>Net cash flow from financing activities</b>	<b>(1,794)</b>	<b>5,555</b>	<b>(7,349)</b>	<b>(132.3)</b>

In 2006, the cash flow related to financing activities generated a net outflow of €1,794 million, a €7,349 million difference compared to 2005's net inflow of €5,555 million. This change is mainly due to:

- 2005's capital increase of EDF which amounted to €6,350 million, with no equivalent in 2006;
- dividends paid by EDF in 2006, amounting to €1,439 million, compared to €374 million in 2005;
- the repayment of loans, net of debt issuances, for an amount of €568 million in 2006, an increase of €131 million compared to 2005.

## 9.9.2 Net indebtedness

Net indebtedness comprises total loans and financial liabilities, less cash and cash equivalents and liquid assets. Liquid assets are financial

assets with original maturity of over three months that are readily convertible into cash regardless of their maturity and that are managed according to a liquidity oriented policy. On December 31, 2006, the Group's net indebtedness amounted to €14,932 million. It amounted to €18,592 million on December 31, 2005, thus decreasing of €3,660 million over the year 2006.

This decrease is mainly due to the free cash flow generated (€6,683 million) and the positive impact of changes in the scope of consolidation on net indebtedness (€1,287 million) which largely offset the total of financial investments (€2,704 million), paid dividends (€1,532 million) and the payment related to the dismantling of the Marcoule site (€551 million).

The following table shows the changes in the EDF Group's net indebtedness:

(In millions of euros)	2006	2005	Variation	Variation in %
<b>Operating profit before depreciation and amortization (EBITDA)</b>	<b>13,930</b>	<b>12,906</b>	<b>1,024</b>	<b>7.9</b>
Cancellation of non - monetary items included in EBITDA	138	(670)	808	(120.6)
Dividends received from companies accounted for under the equity method	92	90	2	2.2
Change in net working capital	654	1,371	(717)	(52.3)
Other items	(75)	96	(171)	(178.1)
<b>Net Cash flow from operations</b>	<b>14,739</b>	<b>13,793</b>	<b>946</b>	<b>6.9</b>
Acquisitions of intangible assets and property, plant and equipment	(5,935)	(5,168)	(767)	14.8
Disposals of intangible assets and property, plant and equipment	272	392	(120)	(30.6)
Net financial expenses disbursed	(931)	(1,143)	212	(18.5)
Income tax paid	(1,462)	(392)	(1,070)	273.0
<b>Free cash flow</b>	<b>6,683</b>	<b>7,482</b>	<b>(799)</b>	<b>(10.7)</b>
Investments (including investments in consolidated companies)	(2,704)	(4,585)	1,881	(41.0)
Dividends paid	(1,532)	(428)	(1,104)	257.9
Increase in capital and change in other equity	-	6,350	(6,350)	NA
Payment related to the pension reform	-	(3,296)	3,296	NA
Payment related to the dismantling of the Marcoule site	(551)	(523)	(28)	5.4
Other items	354	83	271	326.5
<b>Monetary decrease in net indebtedness, excluding the impact of changes in scope of consolidation and exchanges rates</b>	<b>2,250</b>	<b>5,083</b>	<b>(2,833)</b>	<b>(55.7)</b>
Effect of change in scope of consolidation	1,287	(2,314)	3,601	NA
Effect of change in accounting methods on net indebtedness	(1)	-	(1)	NA
Effect of exchange rate fluctuations	79	(830)	909	NA
Other non-monetary changes	45	(198)	243	NA
<b>(Increase) / Decrease in net indebtedness</b>	<b>3,660</b>	<b>1,741</b>	<b>1,919</b>	<b>110.2</b>
<b>Net indebtedness at beginning of period <sup>(1)</sup></b>	<b>18,592</b>	<b>20,333</b>	<b>(1,741)</b>	<b>(8.6)</b>
<b>Net indebtedness at the end of period</b>	<b>14,932</b>	<b>18,592</b>	<b>(3,660)</b>	<b>(19.7)</b>

(1) after the effects of application of standards IAS 32/39 at January 1, 2005.



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The changes in the contribution of each geographical area to net indebtedness were as follows:

(In millions of euros)	2006	2005	Variation	Variation in %
France	5,940	6,924	(984)	(14.2)
United Kingdom	6,413	6,083	330	5.4
Germany	1,766	1,614	152	9.4
Italy	(99)	490	(589)	NA
Rest of Europe	(501)	189	(690)	NA
Rest of the World	1,398	2,858	(1,460)	(51.1)
<b>TOTAL</b>	<b>14,917</b>	<b>18,158</b>	<b>(3,241)</b>	<b>(19.7)</b>
Net financial liabilities of companies included in liabilities related to assets classified as held for sale	15	434	(419)	NA
<b>TOTAL GROUP</b>	<b>14,932</b>	<b>18,592</b>	<b>(3,660)</b>	<b>(19.7)</b>

In **France**, the decrease over 2006 in net indebtedness was mainly attributable to a significant free cash flow which largely offset the payment of dividends by EDF of €1,439 million, EDF's net contribution to dedicated assets of €2,845 million and the payment of €551 million related to the dismantling of the Marcoule site.

In the **United Kingdom**, although the free cash flow progressed between 2005 and 2006, it was not enough to self-finance dividends. Consequently, net financial indebtedness increased by €330 million in 2006.

In **Germany**, the increase in net financial indebtedness is mainly due to consolidation scope effects, in particular, the full consolidation of

Stadtwerke Düsseldorf in EnBW's consolidated financial statements from March 31, 2006.

In **Italy**, net financial indebtedness decreased by €589 million. The free cash flow generated by Edison over the year 2006 and the disposal of its electric networks activities were the main factors leading to the significant decrease in net financial indebtedness for Italy.

The significant decreases observed in the **Rest of Europe** (- €690 million) and in the **Rest of the World** (- €1,460 million) are mainly due to the disposals by EDF International of ASA and of the Egyptian power plants, as for what concerns the Rest of Europe segment, and to the disposal of Light, for the Rest of the World segment.

## ➔ 9.10 - MANAGEMENT AND MONITORING OF FINANCIAL RISKS

In addition to this section on the management and monitoring of financial risks, you should read section 4.1 of this document on the risk management and control in the EDF Group.

### 9.10.1 Liquidity position and management of liquidity risks

#### Liquidity position

At December 31, 2006, taking into account the cash and liquid assets totaling €13,462 million and unused credit lines totaling €9,816 million, the Group's liquidity position was approximately €23.3 billion. The Group also has access to financial resources through short-term issues and bond issue programs, and bank credit lines.

At December 31, 2006, the maturities of gross long-term and short-term debt, after swaps and based on current interest and exchange rates, were as follows<sup>59</sup>:

(In millions of euros)	Bonds	Loans from financial institutions	Other financial liabilities	Loans related to financial leased asset	Accrued interest	Total
Less than one year	3,280	1,319	3,540	25	518	8,682
<b>From one to five years</b>	<b>5,839</b>	<b>1,443</b>	<b>236</b>	<b>187</b>	<b>0</b>	<b>7,705</b>
More than five years	9,309	1,966	297	153	30	11,755
<b>TOTAL</b>	<b>18,428</b>	<b>4,728</b>	<b>4,073</b>	<b>365</b>	<b>548</b>	<b>28,142</b>

<sup>59</sup> See note 31.2.2 to the 2006 consolidated financial statements.

In 2007, the Group's scheduled debt repayments will total €8,682 million.

In January 2007, none of EDF, EDF Energy, EnBW, EDF Trading, or Edison were in significant default on any borrowing.

#### Management of liquidity risks

The measures taken by the Group for its liquidity risk management are designed to smooth the maturities of debt lines. The average maturity of long-term debt is approximately six and a half years, stable compared to 2005. The average maturity of EDF's debt was approximately seven years, lower than in 2005 as there were no debt issues in 2006.

Four specific levers are used to manage the Group's liquidity risk:

- the Group's cash pooling system, which permits centralized cash management for operationally controlled subsidiaries (therefore not including, notably, Edison, EnBW and Dalkia). The subsidiaries' cash balances are made available to EDF in return for interest, so as to optimize the Group's cash management and provide subsidiaries with a system that guarantees them market-equivalent financial terms;
- centralization of financing for controlled subsidiaries at the level of the Group's cash management department;  
EDF Energy now has a credit line with EDF, and EDF Trading has replaced its syndicated loan by a credit line with EDF.
- active management and diversification of financing sources used by the Group;  
The Group has access to short-term resources on various markets through programs for French commercial paper (billets de trésorerie), US commercial paper and Euro market commercial paper. These

programs are regularly used below their ceilings, which for EDF are €3.8 billion for its French commercial paper, \$3 billion for its US commercial paper and \$1.5 billion for its Euro market commercial paper. EnBW, Edison and EDF Energy also have short-term programs for maximum amounts of €2 billion, €1.2 billion and £1 billion respectively.

EDF also has regular access to the bond market through an annually updated EMTN (Euro Medium Term Note) program, registered with the market authorities in Luxembourg, France, and Japan. The current ceiling for this program is €11 billion. EnBW, EDF Energy and RTE-EDF Transport also have their own EMTN programs, with ceilings of €5 billion, €4 billion and €6 billion respectively.

The table below sets forth the Group's borrowings in amounts of over €750 million at December 31, 2006:

Type of borrowing in millions of currency units	Entity	Issue date	Maturity	Amount	Currency	Rate
Bonds	EDF	1993	2008	987	EUR	6.3
Bonds	EDF	1998	2009	1,996	EUR	5.0
EuroMTN	EDF	2000	2010	1,000	EUR	5.8
EuroMTN	EDF	2001	2016	1,100	EUR	5.5
Bonds	EDF	2001	2031	650	GBP	5.9
Bonds	IEB	2002	2007	1,272	EUR	4.9
EuroMTN	EDF	2003	2033	850	EUR	5.6
Bonds	RTE-EDF Transport	2006	2016	1,000	EUR	4.1

- The entities with syndicated loan facilities are EDF, EDF Energy, EnBW, Edison and RTE-EDF Transport:
  - EDF has a syndicated loan facility for €6 billion, valid until 2012. This amount comprises a €2 billion swingline available for same-day drawing. This facility is not conditional on maintenance of ratios or a given credit rating. No drawings had been made on this facility at December 31, 2006;
  - EDF Energy's syndicated loan facility has been reduced by £500 million to £250 million, valid until 2008 due to centralization of financing in the Group. This facility is conditional on respect of certain covenants (the company must continue to be controlled by EDF), and no drawings had been made on it at December 31, 2006;
  - EnBW's syndicated loan facility comprises two tranches: one (tranche A) of €1 billion with a one-year term, with an option for renewal and drawing facility upon expiry at the lender's initiative, and another (tranche B) of €58 million valid until 2010 and €1,442 million valid until 2011. No drawings had been made on this credit facility at December 31, 2006;
  - Edison's syndicated loan for €1.5 billion is valid until 2013 at December 31, 2006, a €200 million drawing on it had been made
  - RTE-EDF Transport's syndicated loan comprises one tranche of €1 billion valid until 2013. No drawings had been made on this credit facility at December 31, 2006.

## 9.10.2 Credit ratings

The financial ratings agencies Standard & Poor's, Moody's and Fitch IBCA have attributed the following long-term and short-term ratings to the EDF Group<sup>60</sup>:

Company	Agency	Long-term rating	Short-term rating
EDF	<i>Standard &amp; Poor's</i>	AA— negative outlook	A-1+
	<i>Moody's</i>	Aa1, stable outlook	P-1
	<i>Fitch IBCA</i>	AA—, stable outlook	F1+
RTE-EDF Transport SA	<i>Standard &amp; Poor's</i>	AA—, stable outlook	A-1+
EDF Trading	<i>Moody's</i>	A3, stable outlook	N/A
EDF Energy	<i>Standard &amp; Poor's</i>	A, stable outlook	A-1
	<i>Moody's</i>	A3, negative outlook	P-2
	<i>Fitch IBCA</i>	A—, stable outlook	F2
Edison SpA	<i>Standard &amp; Poor's</i>	BBB+, stable outlook	A-2
	<i>Moody's</i>	Baa2, stable outlook	N/A
	<i>Fitch</i>	BBB+ stable outlook	F2
EnBW	<i>Standard &amp; Poor's</i>	A—, positive outlook	A-2
	<i>Moody's</i>	A2, stable outlook	P-1

## 9.10.3 Management of foreign exchange rate risk

Due to the diversification of its activities and geographical locations, the Group is exposed to the risk of exchange rate fluctuations, which may have an impact on the translation differences affecting balance sheet items, Group financial expenses, equity and net income.

In general, the cash flows related to EDF's and its subsidiaries operations are in the relevant local currencies, with the exception of flows related to fuel purchases which are primarily in US dollars, and certain flows related to purchases of equipment, although these concern lower amounts. To limit exposure to foreign exchange risks, the Group has introduced the following management principles:

- To the extent possible given the local financial markets' capacities, each entity finances its activities in its own accounting currency. When financing is contracted in other currencies, derivatives may be used to limit foreign exchange risks.

- The foreign exchange risk on international assets in the consolidated balance sheet is managed either by matching with liabilities for acquisitions in the same currency, or by market hedging. The Group thus uses derivative financial instruments to manage its foreign exchange exposure on these assets. These financial instruments are intended to hedge only firm or highly probable commitments and do not correspond to speculative objectives. If no hedging instruments are available, or if hedging costs are prohibitive, the risk on open foreign exchange positions is monitored by calculating VaR and stress scenarios.

After taking into account the financing and foreign exchange risk hedging policy, the gross debt breaks down by currency after swaps as follows at December 31, 2006: 58.0% in euros, 27.9% in pounds sterling and 7.0% in US dollars. The balance of 7.1% includes the Swiss franc, the Hungarian forint, the Polish zloty and the Brazilian real.

12/31/2006 (In millions of euros)	Initial debt structure	Impact of hedging instruments	Debt structure after hedges	% of debt
EUR	19,613	(3,284)	16,329	58.0
USD	2,302	(334)	1,968	7.0
GBP	4,901	2,959	7,860	27.9
Other currencies	1,326	659	1,985	7.1
<b>TOTAL DEBT</b>	<b>28,142</b>	<b>-</b>	<b>28,142</b>	<b>100</b>

12/31/2005 (In millions of euros)	Initial debt structure	Impact of hedging instruments	Debt structure after hedges	% of debt
EUR	18,671	(3,150)	15,521	52.2
USD	3,212	(627)	2,585	8.7
GBP	5,933	3,191	9,124	30.7
Other currencies	1,902	586	2,488	8.4
<b>TOTAL DEBT</b>	<b>29,718</b>	<b>-</b>	<b>29,718</b>	<b>100</b>

<sup>60</sup> In January 2007.

The following table sets forth the impact of an adverse change in exchange rates on the Group's gross debt at December 31, 2006:

<i>(In millions of euros)</i>	Debt after hedging instruments, converted into euros	VaR 95 % One-Year Horizon	Impact of a 10% change in exchange rate	Debt after 10% change in exchange rate
EUR	16,329	-	-	16,329
USD	1,968	170	197	2,165
GBP	7,860	383	786	8,646
Other currencies	1,985	-	199	2,184
<b>TOTAL</b>	<b>28,142</b>			<b>29,323</b>

The following table sets forth the foreign exchange position relating to net non operating investments in foreign currency of the Group's principal subsidiaries at December 31, 2006.

<i>(In millions of Currency unit)</i>	Assets	Bonds	Derivatives	Net position after hedging (Assets)
USD	343	0	230	113
CHF (Switzerland)	1,078	300	525	253
HUF (Hungary)	72,874	0	54,478	18,396
PLN (Poland)	1,479	0	1,336	142
GBP (Great Britain)	3,361	754	1,987	620
ARS (Argentina)	6	0	0	6
BRL (Brazil)	448	0	0	448
SKK (Slovakia)	7,489	0	0	7,489
CNY (China)	671	0	0	671

The assets mentioned in the above table are the net assets of the Group's foreign subsidiaries in currency units. Such assets are restated from (i) changes in fair value of the cash flow hedgings and of the available-for-sale financial assets, which are included in equity, and (ii) from the changes in fair value of the financial instruments recorded in the income statement.

The following table sets forth the risk of foreign exchange loss on the overall net position relating to net non-operating investment foreign currencies of the Group's principal subsidiaries at December 31, 2006 assuming unfavorable, uniform exchange rate variations 10% against the euro and VaR at 95% on a one-year horizon.

<i>(In millions of euros)</i>	Net Position Expressed in Currency Converted into Euros <sup>(1)</sup>	Impact of a 10% Change in Exchange Rates	Forex VaR at 95 % One-Year Horizon
USD	86	9	7.4
CHF (Switzerland)	158	16	4.7
HUF (Hungary)	73	7	6.3
PLN (Poland)	37	4	3.2
GBP (Great Britain)	923	92	45
ARS (Argentina)	1	0.1	0.1
BRL (Brazil)	160	16	27.1
SKK (Slovakia)	217	22	10.9
CNY (China)	65	7	5.7

(1) Converted at closing rate.

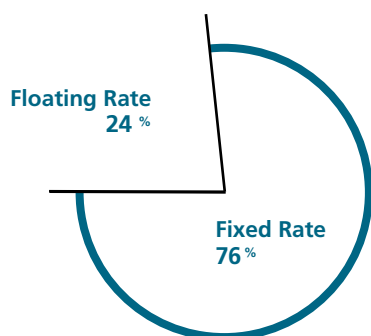
### 9.10.4 Management of interest rate risk

The Group's exposure to interest rate fluctuations covers two types of risk: a risk of change in the value of fixed-rate financial assets and liabilities, and a risk of change in the cash flows related to floating-rate financial assets and liabilities.

To limit exposure to interest rate risk, the Group (apart from entities it does not control operationally, notably Edison and EnBW) fixes principles as part of its general risk management policy, based on VaR and EaR indicators, which are designed to limit the risk of change in the value of assets invested or possible increases in interest charges.

Accordingly, EDF adapts its allocation between fixed and floating rates according to expected market fluctuations in interest rates. This allocation may involve the use of interest rate derivatives for non-speculative hedging purposes.

The Group's debt after hedging instruments at December 31, 2006 was structured as follows: 76% at fixed rates and 24% at floating rates.



The risk of potential loss for the EDF Group's financial result due to adverse rate movements affecting floating-rate borrowings and off-balance sheet instruments is measured by calculating EaR. At December 31, 2006, using a one-month time horizon and a confidence interval of 95% for EDF's debt maturity of over one year, the EaR indicates a risk of adverse change in forecast net financial income of €36 million for 2007 and a cumulative €149.5 million for subsequent years, with a maximum of €37 million in one year.

A 1% uniform rise in interest rates would generate a €64 million increase in financial expenses, based on gross floating-rate debt after swaps at December 31, 2006.

The average coupon on Group debt (weighted interest rate on outstanding amounts) was 5.2% in 2006, lower than in 2005.

The table below sets forth the structure of Group debt and the impact of hedging operations on debt structure at December 31, 2005 and 2006:

12/31/2006 (In millions of euros)	Initial debt structure	Impact of hedging instruments	Debt structure after hedging
Fixed rate	21,509	(174)	21,335
Floating rate	6,633	174	6,807
<b>TOTAL DEBT</b>	<b>28,142</b>	<b>-</b>	<b>28,142</b>

12/31/2005 (In millions of euros)	Initial debt structure	Impact of hedging instruments <sup>61</sup>	Debt structure after hedging
Fixed Rate	21,687	(908)	20,779
Floating rate	8,031	908	8,939
<b>TOTAL DEBT</b>	<b>29,718</b>	<b>0</b>	<b>29,718</b>

<sup>61</sup> See 2006 Consolidated Financial Statements, note 31.2.4.

## 9.10.5 Management of equity risk

The equity risk lies in the portfolio to cover nuclear commitments (see section 9.10.6 on the "Management of financial risk on EDF's dedicated assets portfolio") and to a small degree in long-term investments for EDF's cash management.

At December 31, 2006, equity income on long-term cash management investments by EDF totaled €562 million, with estimated volatility of 3.08% (NB: annualized volatility of monthly returns over three years). Applying this volatility to the value of equity assets at the same date, the Group estimates the annual volatility of the equities portion of cash investments at €17 million.

## 9.10.6 Management of financial risk on EDF's dedicated assets portfolio

The dedicated assets have been built up progressively by EDF since 1999 to cover future dismantling expenses for the nuclear plants currently in operation, and the long-term storage of medium-level and high-level waste. Using a long-term management strategy, they are invested in equities and bonds in accordance with the allocation defined in 1999 and revised at the end of 2002 and 2005, pursuant to the governance principles for dedicated assets.

These governance principles set forth the decision-making and control structure for dedicated assets management. Strategic asset allocation and a comparative study are defined for overall portfolio performance monitoring and risk control. The principles governing the assets portfolio's structure, selection of financial managers, and the legal, accounting and tax structure of the funds are also defined.

Delegated assets management is used for the equity portion of dedicated assets, through open-ended mutual funds (OPCVM, i.e. SICAV or FCP) or reserved funds (FCP). The managers of funds reserved for the company are diversified and a strict selection procedure is applied

so as to reduce the overall portfolio risk. Each manager's mandate specifies an individual objective expressed in terms of a benchmark stock market index and maximum risk levels, particularly for fund performance volatility and tracking error, authorized products and transactions, and maximum investment ratios. The same approach applies for the selection of open-ended funds.

Funds' performance and the quality of management by fund managers are continuously monitored to ensure compliance with the strategic allocation and governance principles defined for EDF's dedicated assets. A management report is presented annually to the Audit Committee and Board of Directors.

At December 31, 2006, 52.4% of EDF's dedicated assets portfolio consisted of equities and 46.9% of bonds, the balance (0.7%) comprising monetary and equivalent instruments.

Details of the instruments in the portfolio are also provided in note 22.3.2.1 of the notes to the financial statements at December 31, 2006.

The net book value of equities in EDF's dedicated assets portfolio at December 31, 2006 was €3,281 million.

Through this portfolio, EDF is exposed to equity risk and interest rate risk.

The volatility of the equity portion of dedicated assets can be estimated on the basis of the volatility of the benchmark index, the MSCI World index, which at December 31, 2006 was 9.44% based on 52 weekly performances. Applying this volatility to the value of equity assets at the same date, the Group estimates the annual volatility of the equity portion of dedicated assets at €308 million.

At December 31, 2006, the sensitivity of the bond portion of dedicated assets was 3.88% i.e., a uniform 100 base point rise in interest rates would result in a 3.88% decline in market value.

## ➔ 9.11 - PROVISIONS

The following table sets forth provisions (current and non-current) for the year ended December 31, 2006 and December 31, 2005 :

<i>(In millions of euros)</i>	December 31 2006	December 31 2005
Provisions for reprocessing of nuclear fuel	10,512	10,336
Provisions for disposal and storage of radioactive	4,869	4,416
<b>Provisions for end of nuclear fuel cycle</b>	<b>15,381</b>	<b>14,752</b>
Provisions for decommissioning	12,139	11,518
Provisions for last cores	1,685	1,618
<b>Provisions for decommissioning and last cores</b>	<b>13,824</b>	<b>13,136</b>
Provisions for post-employment benefits	12,799	14,167
Provisions for other long-term employee benefits	1,129	405
<b>Provisions for employee benefits</b>	<b>13,928</b>	<b>14,572</b>
<b>Other provisions</b>	<b>4,009</b>	<b>3,589</b>
<b>TOTAL PROVISIONS</b>	<b>47,142</b>	<b>46,049</b>

For details of the components of provisions, and changes in these provisions, see note 29 to the 2006 consolidated financial statements.



## ➔ 9.12 - OFF BALANCE SHEET COMMITMENTS

### 9.12.1 Operating, financing and investment commitments

Off-balance sheet commitments given by the Group were as follows for 2006:

(In millions of euros)	2006			
	Total	Maturity within one year	Maturity between one and five years	Maturity after five years
<b>Operating commitments</b>	<b>11,098</b>	<b>4,868</b>	<b>5,284</b>	<b>946</b>
Satisfactory performance, completion and bid guarantees	730	456	138	136
Commitments related to commercial contracts	1,974	1,360	439	175
Commitments related to orders for operating items and fixed assets	4,408	2,294	1,955	159
Other operating commitments	3,986	758	2,752	476
<b>Firm irrevocable purchase commitments</b>	<b>44,866</b>	<b>6,874</b>	<b>13,823</b>	<b>24,169</b>
<b>Operating lease commitments</b>	<b>2,342</b>	<b>440</b>	<b>1,410</b>	<b>492</b>
<b>Financing commitments</b>	<b>3,843</b>	<b>737</b>	<b>1,929</b>	<b>1,177</b>
Security interest on assets	2,754	348	1,484	922
Guarantees related to borrowings	718	257	260	201
Other financing commitments	371	132	185	54
<b>Investment commitments</b>	<b>2,965</b>	<b>2,615</b>	<b>350</b>	<b>0</b>
Equity investment commitments	2,780	2,510	270	0
Other investment commitments	185	105	80	0

**Operating commitments**, totaling €11,098 million, comprise satisfactory performance, completion and bid guarantees, commitments related to commercial contracts, commitments related to orders for operating items and fixed assets (other than commodities and energy) and other operating commitments. Operating lease commitments amounted to €2,342 million. For detailed information regarding these commitments, see note 11.3 to the 2006 consolidated financial statements.

**Firm irrevocable purchase commitments** (electricity, natural gas, other energies and commodities, nuclear fuels) amounted to €44,866 million at December 31, 2006. For further details on these commitments, see note 11.1 to the 2006 consolidated financial statements.

**Financing commitments**, totaling €3,843 million, comprised security interests on assets, guarantees related to borrowings and other financing commitments. Financing commitments are presented in note 31.5 to the 2006 consolidated financial statements.

**Investment commitments** include commitments for acquisition of equity investments and other investment commitments amounting to €2,965 million.

The investment commitments are described in note 22.5 to the 2006 consolidated financial statements.

### 9.12.2 Contractual Obligations

The following table provides the Group's contractual obligations at December 31, 2006. These include the off-balance sheet commitments given by the Group, as well as long-term financial liabilities (including long-term debts and finance lease commitments).

Contractual obligation	Total	Maturity within one year	Maturity between one and five years	Maturity after five years
<i>(In millions of euros)</i>				
<b>Long-term debt<sup>1</sup></b>	<b>28,142</b>	<b>8,682</b>	<b>7,705</b>	<b>11,755</b>
<b>Finance lease commitments<sup>2</sup></b>	<b>394</b>	<b>28</b>	<b>188</b>	<b>178</b>
<b>Contractual obligations recognized in the balance sheet</b>	<b>28,536</b>	<b>8,710</b>	<b>7,893</b>	<b>11,933</b>
Satisfactory performance, completion and bid guarantees	730	456	138	136
Commitments related to commercial contracts	1,974	1,360	439	175
Commitments related to orders for operating items and fixed assets	4,408	2,294	1,955	159
Other operating commitments	3,986	758	2,752	476
<b>Contractual obligations related to operations<sup>3</sup></b>	<b>11,098</b>	<b>4,868</b>	<b>5,284</b>	<b>946</b>
<b>Firm irrevocable purchase commitments</b>	<b>44,866</b>	<b>6,874</b>	<b>13,823</b>	<b>24,169</b>
<b>Operating leases<sup>4</sup></b>	<b>2,342</b>	<b>440</b>	<b>1,410</b>	<b>492</b>
Security interests in assets	2,754	348	1,484	922
Guarantees related to borrowings	718	257	260	201
Other financing commitments	371	132	185	54
<b>Contractual obligations related to financing<sup>5</sup></b>	<b>3,843</b>	<b>737</b>	<b>1,929</b>	<b>1,177</b>
Equity investment commitments	2,780	2,510	270	0
Other investment commitments	185	105	80	0
<b>Contractual obligations related to investments<sup>6</sup></b>	<b>2,965</b>	<b>2,615</b>	<b>350</b>	<b>0</b>
<b>Off-balance sheet contractual obligations</b>	<b>65,114</b>	<b>15,534</b>	<b>22,796</b>	<b>26,784</b>
<b>Total contractual obligations</b>	<b>93,650</b>	<b>24,244</b>	<b>30,689</b>	<b>38,717</b>

<sup>1</sup> See note 31.2.2 to the 2006 consolidated financial statements

<sup>2</sup> See note 20.3 to the 2006 consolidated financial statements

<sup>3</sup> See note 11.3 to the 2006 consolidated financial statements

<sup>4</sup> See note 11.4 to the 2006 consolidated financial statements

<sup>5</sup> See note 31.5 to the 2006 consolidated financial statements

<sup>6</sup> See note 22.5 to the 2006 consolidated financial statements

To the Company's knowledge, there are no significant off-balance sheet commitments at December 31, 2006, other than those set forth in this Section 9.12.

## 9.13 - SUBSEQUENT EVENTS

- Signature on April 5, 2007 of an industrial partnership agreement between EDF and the Exeltium consortium, which details the terms of the memorandum of understanding which had been entered into on January 15, 2007 and allows Exeltium to benefit from a larger visibility over electricity supply prices in the long-term, in exchange of a sharing of the risks related to the development and the operation of EDF's nuclear facilities. The approximately fifty industrials which may join the initial shareholders of the consortium will communicate their decision in the weeks following the signature of this partnership agreement. Depending on Exeltium's finance raising schedule and subject to the European Commission's approval, the first electricity deliveries could take place in the beginning of Summer 2007.

- Long-term industrial agreement between EDF and Poweo.

This agreement concerns the supply by EDF of 160 MW of baseload nuclear electricity between 2007 and 2021 on economic terms that reflect the cost of developing a new nuclear generation method. In

return, Poweo will make part of the output of its future 412 MW combined cycle gas turbine power plant at Pont sur Sambre available to EDF, for the same capacity and duration, starting in 2009.

- EDF launched, by mid-January 2007, a sale process concerning its assets in Mexico.

- Edison warrants exercised

Edison announced on February 1, 2007 that 519,554,810 warrants had been exercised at the subscription price of one euro, generating receipts of €519.6 million for Edison. The EDF Group did not exercise its warrants as part of this operation.

- Sale of the residual shareholding in Edenor

In connection with the contemplated listing of Edenor on the New York and Buenos Aires stock exchange markets currently in progress, EDF contemplates the sale of the remainder of its shareholding in Edenor's share capital.

For information on capital resources and cashflows, see Section 9.9 ("Capital resources and Net indebtedness") of this *Document de Référence*. For information on the Company's financing structure, see Section 9.10.1 ("Liquidity position and liquidity risk management") of this *Document de Référence*.

<b>11.1 KEY FIGURES</b>	<b>156</b>
<b>11.2 R&amp;D, AN ASSET FOR THE GROUP</b>	<b>156</b>
<b>11.3 INTELLECTUAL PROPERTY POLICY</b>	<b>157</b>

The Research and Development (R&D) Division of EDF Group has for main assignments to contribute to the improvement of the operational units' performance and to identify and prepare mid and long-term growth relays.

The international and European context confirms the validity of EDF Group's commitment relating to innovation and research:

- progressive depletion of fossil resources (petrol, gas, etc.), the greenhouse effect and the climate warming issues, environmental and water issues,
- worldwide development of the research of replacement fuels and new sustainable methods of electricity generation, but also of the energetic efficiency and demand management,
- development of new information and communication technologies in technical systems,
- changes due to the progressive opening of the electricity market.

## ➔ 11.1 - KEY FIGURES

In 2006, Research & Development Group expenses recorded in the income statement totaled €389 million.

At the end of 2006, EDF's Research and Development (R&D) Division was composed of approximately 2,000 employees.

## ➔ 11.2 - R&D, AN ASSET FOR THE GROUP

### Contribute to the improvement of the operational units' performance

In 2006, approximately three-quarters of EDF's Research & Development activities concerned projects directed by the operational divisions and by the Group's subsidiaries and are consequently meant to address certain specific issues.

Therefore, in the nuclear, hydropower and fossil-fired generation fields, EDF R&D shall, on the one hand, develop its tools and methods to improve the operational performances and safely optimize the lifespan of the means of production, and on the other hand, anticipate the new environmental requirements.

The goals of the research program regarding renewable sources of energy are the identification of technological breakdowns capable of modifying the competitiveness ratio between the various sources of energy, and to contribute to the development of technologies considered more beneficial to the Group.

As for transmission and distribution activities, EDF R&D acts as a support to integrate the new technologies dedicated to the performance of its businesses and to develop technical solutions aiming to increase the lifespan of the materials and maximize the facilities' capacities to transmit energy.

EDF R&D also intervenes to support the Commercial Division to develop the tools and support methods for the commercial relationship, to develop solutions for the control of the demand of energy and energetic effectiveness of the uses for all the customers (residential customers, service sector, industrials) and the offers for the living habitat: integration of renewable sources of energy, "comfort" solutions, etc.

Finally R&D's projects devoted to upstream/downstream optimization aim to create the tools and models which increase the value of the Group's generation assets, to know better the functioning and to anticipate the evolution of markets (electricity, gas, emission allowances, etc.) and to stimulate competition.

### Brighten up the future and prepare the growth relays

With the growing importance of the world energy issues – the end of fossil energies and the climate change impact on industrial activities- EDF R&D's commitment to the preparation of the future and of future growth relays, at the core of the Group's industrial project, has been reasserted in 2006 in line with the actions carried out for the past three years.

For the period 2007-2009, these mid and long-term activities take the form of twelve "R&D Challenges" focused on the following themes: our planet, our optimization, customers, generation, net-

works and the digital stimulation, detailing the most important research issues for the EDF Group and covering all of the Company's businesses.

These twelve Challenges will gather several hundreds of researchers, many actors in the operational Divisions of the Group, as well as French and Foreign partners of EDF R&D.

For the period 2007-2009, the twelve R&D Challenges of EDF are:

## "Our planet":

- Water: anticipate climate constraints on a shared resource;
- Improve the determination of the environmental impacts of our facilities.

## "Our optimization":

- Anticipate the new energy environment;
- Optimize EDF's generation on the market: restructure methods and tools;
- Find new flexibility sources between consumption, generation and storage.

## "Customers":

- Houses and buildings: develop technologies and services aiming to energetic efficiency;
- Industry: develop efficiency of old uses and new uses of electricity.

## "Generation":

- Technically allow the exploitation of nuclear power plants up to 60 years;
- Use new technologies to obtain a higher performance operation;
- Innovate in renewable energies and storage.

## "Networks":

- Prepare the 2015's distribution (use of new information and communication technologies (NTIC) in the operation and management of networks, develop simulation tools to optimize their functioning, and technological innovations to favor the networks' performance, etc.).

## "Digital simulation":

- Simulate to take decisions.

## Carry out our research programs with partners

To carry out its research and development programs, EDF R&D concludes several partnerships in France, in Europe (in particular, in countries where the Group is present) and worldwide. These partnerships aim to maintain our expertise at the highest level worldwide in certain fields representing the heart of EDF's goals, to complete our internal fields of knowledge, and to create common laboratories with research organisms to gather a significant volume of knowledge around shared programs and share costs and risks of the upstream research.

These partnerships contribute to a high-standard performance of EDF's R&D research programs and also allow the development of shared projects, following national and European proposals. EDF also takes part in the partnerships created under the National Research Agency and the sixth and future seventh European Commission's Framework program; and to an active participation in certain competition fields.

EDF has namely favored connections with the CEA and Areva in the nuclear field, taking the form of a tripartite agreement. In addition, EDF R&D is the first non-US partner of the American Research Institute EPRI (Electric Power Research Institute) for shared research programs, notably concerning the ageing of materials and intelligent networks; this partnership also allows the Group to cooperate with most of the nuclear operators in the world.

## ➔ 11.3 - INTELLECTUAL PROPERTY POLICY

With the opening up of the markets, EDF's policy on intellectual property has assumed increased importance. Industrial property play a major role in protecting the EDF Group's technologies and know-how against competition, as well as in the capitalization of these assets through licensing.

This policy is particularly focused on new technologies, in development or in upstream research stage, which are capable of leading to significant evolutions in the Group's businesses.

### Patents

At the end of 2006, EDF's portfolio included 377 patented inventions, with an average term of 8.25 years and protected by 1,040 intellectual property titles in France and abroad.

### Trademarks

"EDF" is a trademark registered in 62 countries. The Group's name is a fundamental part of its image and its assets. Thus, this trademark, the Internet domain names and the EDF logos are monitored constantly, in order to protect them against any fraudulent use which may harm the Group's image. The Group has also registered various other trademarks, in particular those related to the business of its various subsidiaries.

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## ➔ 12.1 - PERFORMANCE IMPROVEMENT: "ALTITUDE" PROGRAM

The Group's performance program (Altitude program) launched at the end of 2004 concentrates on three main areas: progressive stabilization of operating costs in France in 2007/2008, continuation of productivity gains in international activities, and optimization of working capital requirements.

This program aims at generating an impact of approximately €1 billion on consolidated operating profit before depreciation and amortization (EBITDA) as compared to 2004, for financial year 2007 (before deduction of the costs of EDF's transformation and reorganization to be incurred, in particular, in preparation for the total opening up of the markets from July 1, 2007); and generating an improvement of €1.5 billion in the Group's working capital requirements over the 2005-2007 period.

In 2006, the impact of the Altitude program on EBITDA is over 20% higher than the annual objective, fixed at €300 million. This performance, which leads to a stabilization of operating expenses in France, can be explained by productivity actions over purchases and personnel expenses which compensate in particular an increase in costs related to the evolution of employee compensation.

EDF exceeds the working capital requirement reduction objective of the Altitude program set at €500 million for 2006 by accomplishing an effective reduction of €705 million.

The effect of the "Altitude" program on the EBITDA for the years 2005 and 2006 (€790 million), was more than 20% higher than the expected target. As for the program's effect on the working capital requirement over the same period, EDF beats its target by more than 30% with a contribution of the "Altitude" program of €1.3 billion.

## ➔ 12.2 - DEVELOPMENT OF ELECTRICITY PRICES IN FRANCE IN JANUARY AND FEBRUARY 2007

Electricity spot prices in the first two months of 2007 were very low, and significantly lower than the price average in the first two months of 2006: €32.5/MWh baseload in France versus €72.6/MWh in 2006, €31.7/MWh baseload in Germany versus €66.9/MWh in 2006 and €34.4/MWh baseload in the United Kingdom versus €80.1/MWh in 2006. Exceptionally high temperatures during winter 2006-2007 are the main explanation for this decrease, as well as the decompressed hydropower situation across Europe. The price of CO<sub>2</sub> for the 2005-2007 period is also very low, with only €2.6/t in average in the first two months of 2007 against €25.8/t for the same period in 2006.

Electricity forward prices also decreased. Beginning the year at €53.0/MWh (against €54.7/MWh for the same contract in

Germany), the annual base contract "France 2008" decreased by €4.4/MWh by the end of February 2007, while it had only decreased by €2.8/MWh in Germany. Under the influence of gas price, electricity forward prices in the United Kingdom significantly decreased from €49.6/MWh in the beginning of the year to €44.1/MWh by the end of February 2007.

The comparisons between 2007 and 2008 annual agreements are not necessarily relevant because of the changes in the period for what concerns CO<sub>2</sub> emission quotas, namely since emission allowances' prices for the two periods strongly diverge ever since September 2006. CO<sub>2</sub> emission quotas' prices for the 2008-2012 period amounted to €14.9/t in January and February 2007.

## ➔ 12.3 - EFFECTS OF THE TRANSITORY REGULATED TARIFF FOR MARKET ADJUSTMENT

According to information EDF Group possesses at the date of this *Document de Référence*, it estimates the cumulated impact of the implementation over two years of the transitory regulated tariff for market adjustment at around €1.5 billion over its EBITDA for the period 2006-2008 (see section 6.2.1.2 ("Supply") and 6.5.1.2 ("French legislation")).

This impact includes both:

- an estimate of EDF's contribution to finance the compensation awarded to competitor suppliers over the entire period, which has been evaluated to €470 million and already provisioned over fiscal

year 2006 (see notes 2.2.7, 5.1.1.4 and 13 to the consolidated financial statements for the year ended December 31, 2006),

- the negative effects over the Group's sales for the time of implementation of this tariff (2 years).

This estimate takes into account several assumptions considered as relevant and, in particular, those concerning the following parameters: the number of customers who wish to benefit from the adjustment tariff and the related electricity volumes, electricity volumes concerned by compensation, the part of the compensation which will be financed by the CSPE, integrated tariff evolutions in 2007 and 2008, and electricity forward price in 2008.

The Group's financial objectives for the 2006-2008 period remain in compliance with the announcements made by the EDF Group at the time of its initial public offering (see Chapter 13 of the 2005 *Document de Référence* registered with the *Autorité des Marchés financiers* on May 18, 2006):

- an average pluriannual increase of the EBITDA between 3 and 6%, the top of this range including an assumption of tariff evolution in France close to the inflation rate,
- a double-digit average pluriannual increase of the Group share consolidated net income excluding non-recurring items,
- an objective for net financial indebtedness by 2008 not exceeding the level achieved at the end of 2005, taking into account an accelerated investment plan.

Moreover, at the time of its initial public offering, the Group fixed itself a target dividend distribution rate of 50% of net income, excluding non-recurring items.

With these targets in view, in 2007 the EDF Group will carry out the following two programs which are both entering their third year:

- Altitude (see section 12.1 ("Performance improvement: Altitude programme"));
- Assets' disposals, aiming at an impact of approximately €5 billion on the net consolidated financial indebtedness at the end of 2007, achieved at more than 80% by the end of 2006.

The result-related objectives are expressed as organic growth. They are established according to constant accounting principles and without taking into account the volatility caused by the application of IAS standards 32/39 over the period.

These objectives are likely to change or to be modified owing to uncertainties related in particular to the economic, financial, competitive, regulatory and climatic environment. In addition, the materialization of certain risks described in Chapter 4 ("Risk factors") of the present *Document de Référence* would have an impact on the Group's activities and its ability to achieve its objectives. The achievement of the objectives, moreover, relies on the successful implementation of the strategy presented in section 6.1 of the present *Document de Référence*. EDF therefore makes no undertaking or guarantee concerning the achievement of those objectives mentioned in the present chapter.



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## ➔ 14.1 - BOARD OF DIRECTORS

Since November 20, 2004, EDF has been a French *société anonyme* with a Board of Directors.

### 14.1.1 Composition of the Board of Directors

The Company is managed by a Board of Directors consisting of 18 members in accordance with article 6 of the French law n° 83-675 of July 26, 1983 relating to the democratization of the public sector.

Until the shareholders' meeting of February 14, 2006, the Board of Directors included 18 members: six representatives of the French State, appointed by decree, six persons chosen for their special skills and six representatives of the employees elected by them.

As of the shareholders' meeting of February 14, 2006, in accordance with the aforementioned law and the provisions of the amended decree-law of October 30, 1935, the French State holding less than 90% of the share capital of EDF, the Board of Directors will continue to be comprised of 18 members, one third of whom are representatives of the employees, and two thirds are persons appointed by the shareholders' meeting upon the proposal of the Board of Directors, subject to the representatives of the French State appointed by decree. The French State having appointed six representatives by decree, the shareholders' meeting of February 14, 2006 has thus appointed six directors: Mr. Pierre Gadonneix, Mr. Frank E. Dangeard, Mr. Daniel Foundoulis, Mr. Claude Moreau, Mr. Henri Proglio and Mr. Louis Schweitzer.

The duration of the mandate of members of the Board of Directors is five years. They remain in office until the first meeting of the renewed Board, in accordance with law. Therefore, the mandates of the above-mentioned members of the Board of Directors will end on November 22, 2009. In case of a vacancy for any reason whatsoever of the seat of a member of the Board of Directors, his/her replacement will only hold office for the remaining duration of the term until the renewal of the full Board of Directors.

The Chairman of the French State's Economic and Financial General Control Mission as well as the Secretary of the Works Council also attend the meetings of the Board of Directors with no right to vote.

Article 13-I of the by-laws ("*statuts*") of EDF provides that the Board of Directors may include, at most, two members of the French Parliament or holders of a local electoral mandate selected for their knowledge of regional, departmental or local aspects of energy issues.

The number of directors of more than 70 years of age may not exceed one-third of the directors in office.

## 14.1.2 Personal information on members of the Board

### Composition of the Board of Directors as of the date of the present *Document de Référence*

As of the date of the present *Document de Référence*, the directors of the Company were as follows:

First name, family name, and main mandate in the company	Duration of the mandate	Main mandates outside the company
<b>Directors appointed by the General Shareholders' Meeting</b>		
<b>Pierre Gadonneix</b> 64 years old Chairman and Chief Executive Officer	<i>1st appointment (EPIC):</i> Decree of September 8, 2004  <i>Appointment as Chairman of the Board of Directors:</i> Decree of September 15, 2004  <i>1st appointment (EDF S.A.):</i> <i>Appointment as Director:</i> Decree of November 20, 2004 <i>Appointment as Chairman of the Board of Directors:</i> Decree of November 24, 2004  <i>Last appointment (EDF S.A.):</i> <i>Appointment as Director:</i> General Meeting of February 14, 2006 <i>Appointment as Chairman of the Board of Directors:</i> Decree of February 15, 2006	Chairman of the Board of Directors of Electra Association and of Transalpina di Energia. Director of Edison. Vice-Chairman of the World Energy Council for Europe (appointed to be Chairman for three years, from the end of 2007 to the end of 2010). Member of the Board of Directors of the National Foundation of Political Science, the Atomic Energy Committee, the Advisory Council of the <i>Banque de France</i> and the National Committee for Vital Importance Lines of Business ( <i>Comité National des secteurs d'activité d'importance vitale (CNSAIV)</i> ). President of the Group'action CO <sub>2</sub> Association. Member of the Economic and Social Council.
<b>Frank E. Dangeard</b> 49 years old	<i>1st appointment (EDF S.A.):</i> Decree of November 20, 2004 <i>Last appointment (EDF S.A.):</i> General Meeting of February 14, 2006	Chairman and Chief Executive Officer of Thomson. Director of Calyon, Orange and Symantec.
<b>Daniel Foundoulis</b> 68 years old	<i>1st appointment (EPIC):</i> Decree of July 9, 1999. <i>Appointment to the Board of Directors of EDF S.A.:</i> Decree of November 20, 2004. <i>Last appointment (EDF S.A.):</i> General Meeting of February 14, 2006	Member of the National Consumers Council (CNC) and of the European Consumer Consultative Group in Brussels, representing France. General Secretary of the National Council of the Secular Family Associations.
<b>Claude Moreau</b> 76 years old	<i>1st appointment (EDF S.A.):</i> Decree of November 20, 2004 <i>Last appointment (EDF S.A.):</i> General Meeting of February 14, 2006	Chairman of the Interministerial Commission "Clean and Energy Efficient Vehicles" ( <i>Commission Interministérielle "Véhicules Propres et Economes en Energies" or "CIVEPE"</i> ).
<b>Henri Proglio</b> 57 years old	<i>1st appointment (EPIC):</i> Decree of September 8, 2004 <i>Appointment to the Board of Directors of EDF S.A.:</i> Decree of November 20, 2004 <i>Last appointment (EDF S.A.):</i> General Meeting of February 14, 2006	Chairman and Chief Executive Officer of Veolia Environnement. Chairman of the Supervisory Board ( <i>Conseil de surveillance</i> ) of Dalkia France, Chairman of the Board of Directors of Veolia Transport, Veolia Propreté and Veolia Water. Member of the Supervisory Boards ( <i>Conseil de surveillance</i> ) A & B of Dalkia. Director of Dalkia International and Eaux de Marseille. Director of Veolia Transport Australia, VES, Siram, Veolia ES Asia, VT Northern Europe, and Veolia ES North America. Member of the Supervisory Boards ( <i>Conseil de surveillance</i> ) of CNP Assurances, Elior, Lagardère and Natixis. Director of Casino Guichard Perrachon. Manager of Veolia Eau.
<b>Louis Schweitzer</b> 64 years old	<i>1st appointment (EPIC):</i> Decree of July 9, 1999 <i>Appointment to the Board of Directors of EDF S.A.:</i> Decree of November 20, 2004 <i>Last appointment (EDF S.A.):</i> General Meeting of February 14, 2006.	Chairman of the Board of Directors of Renault S.A. and Astra Zeneca. Vice-Chairman of Philips' Supervisory Board ( <i>Conseil de surveillance</i> ). President of the High authority for the struggle against discriminations and for equality ( <i>Haute autorité de lutte contre les discriminations et pour l'égalité or "HALDE"</i> ).

## Administrative, management, and supervisory bodies and senior management

First name, family name, and main mandate in the company	Duration of the mandate	Main mandates outside the company
<b>Directors appointed by the General Shareholders' Meeting</b>		
		Director of BNP Paribas, L'Oréal, Veolia Environment and AB Volvo. Member of the Advisory Council of Allianz and the <i>Banque de France</i> .
<b>Directors representing the French State</b>		
<b>André Aurengo</b> 58 years old	<i>1st appointment (EPIC):</i> Decree of July 9, 1999 <i>Appointment to the Board of Directors of EDF S.A.:</i> Decree of November 20, 2004	University Professor, Head of the nuclear medicine department at the <i>Pitié Salpêtrière</i> Hospital. Member of the Medicine Academy. Chairman of the French Society of Radiation Protection ( <i>Société Française de Radioprotection, or SFRP</i> ). Member of the High Council for Public Health.
<b>Bruno Bézard</b> 43 years old	<i>1st appointment (EPIC):</i> Decree of August 1, 2002 <i>Appointment to the Board of Directors of EDF S.A.:</i> Decree of November 20, 2004	General Manager of the French State Holdings Agency at the Ministry of the Economy, Finance and Industry. Member of the Supervisory Board ( <i>Conseil de surveillance</i> ) of AREVA, Director of Air France - KLM, France Telecom, France Télévisions, La Poste and SNCF.
<b>Yannick d'Escatha</b> 59 years old	<i>1st appointment (EPIC):</i> Decree of September 15, 1995 <i>2nd appointment (EPIC):</i> From the decree of July 9, 1999 to the decree of February 23, 2000. <i>Appointment to the Board of Directors of EDF S.A.:</i> Decree of November 20, 2004.	Chairman of the National Center for Space Study (CNES). Chairman of the Board of Directors of the <i>Ecole Polytechnique</i> . Member of the Technologies Academy. Permanent representative of the CNES at the Board of Directors of Arianespace SA and Arianespace Participation. Director of RATP.
<b>Philippe Faure</b> 56 years old	<i>1st appointment to the Board of Directors of EDF S.A.:</i> Decree of April 12, 2006.	General Secretary of the French Ministry of Foreign Affairs. Member of the Supervisory Board ( <i>Conseil de Surveillance</i> ) of AREVA. and of the Committee for Atomic Energy.
<b>François Jacq</b> 41 years old	<i>1st appointment to the Board of Directors of EDF S.A.:</i> Decree of August 31, 2005	Director of the Department of Energy Markets and Demand ( <i>Direction de la demande et des marchés énergétiques - DIDEME</i> ) at General Division for Energy and Raw Materials of the French Ministry of the Economy, Finance and Industry. Director of ADEME and ANR.
<b>Philippe Josse</b> 46 years old	<i>1st appointment to the Board of Directors of EDF S.A.:</i> Decree of April 12, 2006.	Director of the national Budget at the French Ministry of the Economy, Finance and Industry. Director of Air France - KLM and SNCF.
<b>Directors representing the employees</b>		
<b>Jacky Chorin</b> 47 years old	<i>1st appointment:</i> Election of May 6, 2004. Participated for the first time at the Board of Directors' meeting of September 14, 2004.	Legal Advisor.
<b>Marie-Catherine Daguerre</b> 46 years old	<i>1st appointment:</i> Election of May 6, 1999 Participated for the first time at the Board of Directors' meeting of July 12, 1999. Re-elected in the elections of May 6, 2004.	Customer Advisor.
<b>Alexandre Grillat</b> 35 years old	<i>1st appointment:</i> Election of May 6, 2004 Participated for the first time at the Board of Directors' meeting of September 14, 2004.	Engineer.

## Administrative, management, and supervisory bodies and senior management

Nom, prénom, âge, mandat et fonction principale exercée dans la société	Durée du mandat	Fonction principale exercée en dehors de la société
<b>Directors representing the employees</b>		
<b>Laurence Hoeffling</b> 38 years old	<i>1st appointment:</i> Election of May 6, 1999 Participated for the first time at the Board of Directors' meeting of January 17, 2002. Re-elected in the elections of May 6, 2004.	Human Resources.
<b>Catherine Nédélec</b> (until December 4, 2006) 49 years old	<i>1st appointment:</i> Election of May 6, 1999. Participated for the first time at the Board of Directors' meeting of November 23, 2000. Re-elected in the elections of May 6, 2004. Resigned December 4, 2006.	Engineer.
<b>Philippe Pesteil</b> 49 years old	<i>1st appointment:</i> Election of May 6, 2004. Participated for the first time at the Board of Directors' meeting of September 14, 2004.	Engineer.
<b>Maxime Villota</b> (as of December 4, 2006 to replace Catherine Nédélec) 47 years old	<i>1st appointment:</i> Election of May 6, 2004. Participated for the first time at the Board of Directors' meeting of December 13, 2006.	Auditor at the Tricastin's CNPE mission for finance and industrial partnerships.

### Recent developments in the composition of the Board of Directors

By a decree published in the *Journal Officiel* on April 12, 2006, Mr. Philippe Faure (General Secretary at the Ministry of Foreign Affairs) was appointed to replace Mr. Jean-Pierre Lafon, and Mr. Philippe Josse (Budget Director at the Ministry of the Economy, Finance and Industry) was appointed to replace Mr. Pierre-Mathieu Duhamel.

Following the resignation of Mrs Catherine Nédélec on December 4, 2006, Mr. Maxime Villota was appointed to replace her as a Director representing the employees.

### Personal information relating to the Directors

Directors appointed by the General Shareholders' Meeting:

**Pierre Gadonneix.** Born on January 10, 1943 in New York (United States of America), Mr. Gadonneix holds a Ph.D. in Business Economics from Harvard Business School, and is a graduate of the *Ecole Polytechnique* (1962), the *Ecole Nationale Supérieure du Pétrole et des Moteurs*, and in economic sciences. After founding an IT company (SEFI) and selling it in 1972 to a large industrial company, he became Director of the Industrial Development Institute (*Institut de Développement Industriel (IDI)*). In 1976 he was technical advisor in the cabinet of the Minister of Industry and Research. He was Director of the Metallurgical, Engineering and Electrical Industries within the Ministry of Industry (from 1978 to 1987), and Chief Executive Officer of Gaz de France (from 1978 to 1987) becoming the Chairman of the Board in 1995. Pierre Gadonneix participated in EDF's Board of Directors from 1978 to 1987 as a Government's Assistant Commissioner. He has been a member of the Economic and Social Council since 1994. He was President of the French Council for Energy from 1993 to 1999. In 2006, Pierre Gadonneix was elected President of the World Energy Council, for a mandate of three years from end 2007 to end 2010; since 2004, he has been Vice-President Europe of the World Energy Council. Chairman and Chief Executive Officer of EDF since 2004, Pierre Gadonneix is Chairman of the Board of Directors of the Electra Association, Chairman of the Board of Directors of Transalpina di Energia and Director of Edison. He is also a

member of the Board of Directors of the National Foundation of Political Sciences, of the Advisory Council of the *Banque de France*, of the Atomic Energy Committee, of the National Committee for Vital Importance Lines of Business (*Comité National des secteurs d'activité d'importance vitale (CNSAIV)*), and President of the Group'action CO<sub>2</sub> Association. Director of EDF since September 2004.

**Frank E. Dangeard.** Born on February 25, 1958 in Ottawa (Canada), Frank E. Dangeard is a graduate of HEC, the *Institut d'Etudes Politiques de Paris* and Harvard Law School. He was a lawyer in the United States and London from 1986 to 1989, then Managing Director of the Warburg Bank and was appointed the Chairman of the Executive Board of SBC Warburg France in 1995 before joining the Thomson Multimedia group in 1997 as Chief Officer and Vice-Chairman of the Board of Directors as of 1999. From September 2002 to September 2004, he was Senior Executive Vice-President of France Telecom. He has been the Chairman and Chief Executive Officer of Thomson since September 2004, and a Director of Calyon Orange and Symantec. Director of EDF since November 2004.

**Daniel Foundoulis.** Born on April 13, 1939 in Paris (France), Daniel Foundoulis was a laboratory technician in the maxillofacial sector and worked in various capacities in hospitals and offices. He created a company called Laboprodem (a dental prosthesis laboratory). He was a director of the National Consumption Institute (*Institut National de la Consommation* or "INC") and the European Consumer Association (*Association Européenne des Consommateurs (AEC)*), and a member of the High Council for Electricity and Gaz in representation of consumers (*Conseil Supérieur de l'Electricité et du Gaz* or "CSEG"). He is a member of European Consumer Consultative Group in Brussels (*Groupe Consultatif Européen des Consommateurs à Bruxelles (ECCG)*), representing France and the General Secretary of the National Council of the Secular Family Associations (*Secrétaire Général du Conseil National des Associations Familiales Laïques (CNAFAL)*). He is also a member of the French National Consumer Council (*Conseil National de la Consommation*, or "CNC"). Director of EDF since July 1999.

## Administrative, management, and supervisory bodies and senior management

**Claude Moreau.** Born on January 22, 1931 in Civray (France), Claude Moreau is a graduate of the *Ecole Supérieure de Commerce de Poitiers* and the *Institut Financier de Gestion*. He was Vice-Chairman of the Regional Council of Poitou-Charentes from 1986 to 2004, Chairman of the Center-West Analysis and Tests Institute (*Institut d'analyses et d'essais du centre-ouest* or "IANESCO") from 1990 to 1998 and local deputy of the National Center for the training of public agents (*Centre national de formation des personnels territoriaux* or "CNFPT") from 1998 to 2004. He was a Chief Executive Officer of a publishing company where he founded the Scolavox publications, the Training Institute on Education and Environment (*Institut de Formation à l'Education à l'Environnement*, or "IFREE") and the Research Center on Electric and Hybrid Vehicles (*Centre d'études et de recherche sur les véhicules électriques et hybrides* or "CEREVEH"). He is the Chairman of the Inter-ministry commission for clean and energy sparing vehicles (*Commission Interministérielle Véhicules propres et économes en énergie* or "CIVEPE"). Director of EDF since November 2004.

**Henri Progllo.** Born on June 29, 1949 in Antibes (France), Henri Progllo is a graduate of HEC. He joined the Compagnie Générale des Eaux in 1972 and was appointed Chairman and Chief Executive Officer of CGEA in 1990. He was appointed Vice-Chairman of Vivendi Universal and Chairman and Chief Executive Officer of Vivendi Water in 1999 before becoming Chairman of the Executive Board of Veolia Environnement in 2000 and then Chairman and Chief Executive Officer in 2003. Within the Veolia Environment Group, Henri Progllo is Chairman of the Dalkia France's Supervisory Board (*Conseil de surveillance*), Chairman of the Board of Directors of Veolia Transport, Veolia Propreté and Veolia Water, Director of Dalkia International, of the company Eaux de Marseille, Sarp Industries, Veolia Environmental Services Australia, Veolia Transport Australia, Veolia Environmental Services, Siram, Veolia Environmental Services Asia, Veolia Transport Northern Europe and Veolia Environmental Services North America; member of Dalkia's A&B Supervisory Boards; manager of Veolia Eau. Apart from the Veolia Environment Group, Henri Progllo is a member of the Supervisory Boards of CNP Assurances, Elior, Lagardère and Natixis; Director of Casino Guichard Perrachon; censor at the Caisse Nationale des Caisses d'Epargne Supervisory Board. Director of EDF since November 2004.

**Louis Schweitzer.** Born on July 8, 1942 in Geneva (Switzerland), Louis Schweitzer is President of the High Authority for the struggle Against Discriminations and For Equality (HALDE). He is also the Chairman of the Board of Directors of Renault after having been its Finance Director, Senior Executive Vice-President and then Chairman and Chief Executive Officer. He has held various positions at the General Division of Public Assistance, the French Treasury, the Budget Division and in ministerial cabinets. Louis Schweitzer is Chairman of the Board of Directors of Astra Zeneca, Director of BNP Paribas, L'Oréal, Veolia Environnement and AB Volvo, member of Allianz and Banque de France Advisory Councils and Vice-President of Philips' Supervisory Board. Director of EDF since July 1999.

Directors representing the French State:

**André Aurengo.** Born on April 4, 1949 in Neuilly-sur-Seine (France), André Aurengo is a graduate of the *Ecole Polytechnique*, a former intern of the *Hôpitaux de Paris*, a Professor in medicine and a Doctor

of Sciences. He is a member of the French Academy of Medicine. He heads the nuclear medicine department at the hospital Pitié-Salpêtrière, and is a professor in biophysics at the Medical School of Pitié-Salpêtrière. Appointed in 1998, he participated in the Curien project on nuclear transparency. He has been the President of the French Society of Radiation Protection (*Société Française de Radioprotection*, or "SFRP") since May 2005. In January 2007, he was appointed member of the French High Council on Public Health. Director of EDF since July 1999.

**Bruno Bézard.** Born on May 19, 1963 in Chauny (France), Bruno Bézard is a graduate of the *Ecole Polytechnique* and the *Ecole Nationale d'Administration*. French treasury official, he is currently General Manager of the French State Holdings Agency (*Agence des Participations de l'Etat*, or "APE"). He was also a Vice-Director of insurance in the French Treasury Department, Assistant Director in the cabinet of Mr. Christian Sautter at the Ministry of Economy, Finance and Industry, Vice-Chairman of the *Club de Paris* and then advisor for economic and financial affairs in the cabinet of Lionel Jospin. Mr. Bézard was Chief of Holdings and Financing under the authority of the French Treasury Department, since July 2002 at the Ministry of Economy, Finance and Industry, prior to his appointment at the APE. Bruno Bézard is a member of the Supervisory Board of Areva, Director of Air France – KLM, France Telecom, France Televisions, La Poste and SNCF. Director of EDF since August 2002.

**Yannick d'Escatha.** Born on March 18, 1948 in Paris (France), Yannick d'Escatha is a graduate of the *Ecole Polytechnique*, an engineer from the *Ecole des Mines*, professor at the *Ecole Polytechnique*, the Paris National Mines School (*"Ecole des Mines de Paris"*) and the National School for Advanced Technics (*"Ecole Nationale Supérieure de Techniques Avancées"*). Specialized researcher in ground, structural and fracture mechanics, in 1978 he was appointed Chief of the supervision of nuclear construction bureau where he was in charge of the technical control of the French State in the French electronuclear program. He was on temporary assignment in 1982 at the company Technicatome, a subsidiary of the CEA, specializing in nuclear engineering and notably in naval propulsion, and where he became Senior Executive Vice-President in 1987. He was appointed as Director of Advanced Technology Division at the CEA in 1990, then General Director in 1995. In 1999, he was appointed as Assistant Director of CEA-Industrie in 1992 and Director in 1995. He was appointed Chairman of CEA-Industrie in 1999 and Deputy Chief Executive Officer of EDF in 2000. He was appointed as Chairman of the *Centre National d'Etudes Spatiales* ("CNES"). He is a member of the *Académie des Technologies*, and Chairman of the Board of Directors of the *Ecole Polytechnique*, permanent representative for CNES at the Board of Directors of Arianespace SA and Arianespace Participation and Director of RATP. Director of EDF since November 2004.

**Philippe Faure.** Born on June 13, 1950 in Toulouse (France), Philippe Faure graduated from the *Institut d'Etudes Politiques de Paris* and from the *Ecole Nationale d'Administration*. He started his career at the Ministry of Foreign Affairs, and was, in particular, the Director of the Press and Information Service at the French Embassy in the United States, and Minister-Adviser at the French Embassy in Spain. He then was co-President of the European Company of insurance and reinsurance brokerage (Cecar) and President of Marsh Mc Lennan France.



French ambassador in Mexico from 2000 to 2004 and in Morocco from 2004 to March 2006, Philippe Faure was appointed General Secretary to the Ministry of Foreign Affairs on March 17, 2006. Member of Areva's Supervisory Board and of the Nuclear Energy Council. Director of EDF since April 2006, replacing Jean-Pierre Lafon.

**François Jacq.** Born on October 28, 1965 in Harfleur (France), François Jacq is a graduate of the *Ecole Polytechnique* (1986) and is an *ingénieur en chef des Mines* (1991). Holding a doctorate from the *Ecole des Mines de Paris* (1996), he began his career in research (1993-1996). He took a special interest in the history of innovation and research policies. He then became a director in the Energy, Transport, Environment and Natural Resource department of the research Ministry (1997- 2000), and subsequently Managing Director of the French National Agency for the Management of Nuclear Waste (*Agence nationale pour la gestion des déchets radioactifs* or "Andra"). François Jacq was appointed director of the French *Direction de la demande et des marchés énergétiques* (DIDEME) on August 3, 2005. Director of EDF since September 2005.

**Philippe Josse.** Born on September 23, 1960 in Saintes (France), Philippe Josse is a graduate from the *Institut d'Etudes Politiques de Paris* and from the *Ecole Nationale d'Administration*. He started his career as an administrator in the Senate, then continued at the Ministry of the Economy and Finance, where he worked, in particular, as a Deputy Director to the Budget and budgetary Reform Minister, and as a Deputy Director to the Minister of the Economy, Finance and Industry. Philippe Josse was appointed Budget Director at the Ministry of the Economy, Finance and Industry on March 30, 2006. Philippe Josse is a Director of Air France - KLM and of SNCF. Director of EDF since April 2006, replacing Pierre-Mathieu Duhamel.

Directors representing the employees:

**Jacky Chorin.** Born on April 22, 1959 in Caudebec en Caux (France), Jacky Chorin is a graduate of the *Institut d'Etudes Politiques de Paris* and has a doctorate in law. He began his career at EDF as a legal advisor in the central service of the Equipment Division in 1983. He currently fulfills functions within the Human Resources division of EDF's Generation- Engineering Division. Director of EDF since September 2004, sponsored by CGT-FO.

**Marie-Catherine Daguerre.** Born on November 15, 1960 in Mont de Marsan (France), Marie-Catherine Daguerre spent the first part of her career in the administrative branch of EDF Gaz de France Distribution in Gironde from 1982 and then worked in customer relations. For two years she was a member of the Regional Economic and Social Council of Aquitaine and was an union representative in her unit, and then in the national division of *Fédération CGT Mines Energie*. Director of EDF since July 1999, sponsored by CGT.

**Alexandre Grillat.** Born on December 8, 1971 in Bethune (France), Alexandre Grillat is a graduate of the *Ecole Supérieure d'Electricité* and has an advanced degree in electrical engineering. He began his career at EDF in 1996 in EDF Gaz de France Distribution and has held various technical, customer relations, sales and strategy positions of the EDF Group. He currently works in the office of the Sales Manager of Electricité de Strasbourg. Director of EDF since September 2004, sponsored by CFE-CGC.

**Laurence Hoeffling.** Born on March 8, 1969 in Châlon-sur-Saône (France). Laurence Hoeffling holds a *Brevet de Technicien Supérieur* in Commerce and has been employed at EDF in the sales department since 1991. She was then in charge of the competition watch and the economic review in South Burgundy (Bourgogne). She is currently an employee of the Human Resources department at EDF Gaz de France — South Burgundy. She is the regional manager of executives belonging to certain French trade unions (CGT-UFICT) in Burgundy. Director of EDF since January 2002, sponsored by CGT.

**Catherine Nédélec,** Director until December 4, 2006. Born on August 19, 1957 in Chaumont (France) Catherine Nédélec is a graduate of the *Ecole supérieure de l'électricité*. She joined EDF in 1981 and has spent her career in the Equipment Division and then the Generation and Engineering Division. She currently works for the Thermal Engineering Center (*Centre d'Ingénierie Thermique*, or "CIT"). She is a member of the trade unions *Fédération CGT Mines Energie* and the *Union Fédérale des Ingénieurs Cadres et Techniciens*. Director of EDF since November 2000, sponsored by CGT. Replaced by Mr. Maxime Villota as of December 2006.

**Philippe Pesteil.** Born on September 1, 1957 in Saint-Merd-de-Lapleau (France), Philippe Pesteil is an engineering graduate of the *Institut National des Sciences Appliquées* (INSA) in Lyon. He joined EDF in 1982 where he has held different engineering positions. He is a member of the internal audit team in the general technical division of EDF in Grenoble. Director of EDF since September 2004, sponsored by CFDT.

**Maxime Villota.** Born on November 25, 1959 in Jœuf (France), Maxime Villota started working at EDF in 1981 at the Dampierre en Burly plant, before joining Tricastin Nuclear Center for the production of electricity in 1987. He was elected to the Local council of the region Provence Alpes Côte d'Azur, is deputy mayor of Bollène, in Vaucluse and is a member of the trade unions *Fédération CGT Mines Energie*. Director of EDF since December 2006, in replacement of Mrs. Catherine Nédélec, sponsored by CGT.

Annex C of this *Document de Référence* describes the mandates (excluding EDF and main functions) of the directors as well as those they held during the past 5 years.



## 14.2 - GENERAL MANAGEMENT

### 14.2.1 Concurrent positions of Chairman and Chief Executive Officer of the Board of Directors

The Chairman of the Board of Directors, who holds the title of Chairman and Chief Executive Officer, is in charge of the management of the Company. He is appointed by decree upon a proposal of the Board of Directors.

Following the General Shareholders' Meeting of February 14, 2006, the Board of Directors suggested that the government would appoint Pierre Gadonneix as Chairman and Chief Executive Officer. That appointment was decided by a decree of February 15, 2006.

### 14.2.2 Duties of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer organizes and supervises the work of the Board of Directors, for which he is accountable at the shareholders' meeting. He oversees the functioning of the bodies of the Company and, in particular, ensures that the directors are in a position to accomplish their mandates.

Subject to the specific legal provisions governing public sector companies, to the powers that the law expressly attributes to shareholders' meetings and to the powers the law specifically assigns to the Board of Directors, and within the scope of the Company's corporate purposes, the Chairman and Chief Executive Officer is entrusted with far-reaching powers to act on behalf of the Company in all circumstances.

Upon a proposal of the Chairman and Chief Executive Officer, the Board of Directors may appoint one or more individuals with the title

of Chief Officer(s) to take on the task of assisting the Chairman and Chief Executive Officer. The maximum number of Chief Officers is set at five. The Board of Directors establishes the duration of the term of office and, where applicable, the limits of the powers of each Chief Officer.

On November 30, 2004, the Board of Directors of EDF appointed Messrs. Daniel Camus, Yann Laroche and Jean-Louis Mathias to the positions of the Chief Officers. They were confirmed in this position at the shareholders' meeting of February 14, 2006.

### 14.2.3 TOP 4 and Executive Committee

The Group's organization addresses two major directions: improving the capacity to work in an integrated group and associate the operational employees to the decision mechanisms.

The TOP 4, which gathers the Chairman and Chief Executive Officer and three Chief Officers, is the main decisional body at the head of the Group. The Executive Committee ("*Comex*") is the strategic and dialogue body in charge of all subjects related to the Group. It includes all the members of the TOP 4, the operational and functional Chief Officers and the Chairmen of the main subsidiaries, namely EDF Energy, EnBW and Edison. Its composition reflects the will to handle in a homogeneous way all stakes important to the Group.

A limited number of specific decisional committees complete Comex's actions. Furthermore, other executive committees *ad hoc* are in charge of other important transitional issues.

On the date of registration of this *Document de Référence*, the management of the Comex was as follows:

Name	Position	Date of Appointment
Pierre Gadonneix	Chairman and Chief Executive Officer	November 30, 2004
Daniel Camus	Chief Financial Officer	November 30, 2004
Yann Laroche	Chief Human Resources and Communication Officer	November 30, 2004
Jean-Louis Mathias	Chief Operating Officer Integration and Deregulated Operations France	November 30, 2004
Jean-Pierre Benqué	Senior Executive Vice-President Customers	November 30, 2004
Utz Claassen	President of EnBW's executive committee	April 1, 2006
Bernard Dupraz	Senior Executive Vice-President Generation and Engineering	November 30, 2004
Michel Francony	Senior Executive Vice-President Regulated Operations France	November 30, 2004
Dominique Lagarde	Senior Executive Vice-President Strategy and Coordination	April 1, 2006
Bruno Lescoeur	Senior Executive Vice-President International External relations	April 1, 2006
Umberto Quadrino	Chief Executive Officer of Edison	April 1, 2006
Vincent de Rivaz	Chief Executive Officer of EDF Energy	November 30, 2004
Gérard Wolf	Senior Executive Vice-President, Subsidiaries and International Development	April 1, 2006

### Personal information relating to the members of the Executive Committee

**Daniel Camus.** Born on April 14, 1952 in Ugny (France), Daniel Camus holds a doctorate in economics, qualified in management science, and is a graduate of the *Institut d'Etudes Politiques de Paris*. He joined EDF at the end of 2002 as a Finance Manager, then as a Chief Financial Officer since December 2004, after 25 years at Hoechst-Aventis in the industrial chemicals and pharmaceutical businesses in Germany, the United States, Canada and France. In his last three positions, he was successively Financial Officer and member of the Executive Board of the Roussel Uclaf S.A., Paris, Hoechst Marion Roussel AG and Aventis Pharma AG, Frankfurt (Germany) and Bridgewater (USA). He managed the financial transformation of these internationally known companies at the time of their successive mergers until Hoechst and Rhône Poulenc merged with Aventis 1999. Daniel Camus is Chairman of the Board of Directors of EDF Energy and EDF International, Director of Edison, Transalpina di Energia and Valeo, and member of the EnBW, Dalkia and Morphosys Supervisory Boards.

**Yann Laroche.** Born on March 30, 1945 in Dijon (France), Yann Laroche is a graduate of the *Ecole Nationale Supérieure de Mécanique et d'Aérotechnique de Poitiers*. He joined EDF GDF Services in 1968 where he has held several positions. He was Head of a Regional Generation and Distribution Division in the Ivory Coast from 1973 to 1976. After four years in the audit department, he joined the Distribution Division as EDF regional representative in Nancy in 1988. In 1992, he was appointed as Head of customer services in the Distribution Division and then Chief Executive Officer of EDF GDF Services. He was responsible for the launch of the "service guarantee" in 1994. From 1996 to 2000, he participated in the creation of EDF's first sales and marketing division and notably the establishment of the Customer Division for Residential Customers and Small Businesses. In May 2001, he was appointed to EDF's Executive Committee as Head of the Personnel and Employee Relations Division (DPRS), then as Chief Human Resources and Communication officer since December 2004. Yann Laroche is a director of EDF Energy.

**Jean-Louis Mathias.** Born on August 21, 1947 in Clichy-la-Garenne (France), Jean-Louis Mathias is a graduate of the *Ecole Polytechnique*, the *Ecole Nationale de la Statistique et de l'Administration Economique* (ENSAE), the *Centre de Perfectionnement aux Affaires* and holds a degree in sociology. He joined EDF GDF services in 1973 and has held various positions, notably that of customer service branch manager in Aix-en-Provence and head of the customer service center in Paris. In 1992, he joined the Personnel and Employee Relations Division (division shared between EDF and Gaz de France) and was appointed Director in 1996. In 1998, he became the Marketing Director of Gaz de France before being appointed Director of Negotiations in 2000. Since June 2002, he was Senior Executive Vice-President of Gaz de France. He returned to EDF in September 2004 as advisor to the Chairman and member of the Executive Committee. Since December 2004, he has been a Chief Operating Officer Deregulated Operations France of EDF, in charge of the Group's integration and improvement programs for performance as well as the direction of deregulated activities in France (in particular, generation and supply). Jean-Louis Mathias is member of Dalkia's Supervisory Board. He is also Chairman of the Board of Directors of EDF Trading.

**Jean-Pierre Benqué.** Jean-Pierre Benqué is an engineering graduate of *Ponts et Chaussées* and was professor in liquid mechanics at the *Ecole Nationale des Ponts et Chaussées* from 1986 to 1996. He joined EDF in 1974 where he held several positions in the National Hydro Laboratory. In 1986, he became manager of the Research and Network Service and then the Technical Electricity Service in 1991. Two years later, he was given the responsibility of the overseas French departments and then became Head of Sales in the Large Customers Division where he negotiated energy and service offers with EDF's international customers. He was appointed Head of the EDF Business Division in February 2002 and Senior Executive Vice-President Customers on December 15, 2004.

**Utz Claassen.** Utz Claassen is Chairman of EnBW's executive Committee; a former Oxford scientist, he holds a PhD in Economics and has taught as a Professor at Hanover University since 2001. He started his career by holding various positions in McKinsey & Co (Dusseldorf), Ford Europa (Brentwood/Essex and Köln), Volkswagen AG (Wolfsburg) and SEAT SA (Barcelona). In 1997, Prof. Dr. Utz Claassen was appointed President of Sartorius AG executive committee. (Göttingen) He has been President of EnBW Energie Baden-Württemberg AG's executive committee since May 2003.

**Bernard Dupraz.** Bernard Dupraz is a graduate of the *Ecole Polytechnique*. After beginning his career in the oil industry, then at the Ministry of Industry, he joined EDF in 1986 and held several positions in the Generation Division, notably, Head of the Nuclear Center of Electricity Generation in Cattenom (Moselle), then Operating Vice-President, Head of Operations of a fleet of 58 nuclear power plants from 1994 to 1998. He was appointed Head of Engineering and Services in 1999 and participated in the development of an EPR. First appointed Deputy Chief Officer in 2002, he has been Senior Executive Vice-President "Generation and Engineering" since December 15, 2004.

**Michel Francony.** Michel Francony is a graduate of the *Ecole Polytechnique* and the *Ecole Nationale de la Statistique et de l'Administration Economique* (ENSAE). He joined EDF GDF Services in 1972 and then EDF's General Economic Analysis Service in 1973 as Head of issues related to tariffs. In 1982, he returned to the distribution sector where he had various operating responsibilities at EDF GDF Services in Toulouse and Rouen. Appointed Deputy Head of EDF GDF Services in 1991, he became Head of the Division in 1993. He then addressed issues related to generation and the markets and was appointed Head of the Strategy-Development-Optimization Division within the Energy Branch before becoming Operating Vice-President in 2002. In February 2004, he was appointed Chief Executive Officer of EDF Trading (an EDF trading subsidiary based in London) and Director of the Energy Management Division. He has been Senior Executive Vice-President Regulated Operations France since December 15, 2004. As of September 1, 2005, Michel Francony is the Chairman of RTE-EDF Transport's Supervisory Board.

## Administrative, management, and supervisory bodies and senior management

**Dominique Lagarde.** Senior Executive Vice-President, Strategy and Coordination. He is a graduate from the *Ecole Polytechnique* and the *Ecole Nationale des Ponts et Chaussées*. After starting his career in Total Oil Marine in London and then in the Nuclear safety Authority, he managed the Osiris nuclear reactor in the Nuclear Energy Authority (CEA) from 1997 to 2000. He joined EDF in 2000 in the EDF GDF Services Distribution division where he held various positions. Appointed Executive Vice-President of EDF GDF Services Nanterre in 2001, he became an executive officer of EDF GDF Services Seine et Marne in 2002. At the end of 2003, he was appointed Executive Vice-President for Communication and Public Affairs of the Group. Since September 2004 he has been the director of the office of the Chairman.

**Bruno Lescoeur.** Bruno Lescoeur is a graduate of the *Ecole Polytechnique*, the *Ecole Nationale de la Statistique et de l'Administration Economique* (ENSAE) and the *Institut d'Etudes Politiques de Paris*. In 1978, he joined EDF as an economist where he worked on issues related to tariffs from 1982 to 1987. After several positions within EDF and Gaz de France in France as well as abroad, he joined EDF's Financial Department in 1993. Until 1998, he was in charge of accounts, financing, mergers and acquisitions, while simultaneously managing a rapid debt reduction for the Company and its international expansion. He became the Chairman and Chief Executive Officer of the London Electricity Group (now EDF Energy) at the end of 1998 and led its development. From the beginning of 2002 to the end of 2004, he was Head of the Generation and Engineering Division at the time EDF was adapting its fossil-fired facilities and starting its new EPR. He was appointed Senior Executive Vice-President of EDF on December 20, 2004, in charge of International Holdings and Gas within the Executive Committee, and in charge of international external relations since April 2006. He is a Knight of the National Order of Merit.

**Umberto Quadrino.** A graduate in Economics, Umberto Quadrino is CEO of Edison. After starting his career in the Turin industrial union, he joined Fiat in 1970 where he occupied various functions as Administration and Control Director and then in charge of subsidiaries. In 1996, he was appointed Deputy Director of New Holland. In 2000, he came back to Fiat where he managed various divisions and in 2001 became the Chairman of Edison. He has been Deputy Director of the Edison Group since 2005.

**Vincent de Rivaz.** Vincent de Rivaz is a graduate of the *Ecole Nationale Supérieure d'Hydraulique de Grenoble*. In 1977, he joined EDF's Exterior Engineering Center within the International Affairs Division. From 1985 to 1992, he participated in EDF's development in China within the International Division, of which he became Director of the Far East Division in 1989. From 1992 to 1994, he was the Head of the National Center of Hydro Equipment within the Equipment Division. He was appointed Head of the International Division in 1995 and became Head of Projects in 1996. He joined the Finance Department in 1999 as Deputy Chief Financial Officer and became Head of Financial Strategies and Operations in 2000. He was appointed Chief Executive Officer of the London Electricity Group in early 2002. He led the merger transactions of companies acquired during the first six months of 2002 (Easkin and Seaboard networks) and created in mid-2003 EDF Energy and has since been its Chief Executive Officer. He was appointed to EDF's COMEX in December 2004.

**Gérard Wolf.** Gérard Wolf is a Senior Executive Vice-President Subsidiaries and International Development. He is an agricultural engineer and a graduate of the INA and the *Institut d'Etudes Politiques de Paris*. He began his career in the prefectorial office and was appointed Principal Private Secretary to the Defense Secretary of State in 1988. From 1996 to 1998, he was a deputy director in charge of emergency and firefight at the Ministry of the Interior. He joined EDF in 1998 as the Principal Private Secretary to the chairman before being appointed Director of the Group's coordination in 2001 and Director of the group's businesses in 2003. Since November 2004, he has been a Director in charge of the Group's development and major projects.

Annex C of this document sets forth the current positions (outside of EDF and excluding the principal positions) held by the EDF Chief Officers as well as the positions they have held over the past 5 years.

### 14.2.4 Environmental, scientific and medical councils

EDF has also established an environmental council, a scientific council and a medical council, open to persons contributing their experience and expertise, in order to integrate these aspects into EDF's major strategic trends.

## ➔ 14.3 - ABSENCE OF FAMILY TIES, CONVICTIONS AND CONFLICTS OF INTEREST OF EDF DIRECTORS AND EXECUTIVE OFFICERS

### 14.3.1 Absence of family ties among EDF directors and executive officers

To EDF's knowledge, there is no family relationship among EDF directors and executive officers.

### 14.3.2 Absence of convictions for fraud of EDF directors

To EDF's knowledge, none of the EDF directors and executive officers has been:

- convicted of fraud in the past five years;
- declared bankrupt or had their property impounded or liquidated in the past five years;
- the subject of an official accusation and/or penalty delivered by legal or regulatory authorities in the past five years.

In addition, to EDF's knowledge, in the past five years, none of its directors and executive officers has been prevented by a court from becoming a member of an administrative, management or supervisory body of a listed company, or from being involved in the management or direction of the affairs of such a company.

### 14.3.3 Conflict of interest of directors and executive officers

To the Company's knowledge as of the date of the present *Document de Référence*, there are no potential conflict as regards EDF, between the duties of EDF, directors and executive officers on the one hand and their private interests or other duties, on the other.

If a strict application of the criteria laid down in the report prepared by the Medef and AFEP could lead to some of them being considered as not independent, the Company considers that each of them has the abilities and professional experience necessary to the Company and enjoys complete freedom and independence of judgment.

To the Company's knowledge, there is no agreement entered into by shareholders, customers, suppliers, or others according to which a director has been appointed as either a director or an executive officer.

To the Company's knowledge, no director has agreed to restrict for a fixed period of time his ability to sell his equity holdings in the company, except for the restrictions resulting from the stock exchange ethics charter mentioned in section 16.1.6 ("Stock exchange ethics charter").

In addition, the directors and executive officers holding their equity interest through a FCPE of EDF Group invested in the share capital of EDF, or who acquired EDF shares from the French State in the legal framework of the privatization regime are subject to the applicable non-transferability and lock-up rules.

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## ➔ 15.1 - COMPENSATION OF DIRECTORS AND CHIEF OFFICERS

The aggregate gross amount, excluding employer's costs, of compensations, Directors fees and other benefits paid in 2006 by EDF and its controlled subsidiaries to directors and executive officers amounted to five million sixty-two thousand nine hundred fifty-seven (5,062,957) euros.

The tables below show the compensation and the various benefits paid to each of the Group's directors and Chief Officers during the 2006 and 2005 financial years by EDF and its controlled subsidiaries. The variable portion is to be added to the gross salary paid (fixed portion).

Pierre Gadonneix:

Gross salary paid in 2006	€ 630,204
Variable portion 2006	€ 171,200
Benefits in kind 2006	€ 5,751
Gross salary 2005	€ 468,548
Variable portion 2005 <sup>(*)</sup>	€ 53,667
Benefits in kind 2005	€ 27,445

<sup>(\*)</sup> The variable portion corresponds to 3.5 months of presence in 2004.

Daniel Camus:

Gross salary paid in 2006	€ 517,000
Variable portion 2006 <sup>(*)</sup>	€ 455,418
Gross salary 2005	€ 489,960
Variable portion 2005	€ 274,236

<sup>(\*)</sup> Of which €205,000 paid in 2006, which were due to a deferred salary owed for the past three years.

The contract of Daniel Camus, in effect from November 14, 2002, contains contractual severance indemnity clauses of 24 months, after a six-month notice.

Yann Laroche:

Gross salary paid in 2006	€ 349,067
Variable portion 2006	€ 160,736
Benefits in kind and other premiums provided for in the IEG status in 2006	€ 59,140
Gross salary 2005	€ 325,231
Variable portion 2005	€ 213,309
Benefits in kind and other premiums provided for in the IEG status in 2005	€ 38,458

Jean-Louis Mathias:

Gross salary paid in 2006	€ 349,067
Variable portion 2006	€ 165,036
Benefits in kind and other premiums provided for in the IEG status in 2006	€ 41,679
Gross salary 2005	€ 325,231
Variable portion 2005 <sup>(*)</sup>	€ 138,409
Benefits in kind and other premiums provided for in the IEG status in 2005	€ 47,864

<sup>(\*)</sup> The variable portion corresponds to 3.5 months of presence in 2004.

The variable portion mentioned above of the remuneration of directors and Chief Officers corresponds to the fiscal year preceding the year of their payment. This variable portion is settled according to collective performance criteria on the basis of the net benefit part of the Group, free cash flow and EBITDA with respect to three-quarters, and to individual performance criteria (achievements of personal objectives) with respect to the other quarter.

The fixed salary of the Chief Officers was settled by a decision taken on January 2007 with retroactive effect after consulting the appointment and remuneration committee to:

Yann Laroche	€370,000
Jean-Louis Mathias	€400,000
Daniel Camus	€532,350

With the exception of the above, Pierre Gadonneix, Jean-Louis Mathias, Daniel Camus and Yann Laroche have not received any starting bonus and will not benefit from a termination grant.

The directors' fees paid to each of the company's directors in 2006 were:

Frank Dangeard	€ 44,000
Daniel Foundoulis	€ 37,000
Claude Moreau	€ 35,000
Henri Proglio	€ 38,000
Louis Schweitzer	€ 14,000

In accordance with the French law n° 83-675 of July 26, 1983 relating to the democratization of the public sector, directors representing the French State and those representing the employees do not receive directors' fees.

## ➔ 15.2 - PENSIONS, RETIREMENT FEES, AND OTHER ADVANTAGES

Directors and executive officers do not benefit from any specific retirement system.

## ➔ 15.3 - SHARE OWNERSHIP

Pursuant to Article 11 of the French law n° 83-675 of July 26, 1983 mentioned above, the provisions of the French Commercial Code relating to the number of shares that each director must own are not applicable to the members of the Board of Directors of EDF appointed by decree.

Pursuant to Article 21 of the French law n° 83-675 of July 26, 1983 mentioned above, the provisions of the French Commercial Code relating to the number of shares that each director must own are not

applicable to the members of the Board of Directors of EDF who represent the employees.

Following the Company's initial public offering on the stock exchange, some of EDF's directors and chief officers became shareholders of the Company. At the time of the present *Document de Référence*, the number of EDF shares held by each director and chief officer, as well as their holding method: (directly or through a company mutual fund (FCPE)), were as follows:

Pierre Gadonneix	1,277 shares held directly
François Jacq	0
André Aurengo	0
Bruno Bézard	0
Yannick d'Escatha	0
Frank E. Dangeard	50 shares held directly
Daniel Foundoulis	250 shares held directly
Claude Moreau	200 shares held directly
Henri Proglio	51 shares held directly
Louis Schweitzer	100 shares held directly
Laurence Drouhin-Hoeffling	0
Marie-Catherine Daguerre	247 shares held through a FCPE
Jacky Chorin	0
Alexandre Grillat	564 shares held through a FCPE
Philippe Pesteil	219 shares held through a FCPE
Philippe Faure	0
Philippe Josse	0
Maxime Villota	0
Daniel Camus	140 shares held directly and 786 shares held through a FCPE
Yann Laroche	1,785 shares held through a FCPE
Jean-Louis Mathias	847 shares held through a FCPE (the spouse of Jean-Louis Mathias holds 628 shares through a FCPE too).

## ➔ 15.4 - STOCK OPTIONS AND/OR PURCHASE OF SHARES

None.



## ➔ 15.5 - AGREEMENTS INVOLVING MEMBERS OF THE BOARD OF DIRECTORS

### 15.5.1 Information relating to agreements involving members of the Board of Directors

Until November 20, 2004, EDF was an EPIC and the provisions of the French Commercial Code relating to agreements involving members of the Board of Directors were not applicable.

Since the transformation of EDF into a French *société anonyme* on November 20, 2004, the provisions of Article L. 225-38 of the French Commercial Code relating to such agreements apply to EDF.

### 15.5.2 Statutory auditors special report on agreements involving members of the Board of Directors for the financial year ended December 31, 2006

*This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.*

*It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.*

Electricité de France S.A.

Registered office: 22-30, avenue de Wagram – 75008 Paris

#### **Statutory auditors' report on regulated agreements and commitments involving members of the Board of Directors for the financial year ended December 31, 2006**

To the shareholders,

In our capacity as statutory auditors of your Company, we hereby present to you our report on the regulated agreements and commitments.

#### **• Agreements and commitments entered into by the Company in 2006**

In accordance with article L.225-40 of the French Commercial Code we have been advised of agreements and commitments which have been previously authorised by your Board of Directors.

We are not required to ascertain whether any other agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were notified. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article 92 of the March 23, 1967 Decree, to evaluate the benefits arising from these agreements prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information

provided to us is in agreement with the underlying documentation from which it was extracted.

- Sales of EDF shares reserved for current and retired employees of EDF Group entities

As part of the opening of the share capital of the Company at the end of 2005, and of the preferential offer reserved for current and retired employees of EDF and certain French and foreign subsidiaries, EDF, the French State and BNP Paribas Securities concluded an agreement which describes the modalities relating to payments of shares, attribution of free shares and recovery of shares in case of insolvency.

34,653,721 shares have been delivered to employees as of January 30, 2006 through this agreement, corresponding to a total consideration of €692 million to be received by the French State over the next two years.

This agreement was authorized by your Board of Directors held on January 24, 2006.

Directors involved by the agreement: Mssrs André Aurengo, Bruno Bézard, Pierre-Mathieu Duhamel, Yannick d'Escatha, François Jacquet and Jean-Pierre Lafon, French State's representatives.

- Disposals of Egyptian operations

As part of the disposals process of Egyptian operations of EDF Group, two contracts have been concluded by EDF and EDF International. The disposals contracts have been finalized at the end of March 2006 for a total consideration of €198 million.

This agreement was authorized by your Board of Directors held on February 22, 2006.

Director involved by the agreement: Mr Daniel Camus, Chief Financial Officer of EDF and Chairman of the Board of Directors of EDF International.

#### **• Continuing agreements and commitments which were entered into in prior years**

In addition, pursuant to the decree of March 23, 1967, we have been advised that the following agreements and commitments approved in previous years have had continuing effect during the year.

- Public Service Contract

On October 24, 2005, the French State and Electricité de France S.A. signed a Public Service Contract whose purpose is to form the framework of Electricité de France S.A.'s public service mission and duties. This contract sets out the commitments undertaken by Electricité de France S.A. over the period 2005-2006-2007 and defines the financial compensation payable for public service obligation, in particular the principles set for the calculation and increase in electricity sales tariffs.

Paris La Défense and Neuilly-sur-Seine, February 20, 2007  
The Statutory Auditors

**KPMG Audit**  
**Department of KPMG S.A.**

Jean-Luc Decornoy

Michel Piette

**Deloitte & Associés**

Amadou Raimi

Tristan Guerlain

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## ➔ 16.1 - POWERS OF THE BOARD OF DIRECTORS

Pursuant to Article L. 225-35 of the French Commercial Code, the Board of Directors determines the orientation of the activities of the Company and oversees their implementation. Subject to powers expressly attributed by law to the shareholders' meetings and within the limit of the corporate purpose of the Company, the Board may discuss any question relating to the functioning of the Company and acts, through its deliberations, on any such issue.

Moreover, in accordance with Article 7 of the French law of July 26, 1983 relating to the democratization of the public sector, the Board of Directors deliberates, in particular, on the main strategic, economic, financial and technological trends of the Company and

the Group before making decisions related thereto.

Pursuant to its rules of procedure, the Board of Directors also has specific powers with respect to:

- financial operations,
- operations of external or organic growth or disposal,
- contracts for more than €100 million, including any amendments thereto,
- property transactions,
- operations of the nuclear fuel cycle,
- bond transfer transactions, and
- long-term energy sales and purchases, CO<sub>2</sub> emission credits and quotas.

## ➔ 16.2 - BOARD OF DIRECTORS MEETINGS

The Board of Directors meets as often as the interest of the company requires, upon notification by the Chairman, in accordance with applicable legislative and statutory provisions.

The rules of procedure provide that all directors participating in the meeting of the Board of Directors by any telecommunication means

which allow their identification and assure their effective participation, in accordance with applicable legal provisions, are deemed present for the purposes of calculating the quorum and the majority.

In 2006, the Directors' attendance rate to the Board of Directors' meetings is 79.6% for 12 Board meetings.

## ➔ 16.3 - BOARD OF DIRECTORS RULES OF PROCEDURE

The functioning of the Board of Directors is organized in accordance with the rules of procedure, which were amended by the Board of Directors on January 23, 2007.

At each meeting of the Board of Directors, the Chairman and Chief Executive Officer communicates to the Board members the main facts and significant events affecting the Company that have occurred since

the date of the last meeting of the Board of Directors. In order to obtain further information, directors may meet with the senior management of the Company or the Group regarding the subjects on the Board's agenda. They must inform the secretary to the Board of their request.

The rules of procedure also describe the organization, functioning and powers of the Board committees.

## ➔ 16.4 - EVALUATION OF THE BOARD OF DIRECTORS

In accordance with corporate governance principles and in particular the one which recommends to carry out an evaluation of the Board, article 9 of the Board's rules provides that *"the Ethics Committee delivers each year a report on the evolution of Board's functioning (...) and suggests questions to be discussed"*.

This evaluation was carried out according to the same methods used in 2005 by sending the directors a questionnaire which concerns all the aspects of the Board's functioning. The questionnaire was examined by the Ethics Committee meeting of October 23, 2006 and

approved by the Board of Directors on November 20, 2006. Accordingly, directors were notably questioned on the frequency and the length of the Board and its committee's meetings, on the matters registered in the agenda and the quality of the documents subject to them related to the meetings.

The results were examined by the Ethics Committee on December 7, 2006 and testify of a high level of satisfaction among directors. They were presented to the Board of Directors on January 23, 2007.

## ➔ 16.5 - COMMITTEES OF THE BOARD OF DIRECTORS

In its functions, the Board decided to set up specialized consultative committees within the Board, whose functions are to prepare the case

files in advance before they are presented in the whole committee. At the end of 2006, there were: an audit committee, a strategy committee,

an ethics committee and a remunerations committee. When it updated its internal rules on January 2007, the Board of Directors increased the powers of the remunerations committee, which became the appointments and remunerations committee and created a nuclear commitments monitoring committee (CSEN).

The chairman of the French State general economic and financial control mission is invited to the committees' meetings.

**The chairmen of such committees are:**

- **Audit committee:** Mr. Frank E. Dangeard
- **Nuclear commitments monitoring committee (CSEN):** Mr. Bruno Bézard
- **Strategy committee:** Mr. Henri Proglio
- **Ethics committee:** Mr. André Aurengo
- **Appointments and Remunerations committee:** Mr. Louis Schweitzer

### 16.5.1 Audit Committee

The Audit Committee is comprised of five members, and chaired by Mr. Dangeard, a director appointed by the Shareholders' meeting and external to the EDF Group. The other members of the Committee are Mr. Bézard and Mr. d'Escatha, directors representing the French State, and Mrs. Daguerre and Mr. Chorin, directors appointed by the employees. The Committee assesses and gives its opinion on the company's financial situation, the medium-term plan and the budget, the draft consolidated financial statements, prepared by the financial Division (EDF's annual financial statements and the Group's consolidated financial statements), the risk monitoring policy, the internal audit program. The Committee hears the auditors and the general and financial divisions. In particular, the Committee regularly examined the risk management policy, and more precisely reviewed every semester the consolidated risk mapping of the Group, as well as risks control methods, the audit program and the main corrections carried out following previous semester's audit.

In 2006, the Committee acknowledged the New Internal Control Policy and examined its implementation methods within the company, as well as other major matters such as assets dedicated to nuclear facilities' decommissioning and the initial public offering of EDF Energies Nouvelles.

The average attendance rate to the Audit Committee reached 71.5% in 2006 for seven meetings.

### 16.5.2 Nuclear Commitments Monitoring Committee (CSEN)

The Nuclear Commitments Monitoring Committee is chaired by Mr. Bruno Bézard and composed of six directors, including the five members of the Audit Committee and a director with a known expertise in the nuclear field. The other members of the Committee are Mr. Dangeard, director appointed by the Shareholders' meeting and external to the EDF Group, Mr. d'Escatha and Mr. Jacq, directors representing the French State and Mrs. Daguerre and Mr. Chorin, directors appointed by the employees.

This Committee's mission is to monitor the evolution of nuclear provisions, give its opinion concerning dedicated assets' management, the ratio between assets and liabilities and the strategic allowance, and to examine the compliance of EDF's dedicated asset management. It delivers the necessary opinions and recommendations to the Board of Directors.

The Committee's first meeting took place on February 16, 2007.

### 16.5.3 Strategy Committee

The Strategy Committee is comprised of seven members, and chaired by Mr. Proglio, a director appointed by the Shareholders' meeting and external to the Group. The Committee's other members are Mr. Bézard, Mr. Faure and Mr. Jacq, directors representing the French state, Mrs. Hoeffling, Mr. Grillat and Mr. Pesteil, directors appointed by the employees. The Committee gives its opinion concerning the Company's main strategic guidelines. In 2006, it examined the implementation of the public service agreement, gas strategy, research and development policy and general guidelines concerning renewable energies.

The Strategy Committee met seven times in 2006, with an attendance rate of 75.5%.

### 16.5.4 Ethics Committee

The Ethics Committee is comprised of six members and chaired by Mr. Aurengo, a director representing the French State and external to the EDF Group. The other members are Mr. Foundoulis and Mr. Moreau, directors appointed by the Shareholders' meeting and external persons to the EDF Group, Mr. Chorin, Mr. Pesteil and Mr. Villota, directors appointed by the employees. The Committee ensures that ethical considerations are reflected in the work of the Board of Directors and that the management of EDF are taken into consideration. It examines in particular:

- the annual report excluding financial statements (activity and sustainable development reports),
- the activity report of the Ethics advisor,
- the reports of the mediator and the General Inspector for nuclear safety and radiation protection.

Moreover, the Ethics Committee prepares every year a report regarding the evolution of the Board of Directors' functioning and the implementation of its internal rules, and suggests matters to be discussed.

The attendance rate in the Ethics Committee in 2006 was of 94.4% for six meetings.

The Ethics Committee notably continued its work related to partnerships with service providers in the nuclear field. It also studied the management of nuclear waste, the health and safety policy, as well as the implementation of the distributor's ethics code, which aims to assure that all measures have been taken to guarantee the absence of discriminatory measures concerning the access to the network by third parties.

### 16.5.5 Appointments and Remunerations Committee

The Appointments and Remunerations Committee is composed of three directors chosen by the Board of Directors. It is chaired by Mr. Louis Schweitzer, a director appointed by the Shareholders' meeting and external to the EDF Group. The other members of the Committee are Mr. Dangeard, director appointed by the Shareholders' meeting and also external to the EDF Group, and Mr. Bézard, a director representing the French State. The Committee delivers to the Board of Directors proposals concerning the appointment of directors by the Shareholders' meeting, addresses to the Minister of Economy, Finance and Industry its opinion on the remuneration of the Chairman and Chief Executive Officer and examines the remuneration of the Chief Officers (DGD).

It shall also convey its opinion to the Board of Directors regarding the methods for establishing the remuneration of Company Senior Management (fixed portion and variable portion, method of calculation and indexation), as well as the amount and the allocation methods of

the directors' fees. It assures the existence of replacement tables for the members of the Executive Committee.

This Committee met once in 2006.

## ➔ 16.6 - EDF ETHICAL APPROACH

EDF's ethical approach, presented for the first time at the meeting of the Board of Directors of March 26, 2003 and coordinated by the Head of Ethics, a person specifically appointed for this purpose, consists of the distribution of and adherence to a Code of Ethics centered on five values: respect for individuals, respect for the environment, performance, solidarity and integrity.

The code details the ethical commitments of the Group with respect to interested parties (principles of collective action) as well as an individual code of conduct (Ethics Guide). These values underlie the social and environmental commitments of the company, particularly the UN

Global Pact, Agenda 21 and the EDF Group Social Responsibility Agreement signed on January 24, 2005. The approach is implemented by management in all parts of the Group.

The Code of Ethics is available on all EDF websites.

A whistleblower procedure was implemented in January 2004, which makes it possible to question the ethics advisor on any question, warning or complaint of an ethical nature. This system is open not only to employees, but also to external partners and customers.

## ➔ 16.7 - STOCK EXCHANGE ETHICS CHARTER

Following the Company's listing on the stock exchange in November 2005, EDF adopted in March 2006 a ethics charter aimed at imposing the respect of the applicable rules and principles as well as the recommendations made by the stock market authorities in the area of risk management related to the holding, disclosure, or possible using of privileged information.

To that purpose, the EDF Group has in particular decided to set up abstention periods (black-out) during which insider persons according to article L465-1 of the Financial and Monetary Code cannot buy, sell or conclude operations on EDF's shares.

Black out periods are short, foreseeable, and significant non-public information about the EDF Group can circulate within the Group during that time. Those periods take place:

- between the 25th day of the last month of the quarter (included) and the day of the press release publication related to the annual or half-yearly financial statements or EDF quarterly sales (included), and/or
- between the day when the person gets to know the inside information and the day when this information is made known to the public.

## ➔ 16.8 - INTERNAL CONTROL

### 16.8.1 Chairman of the Board of Directors' Report

Pursuant to article L225-37 of the French Commercial Code, the Chairman of EDF's Board of Directors is required to deliver a special report, enclosed to the management report of the Board, regarding the status of the preparation and organization of the work of the Board of Directors, as well as the status of the internal control procedures implemented by the Company.

This report is reproduced in Annex A.

### 16.8.2 Independent Auditors' report, prepared in accordance with article L225-235 of the French Commercial Code, on the Report prepared by the Chairman of the Board of EDF, regarding the internal control procedures relating to the preparation and processing of accounting and financial information

This report is reproduced in Annex B.

## ➔ 16.9 - COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES IN FORCE IN FRANCE

Subject to what is described below, EDF adheres to the corporate governance principles applicable to listed companies as described in the October 2003 AFEF/MEDEF report, and in particular to the key corporate governance principles relating to:

- responsibility and loyalty of the directors and managers,
- independence of the Board,
- transparency and diffusion of information,
- respect of the shareholders' rights.

In this specific legal framework, EDF is committed to implementing the recommendations set out in this report, in particular by having the Board to adopt rules of procedure setting the main principles for

its functioning, how it should operate (see Section 16.1 ("Powers of the Board of Directors")) and the creation of specialized committees.

Given the specific legal rules that apply to the composition of the Board of Directors (see Section 14.1.1 ("Composition of the Board of Directors")), EDF does not completely comply to the Medef/AFEP report's recommendations as regard to the number of independent directors within the Board. According to those specific rules, the Board of Directors includes, out of 18 members, 12 directors (including 6 directors representing the French State and 6 directors representing the employees or the shareholders employees) that cannot correspond to the independence criteria as set out in the Medef/AFEP report.

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In relation to human resources, the EDF Group is faced with a certain number of significant challenges to adapt its policies in the context of the opening up of the markets and the Group's performance objectives, while maintaining internal social cohesion and adhering to corporate values which are increasingly necessary in this period of important change.

Three major imperatives drive the Group's human resources policies:

- to permanently adapt the jobs and skills necessary for the success of the Industrial Project and for the development of the businesses, while pursuing an active resource optimization policy,
- to mobilize the Group's entire workforce, in particular, by offering them attractive working conditions and opportunities for professional development, and
- to promote social dialogue throughout the Group, in particular, through the implementation of the Corporate Social Responsibility agreement (see Section 17.6.3 ("Social dialogue and representation of Group employees") below).

## ➔ 17.1 - GROUP WORKFORCE

### Workforce

The consolidated workforce of the EDF Group amounted to 156,524 persons as of December 31, 2006, with 106,565 within EDF (including RTE-EDF Transport) and 49,959 within its subsidiaries and shareholdings in France and abroad which are included in the scope of consolidation.

The table below shows the change in the workforce for the Group's shareholdings and subsidiaries, weighted by the financial consolidation percentage over the last three financial years:

	As of December 31,					
	2004		2005		2006	
	(Number)	%	(Number)	%	(Number)	%
EDF France	110,561	69	109,494	68	106,565	68
Subsidiaries and shareholdings	50,749	31	52,066	32	49,959	32
<b>TOTAL<sup>(*)</sup></b>	<b>161,310</b>	<b>100</b>	<b>161,560</b>	<b>100</b>	<b>156,524</b>	<b>100</b>

(\*) The workforce of EDF and RTE-EDF Transport are included in EDF France workforce (including employees not employed under the IEG status in EDF and RTE-EDF Transport).

## EDF workforce

For some 20 years, EDF's workforce has decreased every year, except in 2000, when it increased slightly, due to the creation of jobs, following the implementation of a reduction in working hours agreement.

between the different Divisions/Subsidiaries as of December 31, 2006:

The table below shows the breakdown of EDF France's employees

EDF France workforce (*)	2004	2005	2006
Regulated sector			
Distribution	48,642	48,011	46,352
RTE-EDF Transport	8,276	8,313	8,333
Deregulated sector			
Generation and engineering	36,690	36,600	35,233
Sales	6,243	6,114	6,092
Headquarters	9,612	9,519	9,601
CDI and CDD (not employed under the IEG status)	1,098	937	954
<b>TOTAL</b>	<b>110,561</b>	<b>109,494</b>	<b>106,565</b>

(\*) The workforce of EDF and RTE-EDF Transport are included in EDF France workforce (including employees not employed under the IEG status in EDF and RTE-EDF Transport).

The "Distribution" headcount includes EDF and Gaz de France Distribution employees (54,895 at the end of December 2006), which is broken down into employees who are "100% electricity" (approximately 26,030), employees who are "100% gas" (approximately 7,706) and employees who are assigned to mixed electricity and gas activities (approximately 21,159 with an electricity/gas ratio of 75/25). In addition, electricity distribution network staff (*EDF Réseau de Distribution*, or "ERD" — 100% EDF) and island energy system (SEI) staff are "98% electricity", i.e., 1,265 employees and 3,275 employees, respectively.

## Subsidiaries' workforce

The table below shows the breakdown of employees (Group's share) in the subsidiaries and shareholdings included in the scope of consolidation as of December 31, 2006:

Consolidated Subsidiaries' Headcount	2004	2005	2006
Subsidiaries in France:			
(including Electricité de Strasbourg, TIRU, EDEV)	2,490	2,452	2,618
EDF Energy (UK)	10,430	11,238	12,320
EDF Trading (UK)	239	283	329
EnBW (Germany)	8,692	8,129	9,743
Edison		1,528	1,507
Dalkia International	11,056	12,952	14,866
Other foreign subsidiaries	17,842	15,484	8,576
<i>Eastern Europe</i>	<i>6,394</i>	<i>6,354</i>	<i>5,905</i>
<i>Western and Mediterranean Europe and Africa</i>	<i>1,884</i>	<i>1,833</i>	<i>1,909</i>
<i>Asia Pacific</i>	<i>308</i>	<i>324</i>	<i>325</i>
<i>Americas</i>	<i>6,927</i>	<i>4,381</i>	<i>437</i>
<i>Other</i>	<i>2,329</i>	<i>2,592</i>	<i>0</i>
<b>TOTAL</b>	<b>50,749</b>	<b>52,066</b>	<b>49,959</b>



### ➔ 17.2 - ELECTRICITY AND GAS INDUSTRIES EMPLOYMENT STATUS

As of December 31, 2006, almost all of EDF's employees were subject to the status applicable to employees of the Gas and Electricity Industries (*Industries Électriques et Gazières*, or "IEG")<sup>62</sup>. The IEG status was instituted by the French Decree of June 22, 1946 pursuant to the French law of April 8, 1946, which nationalized the electricity and gas industries. It relates to active and retired staff of the IEG branch companies.

In accordance with the provisions of Article L. 134-1 of the French Labor Code, the provisions of the status may be amended and the terms of their application may be determined contractually through company-wide agreements, within the scope established by the status. Moreover, the French law n° 2000-108 of February 10, 2000 relating to the modernization and expansion of the public service for electricity enlarged the scope of contractual applications in the electricity and gas sector by introducing industry-wide agreements, with which all companies in the sector must comply (including foreign companies doing business in France).

### ➔ 17.3 - ORGANIZATION AND WORKING HOURS

Since October 1, 1999, working hours are 35 hours per week with the divisions operating 5 days per week, at the minimum.

As of the end of December 2006, 22.5% of the employees have opted for collective or individual reductions in working hours, with partial compensation for loss of earnings.

In addition, in order to ensure the continuity of operations of EDF's facilities or to restore as soon as possible the supply of electricity in case of a technical failure, part of EDF's workforce is on continuous duty 365 days a year, and another part provides the on-call service outside working hours.

### ➔ 17.4 - SKILLS, TRAINING AND MOBILITY

Managing skills is an important objective for the Group's competitiveness, both in terms of economic performance and professionalism. This is particularly true in a context where the market will be totally open to competition in 2007 and where a significant number of employees will leave on retirement. As a result, training and mobility are the two principal tools for managing jobs. This explains why EDF,

which operates in a field requiring highly technical skills, has always allocated a large budget to training its employees so as to be constantly in step with professional developments and careers.

The table below sets forth this training effort within EDF and RTE-EDF Transport:

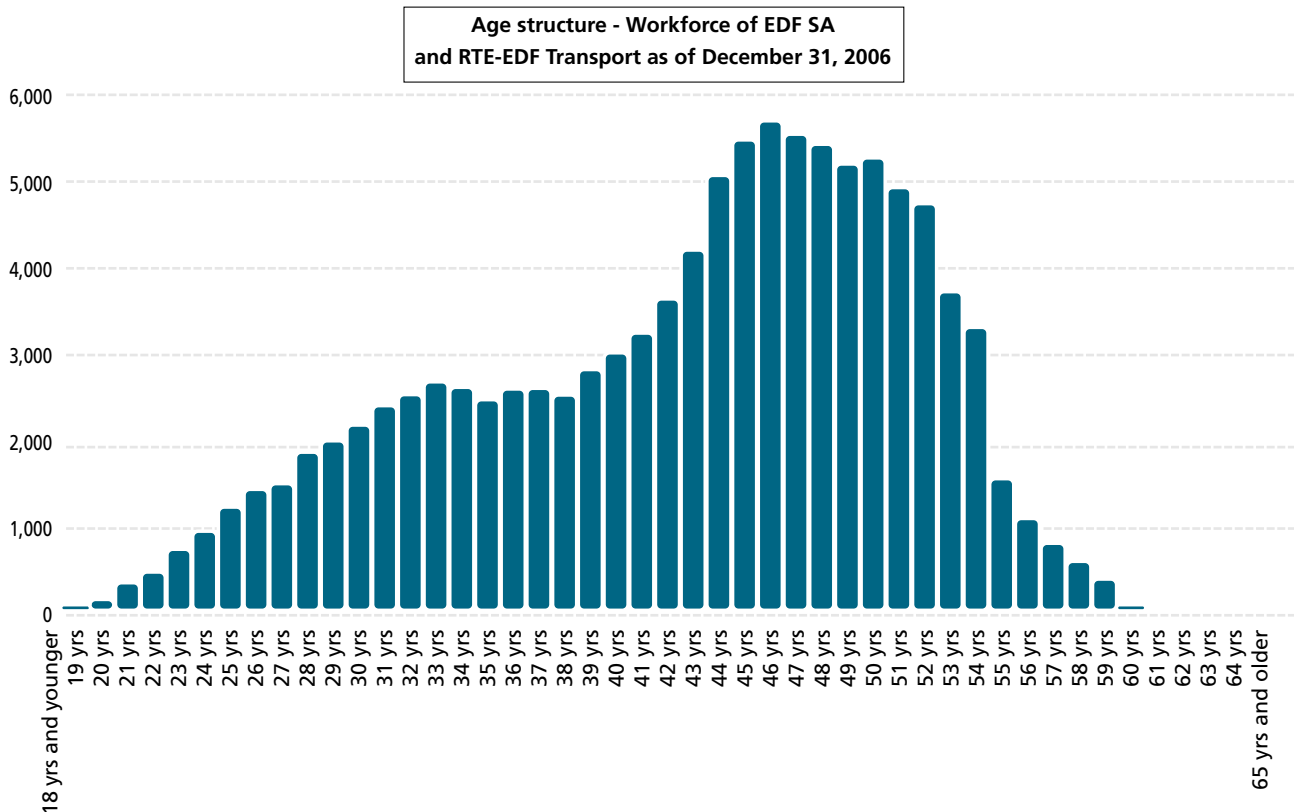
	2004	2005	2006
% of the payroll engaged in training	8.13	6.9	6.17
Number of training hours per employee	37	35	39

A large number of retirements will require the replacement of highly-qualified employees both in Generation and Engineering as well as in Distribution. Due to an unbalanced age structure (more than 60% of the workforce is over 40), the operating and maintenance teams in these two EDF core businesses will experience the retirement of

approximately half of their workforce between 2008 and 2015. These retirements in the years to come provide an opportunity to adapt the number and the profiles of the employees to the challenges of EDF on the short-term as well as on the medium-term.

<sup>62</sup> Employees of certain of the Group's French subsidiaries are also subject to IEG status (for example, the staff of *Electricité de Strasbourg*).

The graphic below presents the age structure as of December 31, 2006:



As for what concerns recruiting, EDF and RTE-EDF Transport hired 968 persons in 2006. The recruitment rhythm should be considerably higher in 2007 (1,450) than in 2006 and will continue to grow at least until 2009.

Nevertheless, recruitments only provide for part of the renewal of the new and growing businesses areas skills. That is why EDF set up a large program for reorganizing its declining businesses (service, central functions) around new and growing businesses areas.

For this purpose, an important training program will support these transformations. In respect of a few situations in which the transfor-

mations would be too complex or too expensive, EDF set up an end-of-career leave program for the 2006 financial year, which concerned approximately 540 employees. By the end of January 2007, EDF decided to renew this program for the year 2007.

In compliance with the announced objectives, the replacement rate (recruitments/retirements) is less than one out of three in 2006: for the period 2007- 2009, this replacement rate, which applies to 12,750 expected departures, should be slightly lower than a half, and should therefore allow to continue the control of the payroll and the improvement in productivity.

## ➔ 17.5 - EQUALITY OF OPPORTUNITY

### Apprenticeship

Apprenticeship is one of the training methods chosen by EDF to fulfill the need to renew its internal skills and those of its main industrial partners. Apprenticeship aims at offering youngsters, and more particularly those who are less favored, the opportunity to start their career with recognized assets: a diploma and a professional experience.

EDF confirmed its commitment to apprenticeship by announcing that 3,000 young people (through apprenticeship and professional contracts) will be welcomed in the company by 2008, representing approximately 3% of the company workforce.

EDF will have doubled, in three years, the number of apprenticeship and professional contracts in the company.

Apprenticeship concerns all Group's lines of business, namely generation, distribution and supply, as well as all levels of qualification, from the general or the technical sectors, including those with postgraduate education.

If some of these youngsters in apprenticeship are meant to be hired by EDF in order to take part in the renewal of competencies, others will be able to find an employment within our service providers facing the same issue of renewal of competencies.

In total, by the end of 2006, approximately 2,000 youngsters benefited from a contract *d'alternance* with EDF (apprenticeship contracts, and professional contracts) and 96 % of these youngsters graduated in June 2006.

### Solidarity/Seniors

The EDF Group has instituted innovative means for senior recruitment such as a special hiring program providing for subsidized contracts for people over 50 and especially the long-term unemployed. In 2006, 180 contracts were signed through this program.

### Diversity

EDF's Chairman signed on June 1<sup>st</sup>, 2006, a commitment to encourage diversity and equality of opportunity within the company and to prevent discrimination. Dedicated plans of action have been implemented in the various lines of business associated to an employees' sensitization program to representations and stereotypes linked to the diversity.

In accordance with this commitment, EDF signed the Diversity charter on September 22, 2006.

In addition, EDF naturally responded favorably to the governmental initiatives to remove all the restrictions in the hiring policies in relation with age and nationality criteria which were set forth in the IEG status. The adaptation of the regulatory texts is being instructed in connection with public authorities.

On March, 30, 2006, EDF entered into a three-year agreement for the professional integration of disabled persons. The Company committed itself to recruit at least 4 % of disabled people. In addition, EDF is leading a voluntary action to welcome each year several dozens of young disabled people as apprentices.

### Subcontracting

In line with the agreement on the EDF Group Social Enterprise Responsibility (SER), the Company entered in October 2006 into an "agreement on socially responsible subcontracting within EDF" with three of its trade unions (CFDT, FTC and CFE-CGC). This agreement highlights the desire to maintain lasting industrial partnerships and services beyond short-term interests, so as to allow our services providers to be able to strengthen their activities and reinforce their capacities to develop in the long-term beyond the one-time or short-term transactions. Through this agreement, EDF commits itself with subcontracting partners to concrete and realistic actions in order to ensure that their interventions are done in the best conditions of employment, qualification, work and health-safety.

## ➔ 17.6 - SOCIAL DIALOGUE AND EMPLOYEE REPRESENTATION

### 17.6.1 Social dialogue in France

A standard agreement "Social Agenda" for 2006-2008 was signed on July 10, 2006. This agreement reaffirms the contracting parties' will to maintain a social dialogue based on the development of collective negotiation in the Company.

The Social Agenda focuses on the necessity to reach collective agreements in fields that will allow to:

- **place all the EDF's employees in the heart of the Company's performance** by allowing them to ensure the consolidation or the renewal of their abilities to a high level. Following the national observatory of the employment, already created, a negotiation is planned concerning the implementation of provisional management of employments and abilities in order to conciliate a prospective vision of employment, the adaptation of abilities and career evolution;
- **to allow each employee to carry out its activity under the best conditions** by favoring, notably, new practices in the areas of health and safety at work;
- **to encourage diversity and fight against discrimination** by reinforcing namely the equality of opportunity between male and female, the professional integration of handicapped persons and committing towards social cohesion. EDF has already tried to make access to employment easier by recruiting up to 10 % of young people from difficult neighborhoods and is encouraging apprenticeship by welcoming 1,600 persons.

### 17.6.2 Employee representation in France

Pursuant to the national IEG status, EDF has special employee representation bodies since 1946 (statutory organizations).

EDF's method of employee representation is different from that provided in generally applicable French labor law as established by the Auroux laws of 1982. Article 28 of the Law of August 9, 2004 provides for a three-year period in order to adapt these institutions, and was extended until December 31, 2007 by article 67 of the law of March 5, 2007.

The objective of this adaptation is to replace the current statutory bodies of employee representation with the general-law system providing for the setting up of a central company committee, corporate committees, and employee representatives. It is to be noticed that by way of an agreement with the trade unions, the representation elections that were scheduled initially to the fourth quarter of 2006 have been postponed to 2007, in order to take place under the new framework resulting from the agreement.

Following a framing by the public authorities, which took place in Summer 2005, followed by a branch negotiation in 2006 and even if the implementation decree has not yet been published, the company negotiation was launched in January 2007 in order to put in place the new employees' representing entities in the given deadlines.

Up to now, approximately 80% of EDF's employees have always participated in professional elections.

### The Central Desk of Social Activities ("*Caisse Centrale d'Activités Sociales*" or CCAS)

Managing social and cultural activities is delegated, contrary to French labor law, to specific organizations in the IEG branch:

- the CCAS which deals with activities at the national level;
- the 106 *Caisses Mutuelles Complémentaires et d'Action Sociales* (CAS) which administer local or decentralized social and cultural activities. Currently, the 106 CAS also manage complementary IEG healthcare benefits regime and refund medical expenses (social security contribution) as delegated by the CPAM.
- the CAS Coordination Committee. It represents the CAS at the national level. It is responsible for distributing resources between the CCAS (71% of the 1% paid by the IEG branch companies) and the 106 CAS (29%).
- the CAS and Coordination Comity of CAS allocations relating to the complementary healthcare benefits regime will change in the first half of 2007 following the IEG branch negotiations carried out on that subject between March and September 2006 (see Section 17.8.2. ("*IEG complementary healthcare benefits system*")).

The financing of social activities within the IEG is provided by a deduction of 1% from the operating income of the companies distributing gas and electricity, i.e., mainly sales by EDF, Gaz de France and the Local Distribution Companies. In 2006, the amount recorded by EDF and RTE-EDF Transport for this 1% was €309.5 million (against €288 million<sup>63</sup> in 2005 and €290 million in 2004). To be added to this, in accordance with the provisions of Article R. 432-2 of the French Labor Code, are expenses related to transportation, food and accommodation which amount to €127 million in 2006.

The CCAS is a legal entity and is fully independent. It is administered exclusively by representatives of the employees and is placed under the supervision of the public authorities. Neither EDF nor any other company of the IEG branch is represented on it.

### 17.6.3 Social dialogue and representation of Group employees

In the Group's other companies, mainly abroad, employee representation is organized in accordance with applicable local laws and regulations.

### Social dialogue entities

Since then end of 2001, the Group created a European Works Council (*Comité d'Entreprise Européen*, or the "CEE") consulted on the Group's major policies. In May 2005, a revision of the agreement brought new provisions relating to the functioning of this body. The CEE of the EDF Group is now composed of 33 permanent members and is informed of the Group's economic, financial and social strategies.

Through its working groups, the CEE started numerous analysis relating to the drafting of human resources policies at an international level, notably concerning health and safety within the different companies of the Group in Europe or in relation with the opening of the negotiations on the social responsibility of the EDF Group.

The Comex accepted the principle of creating a France Group Committee for which a negotiation with the trade unions will occur in 2007 and which will be put in place during the second half of 2007.

### Company's Social Liability (RSE) Agreement

The EDF RSE agreement was negotiated and executed on January 24, 2005 with the employee representatives and trade unions of all of the Group's companies and with the four international trade union federations for the industry.

This agreement provides the Group with a basis for shared commitments and common orientations, which apply to EDF and to all of the companies that it controls in accordance with the principle of subsidiarity and contributes to the long-term improvement of its performance, the construction of a Group identity, the renewal and broadening of the subjects of social dialogue

According to this agreement, an implementation report is drafted and presented each year to a special body: the Dialogue Committee on the Group's Social Responsibility. The results of the first year of implementation of the RSE agreement show that, even with the existence of very different economic, social and cultural backgrounds, the Group's companies are already respecting a good level of the Group's commitments. In addition, a social dialogue started within all companies in order to identify in a concerted way, the provisions of the local implementation and the priorities, 7 transversal matters of the Group will be subject to a deepening in the Committee in relation with the management: health and safety of matters, career, mobility and industrial reorganizations, fight against discriminations, action towards customers with a lack of financial resources, relations with subcontractors, energy efficiency and integration of disabled persons.

<sup>63</sup> The mention of "€266 million in 2005" set forth in the 2005 EDF Group's *Document de Référence* was a printing mistake which is now corrected by the €288 million amount.

### ➡ 17.7 - HEALTH AND SAFETY

The Group operates in a high-technology sector where there are risks. The health and safety of its employees and its outside subcontractors is therefore a major imperative for the business.

Prepared in October 2003, EDF's health and safety policy in France is the fruit of a wide-ranging consultation with all interested parties (management, experts, doctors, employee representatives) within the Group. It is in line with the Group's core value of respect for the individual.

The National Committee for Orientation and Monitoring made an annual review of the health and safety policy in order to ensure its implementation, to analyze the results, check the efficiency of the provisions and suggest improvements.

The plan for action and progress for 2006 focused on the following items: a better collection of information regarding industrial accidents within the Group and other participants, psycho-social risks, electrical risks, height works, work clothing care and control, first-aid and smoking.

#### Accidents at work

Over the past 10 years, EDF has made a considerable effort in prevention and training, which has allowed it to significantly reduce the rate of accidents at work which result in leave.

According to the results for 2006, and for the fifth consecutive year, EDF has a rate of less than 5.

The work injury safety ratio for 2006 remains at approximately 0.2 (number of calendar days, broken down by year, of accident-related absence (including those resulting from accidents in previous years) per thousand hours worked).

#### Asbestos

In the past, the EDF Group has, used materials and facilities containing asbestos.

The substitution of materials containing asbestos in EDF's establishments and facilities began at the end of the 1980s, and all materials containing asbestos have been treated in accordance with regulations in effect. EDF has set up information measures and arrangements for the protection of employees and subcontractors working in the company in accordance with regulations in effect.

On July 15, 1998, EDF signed an agreement (revised in June 2002) with all the trade union federations for the prevention of and compensation for exposure to asbestos. Following this agreement, EDF implemented a pre-retirement plan for workers who are recognized as suffering from a work-related illness associated with asbestos, to establish voluntary financial assistance and a pension supplement both financed by EDF and to supply corporate assistance to sick workers and their families by means of information and support during the compensation process.

See Section 20.6 ("Legal and arbitration proceedings") for a description of current procedures.

### ➡ 17.8 - REFORM OF THE PENSION SYSTEM AND THE COMPLEMENTARY HEALTHCARE BENEFITS SYSTEM

#### 17.8.1 Special pension system

The pension system for the electricity and gas industries is a special social security system. Defined within the framework of the IEG employees' status, the special system applies to all employees in the professional branch of the IEG, whether an active or retired beneficiary. It was reformed by the Law of August 9, 2004 concerning both the management and the financing of the system. The special pension system has been managed by the *Caisse Nationale des IEG* (CNIEG), since January 1, 2005. This pension and benefit management body has managed the risks of old age but from now on it will also manage the risks of accidents in the workplace, work-related illness, invalidity and death as well as the family compensation for inactive people.

Title IV of the Law of August 9, 2004 and its implementation decrees set forth the following principles regarding the financing of the special IEG pension system from January 1, 2005:

The sole pension paid by the CNIEG to each IEG retired people is financed:

- partly by the CNAVTS, the AGIRC, and the ARRCO as part of the financing agreements which provide for the affiliation conditions of the IEG special system with the standard mandatory system. The CNIEG pays to the standard mandatory systems the contributions paid by employees and employers of the IEG branch. In exchange, the CNIEG receives from standard mandatory systems, the contributions that would have been paid to the former employees (inactive) of IEG companies if they had been affiliated to the standard mandatory systems, called base systems;
- partly by a percentage of the CTA levy (*Contribution Tarifaire d'Acheminement*, or "CTA") paid on gas and electricity transmission and distribution in deduction of the sale price;
- the remainder, corresponding to specific rights in relation with the IEG complementary system for retirement, it is financed by employers.

The reform has not had any effect on the standard systems, for energy consumers, and for the French State budget.

### 17.8.2 IEG complementary healthcare benefits system

The IEG status entrusted the management of the special healthcare benefits system and the mandatory social security system solely to the employees' representatives. The system is managed by the elected representatives of the employees. It is currently managed by the 106 *Caisse Mutuelles Complémentaires et d'Action Sociale* (CAS) and the coordination committee.

The system is supervised by the French State, which ensures compliance with the statutory documents, sets out the regulations, the level of contributions and services, and draws up a list of CAS through regulatory channels.

Following the right of opposition formulated by three trade unions on January 2005 concerning a branch agreement that included some provisions on the evolution of the IEG special social security system relating to healthcare insurance, the government took regulatory measures to guarantee that refunds would continue and allow companies to avoid having to make excessive provisions in their accounts for illness commitments to retired employees (French Decrees n° 2005-126 of February 15, 2005 and n° 2005-127 of February 15, 2005).

A new branch negotiation was conducted from the beginning of March to September 2006. The objectives were to maintain and

secure the special social security system relating to healthcare insurance for active and non-active agents of the electricity and gas industries, by changing the organization, the management and the governance of the system.

A proposition transcript was transferred to the regulatory authority in September 2006 for a regulatory transposition in 2007. The publication of the regulatory decrees on the *Journal Officiel* dated March 31, 2007 allows the creation, on April 1, 2007, of a new agency in charge of the management of the special social security system relating to healthcare insurance: the CAMIEG (*Caisse d'Assurance Maladie des Industries Electriques et Gazières*). These decrees are in compliance with the employers' positions expressed in the proposition transcript dated September 2006.

The CAMIEG's organization will be known on October 1, 2007 (national structure, local representations and number of available employees). Until then, the CAS will remain the insurance subscribers' interlocutors.

In order to improve the global healthcare system of IEG employees and make it similar to the one provided by the main French industrial groups a new branch negotiation will be opened during the second quarter of 2007 to have a supplemental sickness coverage implemented in 2008. This sickness coverage, which will be compulsory for active workers and co-financed by employers, will be optional for pensioners.

## ➔ 17.9 REMUNERATION POLICY

In order to attract, encourage and develop the loyalty of the abilities that will allow EDF to face its challenges, EDF develops a policy of global remuneration, placing the company on the best practice observed in comparable lines of business.

This policy of global remuneration concerns:

- the recognition of the level of responsibility and of the achieved results: wage policy,
- the recognition of collective performance through profit sharing,
- the offer of employee savings and the contribution of the company to this saving,
- employee shareholding,
- social advantages.

### 17.9.1 Wage policy

In order to respect the economic balance and fixed budgets, the wage policy is led by the will to recognize in an equitable way, the contribution of each person to EDF's success.

For 2006 and 2007 an agreement was entered into within the IEG Branch; it provides with an average increase of at least 2% in the IEG's employees purchasing power over those two years and introduces a larger variation of individual increases. At the company level, it makes possible to reinforce the link between the contribution of each employee and its retribution by the company.

Concerning managers, the annual remuneration is completed by a variable part based on the evaluation and the recognition of individual performance: this principle has been extended to some OETAM's employees (*Ouvrier, Employé, Technicien et Agent de Maîtrise*).

For EDF, in 2006, the average annual gross remuneration was €34,102 (based on 13 months) and €23,850, €30,481, and €51,473 for the employees in the execution, technical areas, and for managers and engineers, against respectively in 2005: €23,301, €29,737 and €49,393. These data include the Retirement compensation premium amounting to 3.95 % of the principal remuneration in 2005 and to 3.35 % in 2006.

### 17.9.2 Profit-sharing

EDF has had a profit-sharing scheme for its employees for 15 years through triennial agreements. The last agreement was signed in June 2005 and covers the period from 2005 to 2007. This agreement contains specific provisions on the profit share calculation in the event that EDF were to benefit, by decision of the public authorities, from the generally applicable profit-sharing regime. It provides for, in particular, a more moderate profit share to be paid in such a case.

According to this agreement, €105 million (corresponding to 2.96% of the payroll) were paid to EDF and RTE-EDF Transport's employees in 2006 for the 2005 financial year.



For each beneficiary, profit-sharing is composed of three parts based on criteria and objectives negotiated within its unit, its division, and the EDF group. The joint employees of EDF and Gaz de France benefit from profit-sharing according to the time they spend in each company.

Employees can choose either to receive payment, or put it in the Group's savings plan, or put it in a time saving account.

Pursuant to article L. 444-12 of the French labor code, the Board of Directors decided to grant an additional collective profit-sharing in relation to the 2006 financial year. That amount will be shared under the terms and conditions of EDF's profit-sharing agreement and if the money is invested in a savings plan, the employer's contribution will be attributed under the same terms and conditions as the profit-sharing. An amount of €100 million was provisioned accordingly. Payment will take place during the month of May 2007.

### 17.9.3 Group Corporate Savings Plan

The Group set up a Group Corporate Savings Plan (*Plan d'Épargne Groupe*, or "PEG") with effect as of February 1, 2005. This Group Corporate Savings Plan is open to employees of EDF and of the Group's French companies in which EDF owns directly or indirectly at least 40% of the share capital and which have signed up to the Group Corporate Savings Plan. No more payments may be made into the former EDF corporate savings plan.

Five mutual funds, including the EDF shares mutual fund (FCPE), are open to subscriptions by the EDF and RTE-EDF Transport's employees and totaled an amount outstanding of €4.4 billion by the end of 2006.

For the 2005, 2006 and 2007 financial years, EDF employees will benefit from the same rules relating to employer contributions as those that were applicable to the former plans. The amounts from profit-sharing that the employees allocate to the Group Corporate Savings Plan are increased by 100% and voluntary payments are increased by 60% up to €610 and by 35% for the next €610, up to an annual upper limit per employee set at €2,575.

For the 2006 financial year, EDF and RTE-EDF Transport contributed a total gross amount of €98 million.

### 17.9.4 Participation of employees in the company's results

At the registration date of this *Document de Référence*, EDF has not set up any participation scheme, insofar as it is not shown on the list of state-owned companies where participation of employees in the company's results is compulsory.

### 17.9.5 Time savings account (Compte-Épargne Temps, or "CET")

In the framework of the social agenda, a negotiation on CET should open in 2007 in order to adapt EDF's current provisions in accordance with Fillon law n° 2005-296, of March 31, 2005 and to examine the opportunities given by this law regarding the use of CET (monetization).

At the end of 2006, the amount of the hours saved in the time savings account by the EDF and RTE-EDF Transport's employees who held a CET reached €289 million.

### 17.9.6 Employee shareholding

At the time of the opening of EDF's share capital and, in particular, in the framework of the offer reserved to employees, in accordance with law n° 2004-803 of August 9, 2004 and law n° 86-912 August 6, 1986, 130,000 employees and retired persons of the Group became shareholders of the Company. The initial subscription demand accounted for 19.6% of the total offering, above the upper limit of 15% provided by the law. 83% of the subscriptions were fully satisfied.

After settlement and delivery of the shares on January 30, 2006, employees and retired person of the Group now hold over 34.5 million shares of the Company, which corresponds to 1.90% of the Group's share capital and 15% of the float. Most of the shares held by employees (89%) are held as part of the Group's corporate savings plan, and are thus frozen for a 5-year period.

In France, 75% of EDF's employees and 57% of the employees of EDF and Gaz de France joint services (who already benefited from the Gaz de France offer in June 2005) became shareholders. In the relevant European subsidiaries, in particular in the United Kingdom, Poland, and Hungary, the subscription rate reached 50%, showing a strong attachment to the EDF Group.

### 17.9.7 Stock options

None.

### 17.9.8 Free grants of shares

The Board of Directors of February 20, 2007 decided to suggest to the Ordinary and Extraordinary shareholders' meeting of May 24, 2007, to vote a resolution granting a delegation to the Board of Directors for a period of 12 months in order to proceed to the granting of free Company's ordinary shares, within a limit of 0.2% of the share capital, to employees or directors, or some of them, of the Company or related companies or groups pursuant to article L. 225-197-2 of the French Commercial Code.

<b>18.1</b>	<b>BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS</b>	<b>185</b>
<b>18.2</b>	<b>MARKET OF THE COMPANY'S SHARES</b>	<b>185</b>
<b>18.3</b>	<b>AGREEMENT WHICH COULD LEAD TO A CHANGE OF CONTROL</b>	<b>186</b>

## ➔ 18.1 - BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

As of January 3, 2007, the breakdown of EDF's share capital was as follows:

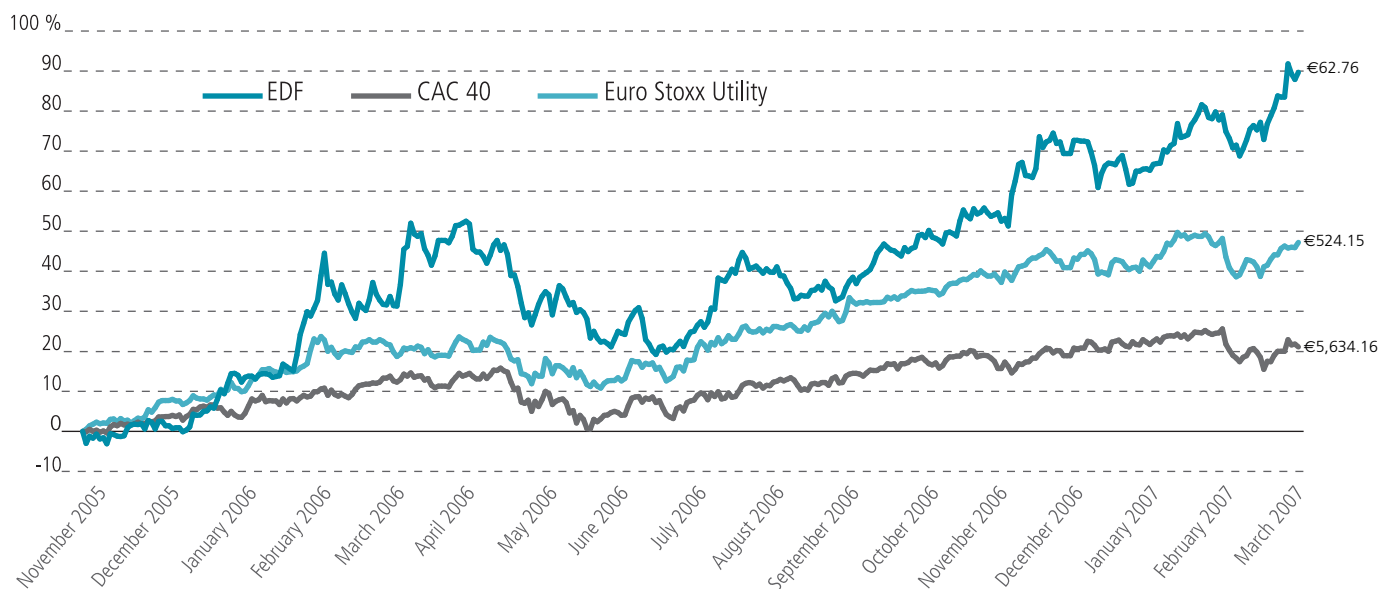
As of 03/01/2007	Number of Shares and Voting Rights	%
French State	1,591,146,279	87.3
Public (institutions and investors)	196,403,559	10.8
EDF Employees	34,621,252 <sup>(1)</sup>	1.9
<b>TOTAL</b>	<b>1,822,171,090</b>	<b>100</b>

(1) Including 28,056,409 shares of the mutual fund (FCPE) "EDF Shares" ("Actions EDF") of the EDF Group savings plan and EDF Group International savings plan.

## ➔ 18.2 - MARKET OF THE COMPANY'S SHARES

Since November 21, 2005, EDF shares are listed on Eurolist by Euronext Paris SA.

The following graphic sets forth the development of the trading price of the Company's shares since that date until March 30, 2007 inclusively.



## Major shareholders

The table hereunder sets forth the development of the Company's share market price from January 2006 until March 30, 2007, inclusively:

Listing period	Transactions		Closing market price (€)	
	In millions of Securities	In millions of Euros <sup>(1)</sup>	Highest	Lowest
January 2006	36.8	1,292.3	36.65	32.10
February 2006	49.6	2,021.1	46.24	36.32
March 2006	41.4	1,804.2	46.80	41.01
April 2006	36.0	1,705.8	48.80	45.27
May 2006	31.7	1,387.8	47.28	40.50
June 2006	33.8	1,369.3	43.65	38.75
July 2006	26.7	1,051.3	41.88	38.13
August 2006	27.1	1,198.1	46.30	40.72
September 2006	24.5	1,060.6	44.33	42.44
October 2006	23.0	1,067.9	48.05	44.31
November 2006	21.2	1,033.1	49.87	46.99
December 2006	52.3	2,781.5	55.85	50.95
January 2007	28.8	1,526.1	55.15	51.50
February 2007	24.4	1,375.6	58.10	54.35
March 2007 <sup>(2)</sup>	28.4	1,640.6	62.76	54.03

(1) Transactions in millions of Euros correspond to the monthly sum of the daily number of exchanged securities multiplied by the market closing price of that same day.

(2) Until March 30, 2007 closing date.

(Source : Reuters)

Throughout 2006, EDF's share market price increased by 73%, while the French index CAC 40 progressed 18% and the Euro Stoxx Utility increased by 35%.

By December 31, 2006, the closing market price of the EDF share was of €55.20 (against €31.98 on December 31, 2005). Its lowest closing market price during this period was €32.10 on January 2, 2006 and its highest closing market price was €55.85 on December 19, 2006. On December 31, 2006, EDF's market capitalization amounted to €100.6 billion.

## 18.3 - AGREEMENT WHICH COULD LEAD TO A CHANGE OF CONTROL

To EDF's knowledge, there is no agreement which could later lead to a change of control.

<b>19.1</b>	<b>RELATIONSHIPS WITH THE FRENCH STATE</b>	<b>187</b>
<b>19.2</b>	<b>RELATIONSHIPS WITH GAZ DE FRANCE</b>	<b>188</b>
<b>19.3</b>	<b>RELATIONSHIPS WITH THE AREVA GROUP</b>	<b>188</b>
<b>19.4</b>	<b>RELATIONSHIPS WITH GROUP ENTITIES WITHIN THE SCOPE OF CONSOLIDATION</b>	<b>188</b>

Apart from the information presented below, the details of the transactions concluded by the Company with related parties for the 2006 financial year is mentioned in note 35 to the consolidated financial statements for the year ended December 31, 2006.

## ➔ 19.1 - RELATIONSHIPS WITH THE FRENCH STATE

As of January 3, 2007, the French State held 87.3% of the share capital and voting rights of EDF. As mentioned in Section 4.2.4 ("Risks relating to the structure and changes within the Group") above, modifications to the share capital may not have the effect of reducing the shareholding of the French State to less than the threshold of 70%.

The French State is thus entitled, as any majority shareholder, to control Company decisions requiring the shareholders' approval. In particular, the French State, as the majority shareholder, can in practice influence the result of the shareholders' vote in electing directors and more generally in any question which is subject to the shareholders' vote.

The French Government Shareholding Agency (*Agence des Participations de l'Etat*, or "APE"), created by the French Decree n° 2004-963 of September 9, 2004, exercises the duties of the French State in its capacity as shareholder in the Company, and, as such, suggests and implements the decisions and orientations of the French State in cooperation with all of the ministries involved.

In accordance with the legislation applicable to all companies of which the French State is the majority shareholder, EDF may be subject to certain French State inspection procedures, in particular through an economic and financial inspection assignment, pursuant to the French Decree n° 55-733 of May 26, 1955 relating to the economic and financial verification by the French State, and of the French Decree n° 53-707 of August 9, 1953 relating to French State inspection of national public companies and certain entities with an economic or social purpose.

An agreement on the monitoring of external growth investments of the EDF Group entered into between the French State and the EDF Group on July 27, 2001, imposes procedures with respect to the French State's approval and information (prior or otherwise) for certain Group equity participation, extension or disposal projects. The agreement also implemented a procedure for monitoring the results of these external growth transactions.

EDF is also subject to auditing procedures of the French Court of Auditors (*Cour des Comptes*) and of the French Parliament. Thus, in addition to the examination carried out by the two auditors, the accounts and the administrative management of the Company and, as appropriate, that of its direct majority subsidiaries, come under the jurisdiction of the French Court of Auditors in accordance with

Articles L. 111-4, L. 133-1 and L. 133-2 of the French Code of Financial Jurisdictions (*Code des Juridictions Financières*). Thus, after examining the accounts, the French Court of Auditors may also request the communication of all documents necessary for accomplishing its auditing mission, and hear any person of its choosing. Finally, the French Statutory Decree of October 30, 1935 organizing the French State's inspection of companies, trade unions and associations or companies of any nature that have received the financial support of the French State, allows the minister in charge of the economy to subject EDF to the verifications of the general finance inspection ("*Inspection générale des Finances*").

Moreover, the sale of EDF shares by the French State or the dilution of the French State's shareholding in the share capital of EDF is subject to a special procedure pursuant to the applicable regulations, and in particular to the French laws n° 86-793 of July 2, 1986, n° 86-912 of August 6, 1986 and n° 93-923 of July 19, 1993. Finally, like other electricity generators, EDF participates in the multi-year generation investment program decided by the Minister of Energy. This programming sets, in particular, the objectives with regards to the allocation of generation capacities per primary energy source. For more details on the multi-year programming of generation investments, see Section 6.5.1.2 ("French legislation") above.

On October 24, 2005, the French State and EDF entered into a contract dealing with the public service commitments assigned to EDF (see Section 6.5.1.2 ("French legislation") above).

The French State also intervenes within the framework of the regulation of the electricity and gas markets (see Section 6.5.1.2 ("French legislation") above), in particular, for authorizations for planning and operating generation installations and for certificates awarding the right to a purchase obligation, for establishment of tariffs for sale to non-eligible customers, for the establishment of tariffs for transmission and distribution as well as for the amount of the Contribution to the public service charges for electricity (*Contribution aux Charges du Service Public de l'Electricité*, or "CSPE").

Finally, EDF supplies electricity to various public sector entities: government services, local authorities and public sector companies. These entities are today eligible customers for which EDF competes with other electricity suppliers. Some of them have exercised their right of eligibility and changed suppliers.

### ➡ 19.2 - RELATIONSHIPS WITH GAZ DE FRANCE

EDF and Gaz de France were created in the form of EPICs pursuant to the French law of April 8, 1946. Article 5 of this law provided that special conventions could be entered into between the two public companies for the organization of joint services or the transfer to one of these two companies of these services, that are normally within the domain of the other. Pursuant to this law, joint entities have been created within EDF and Gaz de France: the Distribution Division that became EDF GDF Services, the Personnel and Social Relations Division (*Direction du Personnel et des Relations Sociales*, or "DPRS") which became the National Centre for Assessment and Professional relations ("CNERP") and the Information Technology and Telecommunications Division (*Direction Informatique et Télécommunications*, or "DIT").

The Law of August 9, 2004 modified Article 5 of the French law of 1946, which henceforth provides that EDF and Gaz de France, both majority-owned by the French State, were entitled to create joint services by contract. The creation of such services is compulsory in the distribution sector for:

- the building of infrastructures;
- acting as main contractor for works;
- the operation and maintenance of networks;
- meter reading operations; and
- generally, other missions relating to these activities.

The common services thus created may also provide services on behalf of certain other distributors.

Article 27 of the law of December 7, 2006 concerning the energy sector imposed the creation of a common service to the two subsidiaries, respectively in charge of electricity and gas distribution, with no legal personality.

Finally, the costs relating to the activities falling within the scope of each of the companies are identified in the accounting of the common services, thus respecting the principle of accounting separation which applies to these companies. The costs relating to these services are divided according to a formula, which differs for each such service.

Within this framework, EDF and Gaz de France have the following main services with mixed personnel:

- "EDF Gaz de France Distribution", the common distribution service. The supervision of the management of the electricity distribution network is subject to specific provisions in the Company's by-laws. For more details regarding the organization of this common service and the description of these statutory provisions between EDF and Gaz de France, see Section 6.2.2.2.3 "Organization" below;
- The National Centre for Assessment and Professional relations, which combines the joint expertise with regards to the personnel management of EDF and Gaz de France (employment status of the Electricity and Gas Industries or "IEG" status and its implementing legislation); and
- The DIT, a mixed entity with responsibility for certain information systems.

With respect to the creation of the common distribution operator, "EDF Gaz de France Distribution", the two Chairmen of both EDF and Gaz de France signed on October 7, 2004 a contract relating to the governance of the common operator (see Section 6.2.2.2.3 ("Organization")).

Regarding the cooperation between EDF and Gaz de France with respect to the DIT, a partnership agreement was signed on July 1, 2004 in order to specify the nature of the activities and the governance methods of this common body.

### ➡ 19.3 - RELATIONSHIPS WITH THE AREVA GROUP

See Section 4.3 ("Dependency factor").

### ➡ 19.4 - RELATIONSHIPS WITH GROUP ENTITIES WITHIN THE SCOPE OF CONSOLIDATION

EDF has entered into various commercial contracts with its subsidiaries and affiliates. EDF and EnBW, in particular, entered into a cooperation agreement in 2001, which provides for the methods of cooperation between the two companies. This contract was entered into for an unlimited duration, and cannot be terminated before 2006.

EDF has also entered into cash flow agreements with controlled operating subsidiaries (i.e., excluding Edison, EnBW and Dalkia, see Chapter 7 ("Organizational Structure — Contracts within the Group")). EDF has also granted guarantees to some of its subsidiaries

that are mentioned in the Group's consolidated off-balance sheet commitments.

EDF and RTE-EDF Transport have entered into agreements as regard their technical and financial relationships.

The agreements entered into with companies that are proportionally consolidated and with companies that are consolidated under the equity method relate in particular to the sale and purchase of energy.

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## ➔ 20.1 - HISTORICAL FINANCIAL INFORMATION

Pursuant to article 28 of the European Commission Regulation 809/2004 of April 29, 2004, the following information is included by reference in the present *Document de Référence*:

- the consolidated financial statements at December 31, 2005, prepared under international accounting standards, as well as the associated statutory auditors' report, which are mentioned in Section 20.1 (pages 213 to 308) and 20.2 (page 309) of EDF's 2005 *Document de Référence*,

- the consolidated financial statements of the Group at December 31, 2004, prepared under French accounting standards, as well as the associated statutory auditors report, which are mentioned in Section 5.9 (pages 388 to 477) of the Group's registration document (*Document de Base*).

The consolidated financial statements at December 31, 2006 (established under IAS-IFRS standards) are set forth below.



# **CONSOLIDATED FINANCIAL STATEMENTS**

**AT DECEMBER 31, 2006**



# Consolidated financial statements

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## Consolidated income statements

(in millions of euros)

	Notes	2006	2005 <sup>(1)</sup>
Sales	8	58,932	51,047
Fuel and energy purchases	9	(23,949)	(17,775)
Other external expenses	10	(8,721)	(8,229)
Personnel expenses	12	(9,709)	(9,834)
Taxes other than income taxes		(3,175)	(3,095)
Other operating income and expenses	13	552	792
<b>Operating profit before depreciation and amortization</b>		<b>13,930</b>	<b>12,906</b>
Net depreciation and amortization		(5,363)	(5,017)
(Impairments) / reversals	14	121	(147)
Other income and expenses	15	668	251
<b>Operating profit</b>		<b>9,356</b>	<b>7,993</b>
Cost of gross financial indebtedness	16.1	(1,606)	(1,472)
Discount expense	16.2	(2,530)	(2,526)
Other financial income and expenses	16.3	1,435	583
<b>Financial result</b>	16	<b>(2,701)</b>	<b>(3,415)</b>
<b>Income before taxes of consolidated companies</b>		<b>6,655</b>	<b>4,578</b>
Income taxes	17	(1,146)	(1,445)
Share in income of companies accounted for under the equity method	21	263	190
Net income from discontinued operations		5	-
<b>Group net income</b>		<b>5,777</b>	<b>3,323</b>
Minority interests		172	93
<b>EDF net income</b>		<b>5,605</b>	<b>3,230</b>
Earnings per share in euros:			
<b>Net earnings per share in euros</b>	28.4	<b>3.08</b>	<b>1.96</b>
<b>Diluted earnings per share in euros</b>	28.4	<b>3.07</b>	<b>1.96</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of retrospective application of IFRIC 4 and of certain income statement reclassifications (see note 4).

Standards IAS 32 and 39 on financial instruments are applied from January 1, 2005 (see note 38).

## Consolidated balance sheets

<b>ASSETS</b> (in millions of euros)	<b>Notes</b>	<b>12.31.2006</b>	<b>12.31.2005 <sup>(1)</sup></b>
Goodwill	18	7,123	7,181
Other intangible assets	19	2,100	1,886
Property, plant and equipment	20	103,881	101,667
Investments in companies accounted for under the equity method	21	2,459	2,030
Non-current financial assets	22	13,094	9,012
Deferred tax assets	17	2,167	1,748
<b>Non-current assets</b>		<b>130,824</b>	<b>123,524</b>
Inventories, including work-in-process	23	7,431	6,695
Trade receivables	24	15,716	16,107
Current financial assets	22	17,010	11,966
Current tax assets	17	431	275
Other receivables	25	4,226	4,621
Cash and cash equivalents	26	3,308	7,220
<b>Current assets</b>		<b>48,122</b>	<b>46,884</b>
<b>Assets classified as held for sale</b>	27	<b>140</b>	<b>728</b>
<b>TOTAL ASSETS</b>		<b>179,086</b>	<b>171,136</b>

<b>EQUITY AND LIABILITIES</b> (in millions of euros)	<b>Notes</b>	<b>12.31.2006</b>	<b>12.31.2005 <sup>(1)</sup></b>
Capital	28	911	911
Consolidated reserves and income		22,398	18,402
<b>Equity (EDF share)</b>		<b>23,309</b>	<b>19,313</b>
Minority interests		1,490	961
<b>Total Equity</b>		<b>24,799</b>	<b>20,274</b>
Provisions for end of nuclear fuel cycle	29.2	14,636	13,918
Provisions for decommissioning and for last cores	29.3	13,606	12,907
Provisions for employee benefits	29.5	12,377	12,971
Other provisions	29.6	2,505	2,178
<b>Non-current provisions</b>	29.1	<b>43,124</b>	<b>41,974</b>
Special concession liabilities	30	36,227	34,907
Non-current financial liabilities	31.1	19,983	23,511
Other liabilities	33	5,385	5,971
Deferred tax liabilities	17	4,646	4,567
<b>Non-current liabilities</b>		<b>109,365</b>	<b>110,930</b>
Provisions	29.1	4,018	4,075
Trade payables and other current liabilities payable		9,457	8,872
Current financial liabilities	31.1	15,110	11,933
Current tax liabilities		621	491
Other liabilities	33	15,600	13,969
<b>Current liabilities</b>		<b>44,806</b>	<b>39,340</b>
<b>Liabilities related to assets classified as held for sale</b>	27	<b>116</b>	<b>592</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>179,086</b>	<b>171,136</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of retrospective application of IFRIC 4 (see note 4).

Standards IAS 32 and 39 on financial instruments are applied from January 1, 2005 (see note 38).



## Consolidated cash flow statements

(in millions of euros)

	2006	2005 <sup>(1)</sup>
<b>Operating activities:</b>		
<b>Income before tax from consolidated companies</b>	<b>6,655</b>	<b>4,578</b>
Impairments	(121)	147
Accumulated depreciation and amortization, provisions and change in fair value	7,459	6,657
Financial income and expenses	789	1,108
Dividends received from companies accounted for under the equity method	92	90
Capital gains/losses	(789)	(487)
Other income and expenses without effect on cash	-	329
Change in working capital	654	1,371
<b>Net cash flow from operations</b>	<b>14,739</b>	<b>13,793</b>
Net financial expenses disbursed	(931)	(1,143)
Income taxes paid	(1,462)	(392)
Payment related to the pension reform	-	(3,296)
Payment related to the dismantling of the Marcoule site	(551)	(523)
<b>Net cash flow from operating activities</b>	<b>11,795</b>	<b>8,439</b>
<b>Investing activities:</b>		
Acquisition of companies, net of cash acquired	691	(2,951)
Purchases of property, plant and equipment and intangible assets	(5,935)	(5,168)
Net proceeds from sale of property, plant and equipment and intangible assets	272	392
Changes in financial assets	(8,797)	(2,894)
<b>Net cash flow used in investing activities</b>	<b>(13,769)</b>	<b>(10,621)</b>
<b>Financing activities:</b>		
Issuance of borrowings	3,686	2,810
Repayment of borrowings	(4,254)	(3,247)
Dividends paid by parent company	(1,439)	(374)
Dividends paid to minority interests	(93)	(54)
Capital increase subscribed by minority interests	24	27
Increase in special concession liabilities	219	196
Investment subsidies	63	70
Capital increase subscribed EDF SA	-	6,350
Other	-	(223)
<b>Net cash flow from financing activities</b>	<b>(1,794)</b>	<b>5,555</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(3,768)</b>	<b>3,373</b>
<b>Cash and cash equivalents - opening balance</b>	<b>7,220</b>	<b>3,150</b>
Effect of currency fluctuations	(3)	84
Reclassifications upon application of IAS 32 and 39	-	670
Financial income on cash and cash equivalents	76	56
Effect of other reclassifications	(217)	(113)
<b>CASH AND CASH EQUIVALENTS - CLOSING BALANCE</b>	<b>3,308</b>	<b>7,220</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of retrospective application of IFRIC 4 (see note 4).

Standards IAS 32 and 39 on financial instruments are applied from January 1, 2005 (see note 38).

## Changes in consolidated equity

(in millions of euros)

	Capital	Consolidated reserves and net income	Treasury shares	Translation adjustments	Impact of restatement to fair value of financial instruments	Equity (EDF share)	Minority interests	Total Equity
<b>Equity at December 31, 2004</b>	<b>8,129</b>	<b>233</b>	<b>-</b>	<b>74</b>	<b>-</b>	<b>8,436</b>	<b>899</b>	<b>9,335</b>
Restatements for application of IAS 32 and 39 <sup>(2)</sup>	-	366	-	(4)	274	636	(2)	634
Restatements for application of IFRIC 4 <sup>(1)</sup>	-	152	-	(10)	-	142	(2)	140
<b>Equity at January 1, 2005<sup>(1)</sup></b>	<b>8,129</b>	<b>751</b>	<b>-</b>	<b>60</b>	<b>274</b>	<b>9,214</b>	<b>895</b>	<b>10,109</b>
Changes in the fair value of available-for-sale financial assets <sup>(2)</sup>	-	-	-	-	468	468	1	469
Changes in the fair value of hedging instruments <sup>(2)</sup>	-	-	-	-	183	183	10	193
Translation adjustments	-	-	-	(99)	82	(17)	6	(11)
"Employees offering" <sup>(5)</sup>	-	329	-	-	-	329	-	329
Other changes	-	37	-	26	9	72	10	82
<b>Changes directly recorded in equity</b>	<b>-</b>	<b>366</b>	<b>-</b>	<b>(73)</b>	<b>742</b>	<b>1,035</b>	<b>27</b>	<b>1,062</b>
Capital reduction <sup>(3)</sup>	(7,316)	7,316	-	-	-	-	-	-
Capital increase <sup>(4)</sup>	98	6,110	-	-	-	6,208	-	6,208
Net income	-	3,230	-	-	-	3,230	93	3,323
Dividends paid	-	(374)	-	-	-	(374)	(54)	(428)
<b>Equity at December 31, 2005<sup>(1)</sup></b>	<b>911</b>	<b>17,399</b>	<b>-</b>	<b>(13)</b>	<b>1,016</b>	<b>19,313</b>	<b>961</b>	<b>20,274</b>
Changes in the fair value of available-for-sale financial assets <sup>(2)</sup>	-	-	-	-	516	516	1	517
Changes in the fair value of hedging instruments <sup>(2)</sup>	-	-	-	-	(1,131)	(1,131)	-	(1,131)
Repurchase of treasury shares	-	-	(74)	-	-	(74)	-	(74)
Sales of treasury shares	-	-	74	-	-	74	-	74
Translation adjustments	-	-	-	63	(9)	54	(3)	51
Other changes <sup>(6)</sup>	-	211	-	260	(80)	391	452	843
<b>Changes directly recorded in equity</b>	<b>-</b>	<b>211</b>	<b>-</b>	<b>323</b>	<b>(704)</b>	<b>(170)</b>	<b>450</b>	<b>280</b>
Net income	-	5,605	-	-	-	5,605	172	5,777
Dividends paid	-	(1,439)	-	-	-	(1,439)	(93)	(1,532)
<b>EQUITY AT DECEMBER 31, 2006</b>	<b>911</b>	<b>21,776</b>	<b>-</b>	<b>310</b>	<b>312</b>	<b>23,309</b>	<b>1,490</b>	<b>24,799</b>

(1) The figures published for 2005 have been adjusted to reflect the effects of retrospective application of IFRIC 4 (see note 4).

(2) These changes relate to the application of IAS 32 and 39 as of January 1, 2005, and correspond to the effects of fair value measurement. The €(1,131) million change at December 31, 2006 primarily results from the fall in prices on the energy markets at the end of the year, which led to negative adjustments to fair value on gas and electricity contracts documented as hedges, mainly in the United Kingdom.

(3) The EDF SA's Board of Directors' meeting of October 27, 2005 decided to reduce the capital by €7,316 million and to increase the reserves by an equivalent amount.

(4) On November 18, 2005, EDF SA increased its capital by an initial public offering of 187,869,028 shares with nominal value of €0.50, i.e. a total of €94 million, through a guaranteed global placement with institutional investors in and outside France, and with private investors in Japan, and an open price offer to private investors in France.

On December 20, 2005, following partial exercise by the banks of the over-allotment option, EDF SA increased its capital by 8,502,062 shares with nominal value of €0.50 each, i.e. a total of €4.2 million. The share capital amounts to €911 million after this operation. The proceeds from these subscriptions had an impact of €6,208 million on equity, corresponding to a €6,350 million increase in share capital, less related expenses of €142 million net of taxes.

(5) See notes 5.2.4 and 12.

(6) Other changes in equity during 2006 include the deconsolidation of translation adjustments related to the Light Group (€258 million), and the revaluation of identifiable assets of EDF Energies Nouvelles (€86 million) following acquisition of exclusive control over the company (see note 6.1). The change in minority interests essentially results from this takeover of EDF Energies Nouvelles (€462 million).

## Notes

*Electricité de France S.A. (EDF SA or the "Company")* is a French *société anonyme* governed by French Law, and registered in France.

The Company's consolidated financial statements include the accounts of the Company and its subsidiaries, and the Group's share in the results of joint ventures or associates (all collectively referred to as the "Group").

The Group is an integrated energy company engaged in all types of energy business: generation, transmission, distribution, supply and trading of energies.

The Group's consolidated financial statements at December 31, 2006 were prepared under the responsibility of the Board of Directors and approved by the Directors at the Board meeting held on February 20, 2007. They will become final after approval at the general shareholders' meeting to be held on May 24, 2007.

### Note

### 1

### Group accounting policies

## ➔ 1.1 - DECLARATION OF CONFORMITY AND GROUP ACCOUNTING POLICIES

Pursuant to European regulation 1606/2002 of July 19, 2002 on the adoption of international accounting standards, the Group's consolidated financial statements for the year ended December 31, 2006 are prepared under the international accounting standards published by the IASB and approved by the European Union for application at December 31, 2006. These international standards are IAS (International Accounting Standards), IFRS (International Financial Reporting Standards), and interpretations (SIC and IFRIC).

The financial statements for 2006 contain comparative information for the financial year 2005 prepared on the same basis.

The financial information at December 31, 2005 has been restated to reflect the retrospective application of interpretation IFRIC 4 (see notes 1.2 and 4.2), and changes in presentation (see note 4).

## ➔ 1.2 - CHANGES IN ACCOUNTING METHODS AT JANUARY 1, 2006

The accounting and valuation methods applied by the Group in these consolidated financial statements at December 31, 2006 are identical to those used in the consolidated financial statements for the year ended December 31, 2005, except for the following standards, amendments and interpretations which became mandatory from January 1, 2006:

- IFRIC 4, "Determining whether an arrangement contains a lease": this interpretation presents the circumstances in which arrangements that do not have the legal form of a lease contract must nevertheless be recognized as such, in accordance with IAS 17.
- Amendment to IAS 19, "Employee benefits": this amendment prescribes additional disclosures and introduces an option allowing actuarial gains and losses on defined-benefit plans to be included directly in equity. The Group has decided not to apply this option.
- Amendment to IAS 21, "The effects of changes in foreign exchange rates – Net investment in a foreign operation": this amendment states that foreign exchange differences generated by monetary items that are part of a net investment in a foreign operation and are denominated in a currency that is not the functional currency of either the reporting entity or the foreign operation must be reclassified as equity.
- Amendment to IAS 39, "Financial instruments: recognition and measurement – Cash flow hedges of forecast intragroup transactions": under this amendment, it is now possible in the consolidated financial statements to designate a highly probable forecast intragroup transaction in a foreign currency as an item hedged against foreign exchange risks in a cash flow hedge, provided this transaction is denominated in a currency other than the entity's functional currency and will affect the income statement.
- Amendments to standards IAS 39 and IFRS 4 concerning financial guarantee contracts, which stipulate that financial guarantee contracts come under the scope of IAS 39.
- IFRS 6, "Exploration for and evaluation of mineral resources", in conjunction with revised IFRS 1: this standard prescribes the recognition and measurement methods applicable for expenses incurred by entities in exploring for and evaluating mineral resources, after receiving legal authorization for exploration in a specific zone but before demonstrating the technical feasibility and the commercial viability of extraction.

- IFRIC 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds": this interpretation explains how a contributor should account for its interest in a fund and its subsequent contributions to that fund. Given the current context for financing its decommissioning obligations, this interpretation does not affect the Group's consolidated financial statements.
- IFRIC 6, "Liabilities arising from participating in a specific market - waste electrical and electronic equipment": the Group's businesses are not concerned by this standard.

With the exception of IFRIC 4, whose impacts are presented in note 4.2, these changes have no significant effect on the financial information reported.

The Group did not opt for early application of the following standards, amendments and interpretations adopted by the European Union at December 31, 2006:

- Amendment to IAS 1, "Presentation of financial statements – capital disclosures";

- IFRS 7, "Financial instruments: disclosures": this standard introduces new requirements for disclosures on financial instruments;
- IFRIC 7, "Applying the restatement approach under IAS 29: financial reporting in hyperinflationary economies";
- IFRIC 8, "Scope of IFRS 2, Share-based payment";
- IFRIC 9, "Reassessment of embedded derivatives".

The Group has not opted for early application of the following standards, amendments and interpretations likely to be endorsed for application by the European Union in 2007:

- IFRS 8, "Operating segments";
- IFRIC 10, "Interim Financial Reporting and Impairment";
- IFRIC 11, "Group and Treasury Share Transactions";
- and IFRIC 12, "Service Concession Arrangements" (see notes 2.12 and 3 for information on the accounting method applied for concessions).

The potential impact of all of these standards, amendments and interpretations is currently being evaluated.

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The following accounting methods have been applied consistently through all the periods presented in the consolidated financial statements.

## ➔ 2.1 - VALUATION

The consolidated financial statements are based on historical cost valuation, with the exception of certain financial instruments and available-for-sale financial assets, which are stated at fair value.

The methods used to determine the fair value of these instruments are presented in note 2.15.

## ➔ 2.2 - MANAGEMENT JUDGMENT AND ESTIMATES

The preparation of the financial statements requires the use of judgments, best estimates and assumptions in determining the value of assets and liabilities, income and expenses recorded for the period, and positive and negative contingencies at the year-end. The figures in future financial statements may differ from current estimates due to changes in these assumptions or economic conditions.

The principal sensitive accounting methods involving use of estimates and judgments are described below. Given their importance in the EDF Group's financial statements, the impact of any change in assumption in these areas could be significant.

### 2.2.1 Nuclear provisions

The measurement of provisions for end of nuclear fuel cycle, decommissioning and last cores is sensitive to assumptions concerning costs, inflation rate, long-term discount rate, and disbursement schedules. A revised estimate is therefore established at each closing date to ensure that the amounts accrued correspond to the best estimate of the costs eventually to be borne by the Group. Any significant differences resulting from these revised estimates could entail changes in the amounts accrued.

Nuclear provisions amounted to €28,713 million at December 31, 2006.

A change in the discount rate would be considered as a change in estimate in the same way as a change in disbursement schedule or contractor's quote, and the impacts would be recognized as follows:

- in the corresponding assets when the provision was initially covered by balance sheet assets,
- in the income statement in all other cases.

Such a change could have a significant impact on the consolidated financial statements.

### 2.2.2 Pensions and other long-term and post-employment benefits

The measurement of pensions and other long-term and post-employment benefits is based on actuarial valuations that are particularly sensitive to assumptions concerning discount rates and wage increase rates.

The corresponding provisions amounted to €13,928 million at December 31, 2006.

### 2.2.3 Impairment of goodwill and long-term assets

Impairment tests on goodwill and long-term assets are sensitive to the macro-economic and segment assumptions used, and medium-term financial forecasts. The Group therefore revises the underlying estimates and assumptions based on regularly updated information.

The net value of goodwill on subsidiaries and joint ventures was €7,123 million at December 31, 2006.

### 2.2.4 Financial instruments

In measuring the fair value of unlisted financial instruments (essentially energy contracts), the Group uses valuation models involving a certain number of assumptions subject to uncertainty. Any change in those assumptions could have a significant impact on the financial statements.

### 2.2.5 Energy and Delivery not yet metered

As explained in note 2.7, the quantities of energy delivered but not yet measured nor billed are calculated at the reporting date based on consumption statistics and selling price estimates. These statistics and estimates are sensitive to the assumptions used in determining the portion of sales not billed at the closing date.

### 2.2.6 Valuation of obligations concerning French public distribution concession assets to be replaced

As mentioned in note 3, the Group has continued to apply the same accounting treatments as previously. In view of the specific nature of French public distribution concession contracts, the Group has opted to present its obligation to renew property, plant and equipment in the balance sheet at a value consisting of the amount of contractual agreements as calculated and disclosed to the grantors in the annual business reports. An alternative approach would be to value the obligations based on the discounted value of future payments necessary for replacement of these assets at the end of their industrial useful life. The impacts this alternative approach would have had on the accounts are shown in note 3 for information. Whatever valuation method is used, measurement of the concession liability concerning assets to be replaced is notably subject to uncertainty in terms of cost and disbursement dates.

### 2.2.7 Transition tariff (*Tarif réglementé transitoire d'ajustement de marché* or Tartam)

To assess the contribution payable by the Group during the two years concerned by the transition tariff defined in the French law of December 7, 2006, various assumptions have been used based on the best available information and forecasts, particularly regarding the numbers of customers applying to benefit from this tariff, developments in electricity market prices and the share of the compensation to be financed by the Contribution to the Public Electricity Service (*Contribution au Service Public de l'Électricité* or CSPE).

Based on these assumptions, the provision recorded for the entire period of application of this transition tariff amounts to €470 million at December 31, 2006 (see note 5.1.1.4).

### 2.2.8 Other management judgments

The use of estimates and assumptions is also particularly important in measuring the amounts of the *Contribution to the Public Electricity Service* (CSPE) receivable for the year, and in the recognition of deferred tax assets.



## ➔ 2.3 - CONSOLIDATION METHODS

Subsidiaries are companies in which the Group has exclusive control and 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 benefit from its activities. Exclusive control is presumed when EDF directly or indirectly holds more than 50% of the voting rights. Voting rights that are potentially exercisable at the closing date, even by another party, are taken into consideration in determining the level of control over a subsidiary.

Joint ventures are companies that the Group jointly controls, and are proportionally consolidated on the basis of the Group's percentage interest. 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 their mutual agreement.

Associates are companies in which the Group exercises significant influence on the financial and operating policies without controlling

the company. The Group is considered to exercise significant influence when it holds at least 20% of the consolidated company. Associates are accounted for under the equity method. They are carried in the balance sheet at historical cost adjusted for the share of net assets generated after acquisition, less any impairment. The Group's share in net income for the period is reported under the income statement heading "Share in income of companies accounted for under the equity method".

The results of companies acquired during the year are recognized in the Group's consolidated income statement from the date on which control is transferred, until control is transferred upon disposal.

All significant transactions between consolidated companies and unrealized internal profits are eliminated.

A list of subsidiaries, joint ventures and associates is presented in note 39.

## ➔ 2.4 - FINANCIAL STATEMENT PRESENTATION RULES

Assets and liabilities of dissimilar natures or functions are disclosed separately.

Assets and liabilities contributing to working capital used in the entity's normal operating cycle are classified as current. Other assets and liabilities are classified as current if they mature within one year of the closing date, and non-current if they mature more than one year after the closing date.

Commitments by an EDF Group entity to purchase minority interests in a fully consolidated company are reported under current or non-current "Other liabilities", with corresponding adjustments to goodwill and minority interests.

The income statement presents items by nature. The heading "Other income and expenses" above the operating profit records items of an unusual nature or amount.

## ➔ 2.5 - TRANSLATION METHODS

### 2.5.1 Reporting currency

The Group's financial statements are presented in Euros, which is both the functional and reporting currency of EDF SA. All financial data are rounded up or down to the nearest million.

### 2.5.2 Functional currency

An entity's functional currency is the currency of the economic environment in which it primarily operates. In most cases, the local currency is the functional currency, but for some entities, a functional currency other than the local currency may be used provided it reflects the currency used in the principal transactions.

### 2.5.3 Translation of the financial statements of foreign companies whose functional currency is not the Euro

The financial statements of foreign companies whose functional currency is not the Euro are translated as follows:

- Balance sheets are translated into euros at the closing rate,
- Income statements and cash flows are translated at the average rate for the period,
- Resulting differences are recognized 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 recognized as income or expenses in the income statement, in the same way as other translation adjustments concerning the company.

In preparing the balance sheet under IFRS at the transition date (January 1, 2004), in application of IFRS 1, translation differences resulting from the translation of a net investment in a foreign entity that were previously included in equity as "translation adjustments" were deemed to be zero and transferred to consolidated reserves.

## ➔ 2.6 - RELATED PARTIES

Related parties include the French State, companies in which the State holds majority ownership and certain of their subsidiaries, and companies in which EDF exercises joint control or significant influ-

## 2.5.4 Translation of transactions in foreign currencies

In application of IAS 21, transactions expressed in foreign currencies are initially translated and recorded in the functional currency of the entity concerned, using the rate in force at the transaction date.

At each reporting date, monetary assets and liabilities expressed in foreign currencies are translated at the closing rate. The resulting foreign exchange differences are taken to the income statement.

ence. They also include members of the Group's management and governance bodies.

## ➔ 2.7 - SALES

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

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 recognized net of purchases.

The fees paid by customers upon connection to the network (connection fees) are recorded as deferred income and transferred to sales over a period that depends on the useful life of the assets they contribute to finance, or the estimated term of customer contracts.

## ➔ 2.8 - INCOME TAXES

Income taxes include the current tax expense (income) and the deferred tax expense (income), calculated under the tax legislation in force in the countries where earnings are taxable.

Current and deferred taxes are recorded in the income statement, or in equity if they concern items directly allocated to equity.

The current tax expense (income) is the estimated amount of tax due on the taxable income for the period, calculated using the tax rates adopted at the year-end.

Deferred taxes result from temporary differences between the book value of assets and liabilities and their tax basis. No deferred taxes are recognized for temporary differences generated by:

- goodwill which is not tax deductible,
- the initial recognition of an asset or liability in a transaction which is not a business combination and does not affect the accounting profit or taxable profit (tax loss) at the transaction date,
- investments in subsidiaries, joint ventures and associates, when the Group controls the timing of reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are valued at the expected tax rate for the period in which the asset will be realized or the liability settled, based on tax rates adopted at the year-end. If the tax rate changes, deferred taxes are adjusted to the new rate and the adjustment is recorded in the income statement, unless it relates to an underlying for which changes in value are recorded in equity, for example hedging instruments and available-for-sale financial assets.

Deferred taxes are reviewed at each closing date, to take into account changes in tax legislation and the prospects of recovery of deductible temporary differences. Deferred tax assets are only recognized when it is probable that the Group will have sufficient taxable profit to allow the benefit of the asset in the foreseeable future, or beyond this horizon, if there are deferred tax liabilities with the same maturity.

## ➔ 2.9 - GOODWILL AND BUSINESS COMBINATIONS

Business combinations are recognized under the purchase method defined in IFRS 3. Purchase cost is the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued by the purchaser at the acquisition date, plus costs directly attributable to the purchase.

### 2.9.1 Determination of goodwill

Goodwill corresponds to the difference between the cost of a business combination and the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the company acquired on the date control is transferred. When the difference is negative, it is immediately included in the income statement.

The fair values of assets and liabilities and the resulting goodwill are finalized within 12 months of the acquisition.

When minority interests are acquired in an entity that is already fully consolidated, the Group records goodwill equal to the difference between the acquisition price for the minority shareholdings and the share of net assets acquired, with no revaluation of the assets and liabilities acquired.

If minority interests are acquired in an associate without full control resulting, the Group continues to carry the assets and liabilities acquired previously at the same value in the consolidated financial statements.

### 2.9.2 Measurement and presentation of goodwill

Goodwill related to companies acquired prior to January 1, 2004 was presented in the balance sheet net of any amortization, under the option allowed by IFRS 1.

Goodwill on acquisition of subsidiaries or joint ventures is disclosed separately in the balance sheet. Impairment on this goodwill is reported under the heading "Impairments", in the income statement.

Goodwill on acquisition of associates is included in the investment's net book value. Impairment on this goodwill is included under the heading "Share in income of companies accounted for under the equity method".

After initial recognition, goodwill is carried at cost less any impairment recognized.

Goodwill is not amortized, but impairment tests are carried out as soon as there is an indication of possible loss of value, and at least annually.

For the purposes of this test, goodwill is allocated to cash-generating units, groups of homogeneous assets that generate identifiable cash flows benefiting from synergies resulting from the acquisition. The Group's cash-generating units comprise either subgroups or legal entities, broken down where necessary by activity (generation and supply, distribution, transmission, other).

The recoverable value of these units is the higher of fair value net of disposal costs, and value in use. Value in use is determined with reference to discounted future net cash flows based on medium-term financial projections, as described in note 2.14. When this recoverable value is lower than the carrying amount in the balance sheet, an amount equal to the difference is booked under the heading "impairment loss". The loss is allocated first to the goodwill, and any surplus to the other assets of the cash-generating unit concerned.

Upon partial or total disposal of a Group entity, the unamortized goodwill attributable to that entity is included in the gain or loss on disposal.

## ➔ 2.10 - OTHER INTANGIBLE ASSETS

Other intangible assets mainly consist of software, licenses, trademarks and similar rights, operating rights and development costs. These assets are amortized on a straight-line basis over their useful lives, which are generally between 1 and 5 years.

Since January 1, 2005, other intangible assets have included greenhouse gas emission quotas purchased, which are not amortized.

### 2.10.1 Research and development expenses

Research expenses are recognized as expenses in the financial period incurred.

Development expenses are recognized 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.

### 2.10.2 Greenhouse gas emission quotas

The Group applies the following treatment to greenhouse gas emission quotas:

- emission quotas purchased are recorded as intangible assets at acquisition cost; when the emission rights have been granted for nil consideration by the relevant State under the National Allocation Plan, they are not shown in the balance sheet,
- when a Group entity's actual or forecast gas emissions are higher than the quotas allocated by the State under its National Allocation Plan, a provision is recorded to cover the excess emissions. This provision is equivalent to the acquisition cost up to the amount acquired on the spot or forward markets, and based on market prices for the balance.

Forward purchases and sales of quotas in trading activities are recorded in compliance with IAS 39 and stated at fair value at the balance sheet date. Changes in fair value are taken to the income statement.

## ➔ 2.11 - PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment comprises both assets owned by the Group and assets operated under concession (see note 2.12).

### 2.11.1 Initial measurement

Property, plant and equipment are recorded at acquisition or production cost.

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

The Group capitalizes nuclear safety expenses incurred as a result of legal and regulatory obligations, where non-compliance is sanctioned by administrative prohibition on operation.

The cost of property, plant and equipment also includes decommissioning costs for generation plants, and last core costs for nuclear facilities. These assets are associated with the provisions recorded to cover these obligations. At the date of commissioning, these assets are measured and recorded in the same way as the corresponding provision (see note 2.21). The following components are thus included in the balance sheet value of property, plant and equipment:

- the discounted cost of decommissioning the facilities,
- for nuclear 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 pro rata with the useful life of the facilities to which they are assigned.

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

Pre-operating expenses and borrowing costs incurred to financial installations are recognized as expenses.

### 2.11.2 Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their useful lives.

The estimated useful lives for the principal facilities are the following:

- Hydroelectric dams .....: 75 years
- Electromechanical equipment  
used in hydropower plants.....: 50 years
- Fossil-fired plants .....: 30 to 45 years
- Nuclear power plants .....: 40 years<sup>(1)</sup>
- Transmission and distribution installations  
(lines, substations) .....: 30 to 45 years

*(1) More restrictive regulations may apply in some countries.*

The Group decided in 2005 to extend the useful life of EDF SA's fossil-fired power plants from 30 to 45 years with effect from January 1, 2005, as a result of the adaptation and modernization of these plants over the period 2004-2008. This did not concern plants covered by environmental regulatory constraints and scheduled for shutdown in 2015.

## ➔ 2.12 - CONCESSION AGREEMENTS

### 2.12.1 Accounting treatment

At December 31, 2006 as at December 31, 2005, the EDF Group records public/private contracts in compliance with standards and interpretations IAS 16, IAS 17, IAS 18, IAS 37, IFRS 6, and IFRIC 4 as appropriate to the contracts' specific features.

The IFRIC issued interpretation IFRIC 12, "Service Concession Arrangements" in November 2006, for mandatory application for financial years beginning on or after January 1, 2008. This interpretation is currently undergoing the process for approval by the European Commission.

In the 2006 consolidated financial statements, the EDF Group has not proceeded to early application of this interpretation, which clarifies the accounting treatment to be applied to certain concession agreements between a private-sector entity (the operator) and the public sector for which the operator runs an infrastructure under a public service obligation.

For agreements covered by the scope of the interpretation, the operator must recognize a financial asset if it has an unconditional right to receive a determinable amount of cash in return for construction of the infrastructure; if, on the contrary, the operator has a right to receive cash of an amount that remains contingent on the demand levels or the extent that the public uses the service, it must recognize an intangible asset.

For agreements that do not concern operation, the interpretation requires application of IAS 16, IAS 17 and IAS 18 as appropriate.

A full review of concession agreements is currently in process, taking into consideration the legal and environmental diversities encountered both in and outside France, to assess whether they fall into the scope of IFRIC 12. This review also concerns certain contracts recorded under interpretation IFRIC 4.

### 2.12.2 French concessions

In France, the Group is the operator for three types of public service concessions:

- Public distribution facilities operated under concession rights licensed by local authorities (municipalities or syndicated municipalities),
- Hydropower facilities operated under State concession,
- The French public transmission network, operated under concession from the French State by the subsidiary RTE EDF Transport, fully consolidated as of January 1, 2005.

#### Public electricity distribution concessions

The assets governed by these contracts are recorded under Property, plant and equipment operated under concession in the balance

sheet, at acquisition cost when financed by EDF, or at their estimated value at the transfer date when supplied by the grantor. Industrial depreciation is recorded over their useful lives.

Note 3 contains further details on this treatment and the concession liabilities.

In accordance with Law 2006-1537 of December 7, 2006, EDF SA has begun a process to transfer distribution activities to a wholly-owned subsidiary, which should be completed in 2007 with transfer of the concession assets to the new subsidiary.

#### Hydropower concessions

Assets attributed to the hydropower concessions are hydropower generation equipment (dams, pipes, turbines, etc) and, in the case of concessions renewed recently, also include electricity generation equipment (alternators, etc).

Article 7 of Law 2006-1772 of December 30, 2006 on water and aquatic environments removed the outgoing operator's preferential right instituted by the Law of October 16, 1919.

Article 33 of the French Law 2006-1771 of December 30, 2006, amending the 2006 finance law, sets out the principle of an indemnity for the outgoing operator in respect of the unamortized portion of investments made during the second half of execution of the contract (the final 10 years at least), with the exception of investments required to return the assets in good condition at the end of the concession. The decree stipulating how this principle should be applied had not yet been published at the year-end.

The concession assets are recorded under Property, plant and equipment operated under concession, at acquisition cost. Depreciation is calculated over their useful life, which is generally identical to the term of the concession.

#### French public transmission concession

The French transmission concession dates from 1956, for a 75-year term. Since the French Law of February 10, 2000, the public electricity transmission network has been operated by an independent entity within EDF. This service was transferred to a fully-consolidated subsidiary named RTE EDF Transport, with effect from January 1, 2005.

A new set of standard rules for the public transmission concession was approved by decree 2006-1731 of December 23, 2006. The French State and RTE-EDF Transport are to negotiate a concession agreement that will incorporate these rules as an annex.

The assets operated under this concession belong by law to *RTE EDF Transport*. They are booked under the heading Property, plant and equipment owned by the Group, and depreciated over their useful lives.

### 2.12.3 Foreign concessions

The rules governing concessions outside France vary according to the national contracts and legislations. The principal countries concerned are:

- United Kingdom

EDF Energy owns public electricity distribution networks. It has a monopoly on the geographical area covered by its license. Licenses may be terminated in the event of breach of obligations, subject to 25 years' notice.

The networks are booked under Property, plant and equipment owned by the Group and depreciated over their useful life.

- Germany

The distribution networks operated under concession by EnBW belong to EnBW for the duration of the concession. In the event that the concession is not renewed, EnBW must transfer the network to the licensing authority at fair value or at amortized replacement cost.

The concession networks are booked under Property, plant and equipment owned by the Group and depreciated over their useful life.

- Italy

Edison operates hydrocarbon generation sites, gas storage sites, local gas distribution networks and hydropower generating plants under concessions. It owns all the assets except for some items of property, plant and equipment on the hydropower plants, such as pipes, which are transferable for nil consideration upon expiry of the concession.

The concession assets are recorded as property, plant and equipment, with the exception of prospecting rights and expenses associated with discovery of specific mineral resources related to hydrocarbon generation sites that are classified as intangible assets.

They are depreciated over their useful life, with the following exceptions:

- Hydropower generation assets which will be returned for nil consideration at the end of the concession, which are depreciated over the duration of the concession,
- Assets related to the hydrocarbon concessions, which are amortized under the production unit method,
- Expenses associated with discovery of specific mineral resources, which are amortized over the year.

## ➔ 2.13 - LEASES

In the course of its business, the Group uses assets made available under lease contracts. These lease agreements are analyzed in the light of the situations described and indicators supplied in IAS 17, in order to determine whether they are finance leases or operating leases.

### 2.13.1 Finance leases

Lease agreements that effectively transfer virtually all the risks and benefits incident to ownership of the leased assets to the Group are classified as finance leases. The main criteria examined in determining whether virtually all the risks and benefits are transferred by an agreement are 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.

Upon initial recognition, the assets used under finance lease agreements are recorded as property, plant and equipment, with a corresponding financial liability.

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 recognized 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.

### 2.13.2 Operating leases

Lease agreements that do not qualify as finance leases are classified and recognized as operating leases.

Payments made in application of these agreements are included in expenses in the income statement.

### 2.13.3 Arrangements containing a lease

In compliance with interpretation IFRIC 4, the Group identifies agreements that convey the right to use an asset or group of specific assets to the purchaser although they do not have the legal form of a lease contract, in that the purchaser in the arrangement benefits from a substantial share of the asset's production and payment is not dependent on production or market price.

Such arrangements are treated as leases, and analyzed with reference to IAS 17 for classification as either finance or operating leases.



### ➔ 2.14 - IMPAIRMENT OF INTANGIBLE ASSETS OTHER THAN GOODWILL AND OF PROPERTY, PLANT AND EQUIPMENT

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 cash-generating units where necessary, and their recoverable amount, usually determined using the future discounted cash flow method,
- The discount rates used for these purposes 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 pre-tax discount rate is calculated using an iterative process based on after-tax rates,

- Future cash flows are based on medium-term plan projections over three years. Variables that can significantly affect the calculations are:

- Changes in tariff regulations and market prices,
- Changes in interest rates and market risk premiums,
- Market levels and market share on offers, and the level of investment,
- The useful lives of facilities, and the plan for concession renewal,
- The growth rates used beyond the medium-term plans and the terminal values taken into consideration.

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

### ➔ 2.15 - FINANCIAL ASSETS AND LIABILITIES

As of January 1, 2005, the Group applies standards IAS 32 and IAS 39 on financial instruments. This has led to reclassification, and in some cases revaluation of these financial assets and liabilities.

Financial assets include investments (non-consolidated investments, dedicated assets, and other investment securities), loans and financial receivables, and the positive fair value of derivatives.

Dedicated assets are financial assets intended to finance end of nuclear fuel cycle operations, for which provisions have been accrued (see note 22.3.2.1 and 29.4). These assets are managed separately from the Group's other financial assets and investments in view of their specific objective, and comprise bonds, equities, collective investment funds and "reserved" funds built up by the Group solely for its own use.

Financial liabilities comprise financial borrowings and debts, bank credit and the negative fair value of derivatives.

Financial assets and liabilities are recorded in the balance sheet as current if they mature within one year and non-current if they mature after one year, apart from derivatives held for trading, which are all classified as current.

Operating debts and receivables, and cash and cash equivalents, are governed by IAS 39 and reported separately in the balance sheet.

#### 2.15.1 Classification and valuation methods for financial assets and liabilities

##### 2.15.1.1 Financial assets and liabilities carried at fair value with changes in fair value included in income

Financial assets stated at fair value with changes in fair value included in the income statement are classified as such at the inception of the operation. This applies to:

- Assets acquired from the outset with the intention of resale in the short term,
- Or derivatives not classified as hedges (derivatives held for trading),
- Or assets the Group has elected to include in this category under the option allowed by IAS 39.

These assets are recorded at the transaction date at acquisition cost including purchasing expenses, and subsequently adjusted to fair value at each reporting date.

Changes in fair value are recorded in the income statement under the heading "Other financial income and expenses".

Dividends and interest received on assets stated at fair value are recorded in the income statement under "Other financial income".

Changes in the fair value of EDF Trading's commodity contracts are recorded in the income statement under "Sales".

Regarding the fair value option, the Group classifies an asset or liability as "at fair value through profit or loss" in the three following circumstances:

1. When using fair value eliminates or significantly reduces an inconsistency in the measurement of assets and liabilities (an "accounting mismatch"),
2. When the performance of a group of financial assets or financial liabilities is managed on a fair value basis, in accordance with documented strategies and the management reporting system,
3. When a financial instrument contains an embedded derivative.

If a contract contains one or more embedded derivatives, the hybrid instrument may also be valued under the fair value option, except in the following two cases:

- When the embedded derivative does not substantially affect the cash flows of the contract,
- When analysis of the host contract and the embedded derivative does not lead to separate measurement of the embedded derivative.

## 2.15.1.2 Held-to -maturity financial assets

This category covers fixed-term investments which the Group acquires with the intent and ability to hold to maturity. These items are recorded at amortized cost. Interest is calculated at the effective interest rate and recorded in the income statement under the heading "Other financial income and expenses".

## 2.15.1.3 Loans and financial receivables

Loans and financial receivables are valued and recorded at amortized cost less any impairment or provision. Interest is calculated at the effective interest rate and recorded in the income statement under the heading "Other financial income and expenses".

## 2.15.1.4 Available-for-sale financial assets

Available-for-sale financial assets comprise non-consolidated investments, reserved funds and investment securities, and are stated at their fair value at the closing date. Unrealized gains or losses on these assets are taken to equity. For instruments quoted on an active market, the fair value is the market value. If no active market exists, the Group uses generally accepted valuation methods. If the fair value cannot be reliably estimated by other generally accepted valuation methods such as discounted future cash flows, these instruments are valued at acquisition cost less accumulated impairment.

For available-for-sale financial assets represented by debt securities, interest is calculated at the effective interest rate and credited to the income statement under the heading "Other financial income and expenses".

## 2.15.1.5 Financial debts and operating debts

Financial debts are recorded at amortized cost, with separate reporting of embedded derivatives where applicable. Interest is calculated at the effective interest rate and recorded under the heading "Cost of

gross indebtedness" over the duration of the financial debt. The fair value of these debts is given in note 31.2.6.

## 2.15.1.6 Derivatives

### 2.15.1.6.1 Scope

The scope of derivatives applied by the Group corresponds to the principles set out in IAS 39.

In particular, forward purchases and sales for physical delivery of energy or commodities are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- a physical delivery takes place under all such contracts,
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements,
- the contracts cannot be considered as options as defined by the standard. In the specific case of electricity sale contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

The Group thus considers that transactions negotiated with a view to balancing the volumes between electricity purchase and sale commitments are part of its business as an integrated electricity company, and do not therefore come under the scope of IAS 39.

In compliance with IAS 39, the Group analyses all its contracts, of both a financial and non-financial nature, to identify the existence of any "embedded" derivatives. Any component of a contract that affects the cash flows of that contract in the same way as a stand-alone derivative corresponds to the definition of an embedded derivative. If they meet the conditions set out by IAS 39, embedded derivatives are accounted for separately from the host contract at inception date.

### 2.15.1.6.2 Measurement and recognition

Derivatives are initially recorded at fair value, based on quoted prices and market data available from external sources. The Group may also refer to recent comparable transactions or base its valuation on internal models that are recognized by market participants and include data directly derived from this observable data, such as over-the-counter listings.

Changes in the fair value of these derivatives are recorded in the income statement, unless they are classified as hedges for a cash flow or net investment. Changes in the fair value of such hedging instruments are recorded directly in equity, excluding the ineffective portion of the hedge.

In the specific case of financial instruments entered into as part of EDF Trading's business, realized and unrealized gains and losses are reported net under the heading "Sales".

## 2.15.1.6.3 Financial instruments classified as hedges

The EDF Group uses derivative instruments to hedge its foreign exchange and interest rate risks, as well as risks related to certain commodity contracts.

The Group applies the criteria defined by IAS 39 in classifying derivatives as hedges:

- (1) the instrument must hedge changes in fair value or cash flows attributable to the risk hedged, and the effectiveness of the hedge (i.e. the degree to which changes in the value of the hedging instrument offset changes in the value of the hedged item or future transaction) must be between 80% and 125%;
- (2) in the case of cash flow hedges, the future transaction being hedged must be highly probable;
- (3) reliable measurement of the effectiveness of the hedge must be possible;
- (4) the hedge must be supported by appropriate documentation from its inception.

The Group classifies hedges in the following categories:

### (a) fair value hedges

These instruments hedge the exposure to changes in the fair value of an asset or liability recorded in the balance sheet, or a firm commitment to purchase or sell an asset. Changes in the fair value of the hedged item attributable to the hedged component of that item are recorded in the income statement and offset by corresponding variations in the fair value of the hedging instrument. Only the ineffective portion of the hedge has an impact on income.

### (b) cash flow hedges

These instruments hedge highly probable future transactions: the variability in cash flows generated by the hedged transaction is offset by changes in the value of the hedging instrument.

The effective portion of accumulated changes in the hedge's fair value is recorded in equity, and the ineffective portion (i.e. changes in the fair value of the hedging instrument in excess of changes in the fair value of the hedged item) is recorded in the income statement. When the hedged cash flows materialize, the amounts previously recognized in equity are transferred to the income statement in the same way as for the hedged item.

### (c) hedges of a net investment

These instruments hedge exposure to the foreign exchange risk related to a net investment in a foreign entity. The effective portion of accumulated changes in the hedge's fair value is recorded in equity until disposal of the net investment, when it is included in the gain or loss on disposal. The ineffective portion (defined in the same way as for cash flow hedges) is recorded directly in the income statement.

The hedging relationship ends when:

- A derivative instrument ceases to be an effective hedging instrument,
- A derivative instrument expires, or is sold, terminated or exercised,
- The hedged item expires, is sold or redeemed,
- A future transaction ceases to be considered as highly probable.

Only derivative instruments external to the Group qualify for hedge accounting, and gains or losses on internal derivatives are eliminated in the consolidated financial statements. However, in a cash flow hedging relationship initiated via derivatives internal to the Group, hedge accounting is applied if it can be demonstrated that the internal derivatives will be matched with similar transactions external to the Group.

## 2.15.2 Impairment of financial assets

At the year-end and at each interim reporting date, the Group assesses whether there is any objective evidence that an asset could have been significantly impaired. If so, the Group estimates the asset's recoverable value and records any necessary impairment as appropriate for the category of asset concerned.

### 2.15.2.1 Financial assets recorded at amortized cost

Impairment is equal to the difference between the asset's net book value and the discounted value of expected future cash flows, using the original effective interest rate of the financial instrument. The impairment is included in the income statement under the heading "Other financial expenses". If the impairment loss decreases in a subsequent period, it is reversed and transferred to the income statement.

### 2.15.2.2 Available-for-sale financial assets

If there is a significant long-term decrease in the fair value of available-for-sale financial assets, the unrealized loss is reclassified from equity to income. If, in a subsequent period, the fair value of an available-for-sale financial asset increases, the increase in value is recorded in equity for equity instruments, while for debt instruments the impairment previously recorded is reversed and transferred to the income statement.

## 2.15.3 Derecognition of financial assets and liabilities

Derecognition is applied for all or part of:

- A financial asset, when the contractual rights making up the asset expire, or the Group substantially transfers most of the significant risks and benefits associated with ownership of the asset,
- A financial liability, when the liability is extinguished due to cancellation or expiry of the obligation. When a debt is renegotiated with a lender giving rise to substantially different terms, a new liability is recognized.

### 2.15.4 Securitization operations

When it can be demonstrated that the Group does not control the investment funds resulting from securitization operations, these are excluded

from the scope of consolidation. Otherwise, an entry corresponding to the cash inflow is recorded under the heading "Other liabilities".

## ➔ 2.16 - INVENTORIES AND WORK-IN-PROCESS

Inventories are recognized at the lower of acquisition cost or net realizable value, except for inventories resulting from trading activities, which are carried at market value.

Cost includes all direct material costs, labor costs, and a share of indirect production costs.

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

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

### 2.16.1 Nuclear fuel and materials

Inventories of nuclear fuel and materials comprise fissile materials in various stages of production, and fuel in the reactor and stored. The processing cycle for nuclear fuels is longer than one year.

The stated value of nuclear fuel and materials and work-in-progress is determined based on direct processing costs including materials, labor and subcontracted services (e.g. fluorination, enrichment, etc.).

Interest expenses incurred in financing nuclear fuels are charged to expenses for the period.

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.

Nuclear fuel consumption is determined for each component based on forecasts of quantities used per kWh produced. These quantities are valued at weighted average cost as at the end of the previous month, including the cost of supplies for the current month.

Inventories are periodically corrected in view of forecast burnt quantities based on neutronic measurements.

### 2.16.2 Consumables, materials and spare parts

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

Provisions concerning spare parts supplied under a maintenance program are based on the turnover of these parts and the useful lives of generation units.

## ➔ 2.17 - TRADE AND OTHER RECEIVABLES

On initial recognition, trade receivables are stated at nominal value. A provision is recorded when their carrying amount, based on the probability of recovery, assessed according to the type of receivable, is less than their book value. The risk associated with doubtful receivables is evaluated individually.

Trade receivables also 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 potential risk of subsequent non-recovery.

## ➔ 2.18 - 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, and with negligible risk of fluctuation in value.

Securities held short-term and classified as cash equivalents are recorded at fair value, with changes in fair value included in the heading "Financial income on cash and cash equivalents".

## ➔ 2.19 - EQUITY

### 2.19.1 Restatement to fair value of financial instruments

The impact of restatement to fair value of financial instruments results from the adjustment to fair value of available-for-sale financial assets and certain hedging instruments.

### 2.19.2 Share issue expenses

Share issue expenses correspond exclusively to external costs expressly related to the capital increase. They are charged against the issue premium at their net-of-tax value.

Other expenses are classified as expenses of the period.

## ➔ 2.20 - TREASURY SHARES

Treasury shares are shares issued by the consolidating company and held either by that company or by other entities in the consolidated group. They are valued at acquisition cost and deducted from equity

until the date of disposal. Income or losses on disposals of treasury shares are directly included in equity and do not affect net income.

## ➔ 2.21 - PROVISIONS

The Group recognizes provisions if the following three conditions are 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.

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

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.

Provisions mainly cover the following:

- End-of-cycle expenses for nuclear fuels:  
A provision for reprocessing burnt fuels and for the removal and storage of the resulting radioactive waste is booked for all fuels currently in use (burnt portion) or already used.

- Costs of decommissioning power plants and the costs of fuel in the reactor when the reactor is shut down (provision for last cores),
- Future losses relating to multi-year 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.

Provisions for end of nuclear fuel cycle, for expenses related to the decommissioning of power plants and last cores, and for future losses relating to multi-year energy purchase and sale agreements are estimated by applying a forecast long-term inflation index to the projected disbursements, which are 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 applies a discount rate 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 financial expenses under the heading "Discount expense".

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 plant). Each one of these parameters, taken singly or together, could have a considerable impact on the estimates over time.

## ➔ 2.22 - 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.

### 2.22.1 Pension and 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.

All 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 note 29.5.2.2.

### 2.22.2 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 29.5.3.

### 2.22.3 Calculation and recognition of employee benefits

Obligations under defined-benefit plans are 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-employment 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 discount rate that depends on the geographical zone and the duration of the obligations.

The provision takes into account the value of the assets that cover the pension obligations, which are deducted from the value of the obligation as determined above.

Any actuarial gains or losses on pensions and post-employment benefit obligations in excess of 10% (the "corridor") of the commitments or fund assets, whichever is the higher, are recognized in the income statement progressively over the average residual working life of the company's employees.

In preparing the opening balance sheet under IFRS at the transition date (January 1, 2004), in application of IFRS 1, actuarial gains and losses on employee benefits that were previously unrecognized under the "corridor" approach were included in the "provision for post-employment benefits" at January 1, 2004, and the corresponding adjustment was recognized in consolidated reserves.

In accordance with the applicable accounting regulations, the provision for other long-term benefits is calculated under a simplified method. Therefore, if an 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.

The expense booked for employee benefit obligations includes:

- the cost of additional vested benefits, and the financial discount cost of existing benefits,
- the income corresponding to the expected return on plan assets,
- the income or expenses resulting from amortization of actuarial gains losses,
- the income or expenses related to changes in the benefit systems or introduction of new systems.

### 2.22.4 Share-based payments

In compliance with article 11 of the French privatization Law of 1986 and article 26 of Law 2004-803 of August 9, 2004 concerning sales of State investments through the financial markets, shares must be reserved for current and retired employees of *EDF SA* and certain French and foreign subsidiaries.



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The IPO of November 2005 therefore involved a preferential offer for employees covering a number of existing shares representing 15% of the total shares to be sold.

Each benefit granted to employees in this sale (the "Employee offering") was measured and recorded at grant date (November 18, 2005) as required by IFRS 2.

As these benefits were vested immediately (after a very short or non-existent vesting period), the total expense was recognized in the 2005 accounts.

The additional employer's contribution granted in one of the employee offering schemes was also valued as an employee benefit, and recorded in personnel expenses in the same way as the annual employer's contribution to investment plans granted to employees.

### ➔ 2.23 - SPECIAL CONCESSION LIABILITIES

These liabilities relate to electricity distribution concessions in France. They represent the contractual obligations defined in the concession rules, and are described in detail in note 3.

### ➔ 2.24 - INVESTMENT SUBSIDIES

Investment subsidies received by Group companies are included in liabilities under the heading "Other liabilities" and transferred to

income as and when the economic benefits of the corresponding assets are utilized.

### ➔ 2.25 - ENVIRONMENTAL EXPENSES

Environmental expenses are identifiable, additional expenses incurred to prevent, reduce or repair damage to the environment that has been or may be caused by the Group as a result of its business. These expenses are recorded under three headings:

- they are capitalized if they are incurred to prevent or reduce future damage or preserve resources,
- they are booked as environmental liabilities and as allocations to provisions for environmental risks if they correspond to an obliga-

tion that exists at the year-end and it is probable or certain at the reporting date that they will lead to an outflow of resources to the benefit of a third party, with no equivalent or greater benefit to be received from that party subsequent to the year-end,

- they are recognized as expenses if they are operating expenses for the bodies in charge of environmental concerns, environmental supervision, environmental duties and taxes, processing of liquid and gas effluents and non-radioactive waste, or research unrelated to an investment.

### ➔ 2.26 - BASIC EARNINGS AND DILUTED EARNINGS PER SHARE

Earnings per share is calculated by dividing the Group's share of net income by the weighted average number of shares outstanding over the period. This weighted average number of shares outstanding is the number of ordinary shares at the start of the year, adjusted by the number of shares redeemed or issued during the year.

This number, and the earnings per share, is adjusted whenever necessary to reflect the impact of translation or exercise of dilutive potential shares (options, subscription warrants and convertible bonds issued, etc.).

### ➔ 2.27 - HELD-FOR-SALE ASSETS AND LIABILITIES AND DISCONTINUED OPERATIONS

The assets and liabilities of subsidiaries and affiliates held for sale are disclosed separately from other assets and liabilities in the balance sheet, and are classified as non-current. All income from discontinued

operations is disclosed in a single net amount after taxes in the income statement.

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## ➔ 3.1 - GENERAL BACKGROUND

Since the enactment of the French Law of April 8, 1946, EDF has by law been the sole operator for the main public distribution concessions in France.

The accounting treatment of concessions is based on the concession contracts, with particular reference to their special clauses. It takes into consideration the possibility that EDF may one day lose its status as the sole authorized State concession operator.

There are approximately 1,200 public electricity distribution concession contracts in France, generally covering terms of between 20 and 30 years.

93% of these contracts use standard concession rules based on the 1992 Framework Contract negotiated with the National Federation of Licensing Authorities (Fédération Nationale des Collectivités Concédantes et Régies - FNCCR) and approved by the public authorities. This set of rules includes the following main clauses:

- It specifies the purpose and scope of the concession: the licensing authority grants the operator the exclusive right to operate the public electricity distribution service in a given region. The operator is responsible for operating the service and does so at its own risk,
- It establishes the principles with respect to tariffs, namely the equal treatment of users, economic efficiency and geographical equalization,
- It sets forth the payments that must be made by the operator to the grantor,

- It specifies the operator's obligation to record industrial depreciation and establish provisions for renewal, taking into account the cost of replacing installations that must be replaced prior to the end of the concession (article 10). The amounts of these obligations must be reported annually to the grantors (article 32),
- It establishes the practical and financial terms and conditions for renewal of a concession, particularly the requirement that the operator should transfer to the grantor any excess unused provision for renewal (article 31A),
- It establishes the practical and financial terms and conditions in the event of non-renewal or early termination if the service becomes irrelevant (article 31B), i.e.:
  - return of the concession installations and equipment to the grantor in good operating condition,
  - payment by the licensing authority of an indemnity equal to the non-depreciated, remeasured value of the installations, proportionate to its contribution to the financing (the purpose being to enable EDF to recover the non-depreciated value of installations it has financed as the operator),
  - payment by the operator to the grantor of the balance of provisions for renewal of the installations, together with the industrial depreciation established, in an amount proportionate to the grantor's contribution to financing.

## ➔ 3.2 - ACCOUNTING TREATMENT OF EDF SA'S PUBLIC DISTRIBUTION CONCESSIONS

EDF SA continued in 2006 to apply the accounting treatment presented in the 2005 financial statements (see note 2.12).

These items of property, plant and equipment are stated at cost less accumulated depreciation, and amortized on a straight-line basis over the estimated useful life.

### 3.2.1 Recognition of concession assets as property, plant and equipment operated under concession

The inclusion of all concession facilities in EDF SA's balance sheet assets, regardless of the origins of their financing, is justified under IAS 16, as EDF SA controls them and bears the risk:

- EDF SA operates the facilities at its own risk throughout the duration of the concession,
- EDF SA bears the majority of risks and benefits, both technical and economic, over the useful life of the network infrastructure.

### 3.2.2 Recognition of special concession liabilities

These liabilities represent the contractual obligations specific to the concession rules, as reported annually to the grantor. They qualify for recognition as liabilities under IAS 37.

- **Rights in existing assets:** these correspond to the grantor's right to recover all assets for nil consideration. This right comprises the value in kind of the facilities – the net book value of assets operated under concession – less any as yet unamortized financing provided by the operator.

- **Rights in assets to be replaced:** these correspond to the operator's obligation to contribute to the financing of assets due for replacement. These non-financial liabilities are recorded under the following headings:
  - depreciation recorded on the portion of assets financed by the grantor,
  - provision for renewal based on the difference between the replacement value at year-end and the historical value of the assets, concerning only assets due for renewal before the end of the concession,
  - the annual allocations to the provision correspond to the difference between the replacement value as measured at each year-end, and the historical value, less any existing provisions. The net amount is spread over the residual useful life of the assets. Consequently, the expenses recognized increase over time.

When assets are replaced, the provision and amortization of the grantor's financing recorded in respect of the replaced item are eliminated and transferred to the rights in existing assets, since they are considered as the grantor's financing for the new asset. Any excess provision is taken to income.

During the concession, the grantor's rights in assets to be replaced are thus transferred upon the asset's renewal to become the grantor's rights in existing assets, with no outflow of cash to the benefit of the grantor.

The grantor's right to recover existing assets for nil consideration thus increases as assets are replaced.

## ➔ 3.3 - VALUATION OF SPECIAL CONCESSION LIABILITIES

The value of special concession liabilities is determined as follows:

- The grantor's interest in existing assets, representing the share deemed to be held by the grantor in the concession assets, is valued on the basis of the assets recorded in the balance sheet,
- The obligations relating to assets to be replaced are valued on the basis of the estimated value of the relevant assets, measured at each year-end taking into consideration wear and tear on the asset at that date:
  - based on the difference between the asset's replacement value as assessed at year-end and the historical cost for calculation of the provision for renewal (see above),
  - based on the share of the asset's historical cost financed by the grantor, for amortization of the grantor's financing.

The valuation of these liabilities is subject to uncertainty in terms of cost and disbursement dates, among other factors.

The Group considers that the liabilities related to assets to be replaced are to be valued on the basis of the special clauses contained in the concession contracts. Under this approach, these liabilities are stated at the value of the contractual obligations as calculated and reported annually in the reports to the grantors.

If no such clauses existed, an alternative approach would be to state contractual obligations at the discounted value of future payments required for replacement of assets operated under concession at the end of their industrial useful life.

For information, the Group reports below the impacts of this alternative approach, i.e. the discounting of the future obligation to contribute to financing of assets to be replaced.

The principal assumptions used in preparing this simulation are as follows:

- The basis for calculation of the provision for renewal is the estimated replacement value at the end of the asset's useful life, applying a forecast annual inflation rate of 2%, less the asset's historical value. This amount is based on the wear and tear on the asset and discounted at a rate of 4.25%, based on an average duration of 8 years,
- Amortization of the grantor's financing is also discounted at the rate of 4.25%.

The following table shows the impacts of this discounting for 2006 and 2005:

- Impact on the income statements - 2006 and 2005:

	2006	2005
(in millions of euros)	4.25% Discount rate	
Operating profit before depreciation and amortization	180	200
Operating profit	395	415
Financial result	(495)	(475)
Income before taxes	(100)	(60)

- Impact on the balance sheet and equity - 2006 and 2005:

	12.31.2006	12.31.2005
(in millions of euros and before taxes)	4.25% Discount rate	
At January 1,	1,530	1,590
At December 31,	1,430	1,530

Valuation of concession liabilities under this method is also subject to uncertainty in terms of cost and disbursement dates; in addition, it is sensitive to variations in inflation and discount rates.

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For purposes of comparison between 2005 and 2006, the consolidated financial statements published for 2005 have been restated to reflect the changes in valuation and presentation methods described below.

## → 4.1 - INCOME STATEMENT RECLASSIFICATIONS

To provide a more economic analysis of energy-related costs, "Fuel and energy purchases" in the income statement have since January 1, 2005 included:

- energy delivery costs, previously reported under "Other external expenses",
- and costs related to CO<sub>2</sub> emission rights, previously included in "Other operating income and expenses".

The impact of these reclassifications on the 2005 financial statements is as follows:

(in millions of euros)

	2005 as published	Changes in presentation	2005 after changes in presentation
<b>Sales</b>	<b>51,051</b>	<b>8</b>	<b>51,059</b>
Fuel and energy purchases	(16,693)	(1,081)	(17,774)
Other external expenses	(9,109)	951	(8,158)
Personnel expenses	(9,834)	-	(9,834)
Taxes other than income taxes	(3,095)	-	(3,095)
Other operating income and expenses	690	122	812
<b>OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>13,010</b>	<b>-</b>	<b>13,010</b>

## → 4.2 - IMPACT OF APPLICATION OF IFRIC 4

The interpretation IFRIC 4, "Determining whether an arrangement contains a lease", came into force on January 1, 2006. This interpretation concerns the identification of agreements that convey the right to use an asset or group of specific assets to the purchaser although they do not have the legal form of a lease contract, in that the purchaser in the arrangement benefits from a substantial share of the asset's production and payment is not dependent on production or market price.

Such agreements must be recognized as operating or finance leases in accordance with IAS 17.

After reviewing contracts for which IFRIC 4 might apply, the Group has proceeded to the necessary restatements in the financial statements for 2005.

The principal types of contract concerned by this interpretation are agreements related to independent power plants (IPP), for example in Latin America and Asia, certain construction and management contracts for infrastructures belonging to third parties – as in the United Kingdom – and energy supply contracts.

Application of IFRIC 4 is considered as a change in accounting policy, and the comparative information has been restated accordingly. The resulting impact on Group equity at January 1, 2006 is €152 million, including a positive effect of €9 million on translation adjustments.

## 4.2.1 Impact on the 2005 income statements

(in millions of euros)

	2005 after changes in presentation	IFRIC 4 impacts	2005 restated
Sales	51,059	(12)	51,047
Fuel and energy purchases	(17,774)	(1)	(17,775)
Other external expenses	(8,158)	(71)	(8,229)
Personnel expenses	(9,834)	-	(9,834)
Taxes other than income taxes	(3,095)	-	(3,095)
Other operating income and expenses	812	(20)	792
<b>Operating profit before depreciation and amortization</b>	<b>13,010</b>	<b>(104)</b>	<b>12,906</b>
Net depreciation and amortization	(5,036)	19	(5,017)
(Impairments) / reversals	(147)	-	(147)
Other income and expenses	251	-	251
<b>Operating profit</b>	<b>8,078</b>	<b>(85)</b>	<b>7,993</b>
Cost of gross financial indebtedness	(1,472)	-	(1,472)
Discount expense	(2,526)	-	(2,526)
Other financial income and expenses	539	44	583
<b>Financial result</b>	<b>(3,459)</b>	<b>44</b>	<b>(3,415)</b>
<b>Income before taxes of consolidated companies</b>	<b>4,619</b>	<b>(41)</b>	<b>4,578</b>
Income taxes	(1,451)	6	(1,445)
Share in income of companies accounted for under the equity method	182	8	190
Net income from discontinued operations	-	-	-
<b>Group net income</b>	<b>3,350</b>	<b>(27)</b>	<b>3,323</b>
Minority interests	108	(15)	93
<b>EDF NET INCOME</b>	<b>3,242</b>	<b>(12)</b>	<b>3,230</b>

## 4.2.2 Impact on the 2005 balance sheets

ASSETS <i>(in millions of euros)</i>	12.31.2005 as published	IFRIC 4 impacts	12.31.2005 restated
Goodwill	7,181	-	7,181
Other intangible assets	1,886	-	1,886
Property, plant and equipment	102,215	(548)	101,667
Investments in companies accounted for under the equity method	2,021	9	2,030
Non-current financial assets	8,518	494	9,012
Deferred tax assets	1,719	29	1,748
<b>Non-current assets</b>	<b>123,540</b>	<b>(16)</b>	<b>123,524</b>
Inventories, including work-in-process	6,695	-	6,695
Trade receivables	16,121	(14)	16,107
Current financial assets	11,890	76	11,966
Current tax assets	275	-	275
Other receivables	4,445	176	4,621
Cash and cash equivalents	7,220	-	7,220
<b>Current assets</b>	<b>46,646</b>	<b>238</b>	<b>46,884</b>
<b>Assets classified as held for sale</b>	<b>728</b>	<b>-</b>	<b>728</b>
<b>TOTAL ASSETS</b>	<b>170,914</b>	<b>222</b>	<b>171,136</b>

EQUITY AND LIABILITIES <i>(in millions of euros)</i>	12.31.2005 as published	IFRIC 4 impacts	12.31.2005 restated
Capital	911	-	911
Consolidated reserves and income	18,250	152	18,402
<b>Equity (EDF share)</b>	<b>19,161</b>	<b>152</b>	<b>19,313</b>
Minority interests	979	(18)	961
<b>Total Equity</b>	<b>20,140</b>	<b>134</b>	<b>20,274</b>
Provisions for end of nuclear fuel cycle	13,918	-	13,918
Provisions for decommissioning and for last cores	12,907	-	12,907
Provisions for employee benefits	12,971	-	12,971
Other provisions	2,178	-	2,178
<b>Non-current provisions</b>	<b>41,974</b>	<b>-</b>	<b>41,974</b>
Special concession liabilities	34,907	-	34,907
Non-current financial liabilities	23,510	1	23,511
Other liabilities	5,932	39	5,971
Deferred tax liabilities	4,499	68	4,567
<b>Non-current liabilities</b>	<b>110,822</b>	<b>108</b>	<b>110,930</b>
Provisions	4,075	-	4,075
Trade payables and other current liabilities payable	8,894	(22)	8,872
Current financial liabilities	11,933	-	11,933
Current tax liabilities	491	-	491
Other liabilities	13,967	2	13,969
<b>Current liabilities</b>	<b>39,360</b>	<b>(20)</b>	<b>39,340</b>
<b>Liabilities related to assets classified as held for sale</b>	<b>592</b>	<b>-</b>	<b>592</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>170,914</b>	<b>222</b>	<b>171,136</b>



## 4.2.3 Impact on the 2005 cash flow statements

(in millions of euros)

	2005	IFRIC 4	2005 restated
<b>Operating activities:</b>			
<b>Income before tax from consolidated companies</b>	<b>4,619</b>	<b>(41)</b>	<b>4,578</b>
Impairments	147	-	147
Accumulated depreciation and amortization, provisions and change in fair value	6,677	(20)	6,657
Financial income and expenses	1,153	(45)	1,108
Dividends received from companies accounted for under the equity method	90	-	90
Capital gains/losses	(487)	-	(487)
Other income and expenses without effect on cash	329	-	329
Change in working capital	1,332	39	1,371
<b>Net cash flow from operations</b>	<b>13,860</b>	<b>(67)</b>	<b>13,793</b>
Net financial expenses disbursed	(1,188)	45	(1,143)
Income taxes paid	(392)	-	(392)
Payment related to the pension reform	(3,296)	-	(3,296)
Payment related to the dismantling of the Marcoule site	(523)	-	(523)
<b>Net cash flow from operating activities</b>	<b>8,461</b>	<b>(22)</b>	<b>8,439</b>
<b>Investing activities:</b>			
Acquisition of companies, net of cash acquired	(2,951)	-	(2,951)
Purchases of property, plant and equipment and intangible assets	(5,248)	80	(5,168)
Net proceeds from sale of property, plant and equipment and intangible assets	383	9	392
Changes in financial assets	(2,827)	(67)	(2,894)
<b>Net cash flow used in investing activities</b>	<b>(10,643)</b>	<b>22</b>	<b>(10,621)</b>
<b>Financing activities:</b>			
<b>Net cash flow from financing activities</b>	<b>5,555</b>	<b>-</b>	<b>5,555</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,373</b>	<b>-</b>	<b>3,373</b>
<b>CASH AND CASH EQUIVALENTS - CLOSING BALANCE</b>	<b>7,220</b>	<b>-</b>	<b>7,220</b>

## ➔ 4.3 - INTEREST RATE EFFECTS OF CROSS CURRENCY SWAPS

Following a change in the interpretation of standard IAS 39 from January 1, 2006, the Group now records the change in fair value resulting from the interest rate effect of derivatives hedging a net investment in a foreign operation in equity in the same way as the

change in value resulting from foreign exchange differences. These effects were previously included in the income statement. The interest rate impact on equity for 2006 amounts to €(101) million.

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## ➔ 5.1 - SIGNIFICANT EVENTS AND TRANSACTIONS OF 2006

### 5.1.1 France

#### 5.1.1.1 Launch of construction for a new EPR nuclear electricity generation unit

At its meeting of August 31, 2006, EDF's Board of Directors approved two of the contracts awarded after the international call for tenders for construction of the future EPR (European Pressurized Reactor) type nuclear generation plant at the Flamanville site in France, scheduled to come on line in 2012.

#### 5.1.1.2 New public transmission and distribution network access fees

New tariffs for using the public electricity transmission and distribution networks (*Tarifs d'utilisation des Réseaux Publics de Transport et de Distribution d'Electricité* or *TURP 2*) came into force at January 1, 2006, following approval by the French Ministry of Finance on September 23, 2005.

The French Energy Regulator (*Commission de Régulation de l'Energie* or *CRE*) has considered it necessary to introduce a system to compensate for the effects of external factors beyond the control of network operators on the operators' income and expenses. This system uses an off-balance sheet costs and revenues account (*compte de régulation des charges et produits* or *CRCP*) to record all or some of the network operator's income surpluses or shortfalls, which is cleared by reducing or increasing the expenses to be recovered through the *TURP* in the next five years.

Following audits of the unbundled accounts for 2000 and 2002, the CRCP's initial balance at January 1, 2006 was €1,439 million for distribution and transmission activities.

Given the uncertainty over how distribution will be organized when the French market is totally opened up to competition from July 1, 2007, the CRE considers that the tariff rules will require further adjustments towards the end of 2007.

#### 5.1.1.3 French Law 2006-739 of June 28, 2006 on sustainable management of radioactive materials and waste

This law defines a national policy for sustainable management of radioactive materials and waste, stipulating how the policy is to be organized and financed, and changing the financing method for certain obligations. It will apply to all operators of regulated nuclear installations (*Installations nucléaires de base*), including *EDF SA*. Without excluding other complementary areas of research, the law

confirms the industrial solution of reversible deep-level geological storage and the principle of provisions relating to decommissioning costs for nuclear facilities and waste management.

It also introduces an obligation to cover these provisions by dedicated assets.

Based on this law and the information available at December 31, 2006, EDF has reviewed its estimate of the provision for removal and storage of radioactive waste (note 29.2.2).

*EDF SA*'s current accounting practices for nuclear provisions and the company's policy for establishing a portfolio of dedicated assets (see note 22.3.2.1, 29.2 and 29.3) meet the requirements of the law.

As soon as application decrees for this law come into force, EDF will analyze the possible consequences for measurement of its provisions and its dedicated asset portfolio.

#### 5.1.1.4 French Law 2006-1537 of December 7, 2006 on energy

This law mainly requires distribution of electricity in mainland France to be carried out by an entity that is legally distinct from *EDF SA* in 2007, and introduces a transition tariff (*Tarif réglementé transitoire d'ajustement de marché* or *Tartam*).

This tariff is automatically applicable for two years from the date of initial application for all end-users of electricity, provided they make a formal request to their supplier by July 1, 2007. The decision of January 3, 2007 states that this transition tariff will be equal to the regulated sales tariff, excluding taxes, plus 10%, 20% or 23% depending on the type of end-user electing to benefit from the transition tariff.

Suppliers that provide customers with electricity at this tariff at the customer's request, even though they are unable to generate or purchase the electricity supplied at a lower rate, will receive compensation for the differential between the cost of the electricity supplied and the income corresponding to supply at the transition tariff.

This compensation paid to electricity suppliers is to be financed by a share of the Contribution to the Public Electricity Service (*Contribution au Service Public de l'Electricité* or *CSPE*), and a contribution paid by nuclear and hydro power generators who exceed certain generation levels (this includes *EDF SA*), up to the limit of €1.30/MWh. The amount of the electricity generators' contribution is calculated such that, taken together with the *CSPE*, it covers all expenses borne by suppliers. A provision of €470 million is recorded in the 2006 financial statements for the years concerned by this transition tariff (see notes 2.2.7, 13 and 29.6.3).

### 5.1.1.5 French laws on water and hydropower

Article 7 of the French law on water (Law 2006-1772 of December 30, 2006) modifies the law of October 16, 1919 on the use of hydropower, by removing the operator's preferential right.

Article 33 of the amended finance law for 2006 introduces duties payable on renewal of the concession proportional to the income resulting from electricity sales generated by operation of the concession facilities, up to a maximum of 25% of electricity income.

### 5.1.1.6 Increase in electricity sales tariffs

In France, sales tariffs set by the public authorities for private and business customers that have opted to stay on the regulated tariff as the market opens were raised by 1.7% from August 15, 2006.

### 5.1.1.7 Exceptional additional pension

EDF has decided to discontinue the exceptional additional pension benefit, which is described in note 29.5.2.2. This led to reversal of the provision of €328 million.

### 5.1.1.8 IPO of *EDF Energies Nouvelles*

*EDF Energies Nouvelles*, an operator on the worldwide renewable energies market, undertook an IPO in November 2006. Following agreements with the Mouratoglou Group in connection with the IPO and the €530 million capital increase, €134 million of which were subscribed by *EDEV* through a reserved offer, the EDF Group holds exclusive control of *EDF Energies Nouvelles* (see notes 6.1 and 22.5.1).

### 5.1.2 Germany

In July 2006, the German regulator Federal Network Agency notified EnBW of an 8% reduction in electricity transmission network access fees, and this was followed by a 14% reduction in distribution network access fees in August 2006. EnBW appealed against these decisions. This situation led EDF to record an impairment loss of €318 million against EnBW's goodwill at June 30, 2006 (see note 14).

### 5.1.3 Italy

On September 21, 2006, Edison and the Algerian national hydrocarbon company Sonatrach signed a contract whereby Sonatrach will supply 2 billion cubic meters of natural gas per year from the third quarter of 2008 until 2019. The start of this supply is conditional on completion of the pipeline currently under construction, connecting Algeria and Italy via Tunisia.

On November 24, 2006, Edison SpA sold its subsidiary Rete, the transmission distribution operator, to Rtl Spa, a wholly-owned subsidiary of the Terna Group, for ?294 million.

### 5.1.4 Brazil

In late March 2006, the Group signed an agreement to sell 79.4% of its Brazilian subsidiary Light for USD 320 million. The sale was completed on August 10, 2006, and EDF retains 10% of the capital of Light.

At June 30, 2006, EDF therefore reversed ?624 million of impairment booked on long-term assets.

## → 5.2 - SIGNIFICANT EVENTS AND TRANSACTIONS OF 2005

### 5.2.1 Law 2004-803 of August 9, 2004 for the public electricity and gas service and for electricity and gas companies

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

The main measures involved in the financing reform for the special electricity and gas sector (IEG) pension system, which came into effect at January 1, 2005, are briefly described below:

- Formation of the specific pension body *CNIEG (Caisse Nationale des Industries Electriques et Gazières)*,
- Affiliation with the standard pension systems: in application of financial agreements signed by the *CNIEG* with various pension bodies (the standard pension organization *CNAV* and additional pension bodies *AGIRC* and *ARRCO*), *EDF SA* paid a sum of €3,295 million as an extraordinary contribution for the deregulated

activities, comprising €2,724 million to the *CNAV* and €571 million to the *AGIRC* and *ARRCO*,

- Allocation of specific benefits earned under the special IEG system for periods validated at December 31, 2004 between the various IEG companies, and for each company, between benefits relating to gas and electricity transmission and distribution services ("regulated past specific benefits") and other activities ("deregulated past specific benefits"),
- Introduction of the CTA levy (*Contribution Tarifaire d'Acheminement*) on electricity and natural gas transmission and distribution services to finance regulated past specific benefits. The rates of this levy were set by ministerial decision of May 26, 2005 at 10% and 20.4% respectively for electricity transmission and distribution services. The rate for electricity transmission services was modified by Law 2005-781 of July 13, 2005 defining the major lines of the national energy policy, and stood at 6.5% at January 1, 2005,
- Financing of specific benefits for the regulated and deregulated activities: specific benefits for the regulated and deregulated activities earned from January 1, 2005 are fully covered by provisions.

### 5.2.1.2 Transfer of the electricity transmission network operation business to a subsidiary

All the relevant assets and liabilities were transferred as of January 1, 2005 for the amount of €4 billion to *RTE EDF Transport*, wholly-owned by EDF. This operation had no impact on the Group's consolidated financial statements, as *RTE EDF Transport* is fully consolidated.

### 5.2.1.3 Article 36 of the Law of August 9, 2004 on French public concessions

Article 36 of the Law of August 9, 2004 stipulates the respective scopes of the public transmission and distribution networks and defines the reclassification:

- Facilities classified at January 1, 2005 as part of the French transmission grid assets that are attributed to the public distribution networks were reclassified 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 transforming high or very high voltage into medium voltage.
- Notwithstanding any clauses to the contrary in the public electricity distribution concession contracts, EDF no longer has any financial obligation to the grantor regarding replacement of facilities once the normal term of the concession has expired.

The provisions for future renewal charges established prior to January 1, 2005 and covering renewal of facilities due after the normal 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.

As article 36 of the Law of August 9, 2004 cancelled EDF's financial obligation for renewal of assets operated under concession after expiry of the concession, the definitions of provisions for renewal were reviewed. They are now based on the difference between the replacement value and historical value of the assets concerned.

Under the concession contracts, EDF retains an obligation to amortize the grantor's financing, which until December 31, 2004 was included in the provision for renewal, defined up to that date as the difference between amortization of the replacement value and amortization of the operator's share of financing ("amortization of EDF financing").

To reflect EDF's contractual obligations towards grantors, the following expenses have been recorded in connection with assets operated under concession since January 1, 2005:

- industrial depreciation of the assets' historical value, spread over their useful life, allocated between amortization of the financing by the grantor and amortization of EDF financing,
- a provision for renewal based on the difference between the replacement value and the historical value of the assets, also calculated over their useful life, concerning only assets due for renewal before the end of the concession.

Under this new accounting treatment, the respective rights and obligations of the grantor and operator are reported separately in the liabilities through a breakdown of the grantor's rights and the provision for renewal (see note 3.2.2 – Public distribution concessions in France):

- Grantor's rights in existing assets;
- Grantor's rights in assets to be replaced.

The impacts on the consolidated financial statements of this change in accounting method and the reclassification of French transmission grid assets as public distribution network assets mainly concern reclassifications within the special concession liabilities concerning the public distribution network.

(in millions of euros)

	Impacts of Law of August 9, 2004
Value in kind of assets	16,310
Unamortized financing by the operator	(16,302)
<b>Rights in existing assets - net value <sup>(a)</sup></b>	<b>8</b>
Amortization of financing by the grantor <sup>(b)</sup>	4,542
Provision for renewal <sup>(c)</sup>	(4,573)
<b>Rights in assets to be replaced</b>	<b>(31)</b>
<b>SPECIAL CONCESSION LIABILITIES <sup>(d)</sup></b>	<b>(23)</b>

Details of the main impacts for EDF SA are described below; other impacts mostly concern *Electricité de Strasbourg*:

(a) The reclassification of French transmission grid assets as public distribution network assets has the following consequences:

- in the assets (property, plant and equipment): reclassification of owned plant as property, plant and equipment operated under concession at net book value for €712 million (gross value: €1,790 million, depreciation: €1,078 million),
- in the liabilities: reclassification of subsidies and revaluation differences previously included in equity as a component of the grantor's rights in existing assets, at a value of €8 million.

(b) Redefinition of the provision for renewal led to reclassification of the grantor's share of amortization included in the provision, in the amount of €4,465 million.

(c) The decrease in the provision for renewal is due to:

- reclassification of the amortization of EDF financing, at €4,465 million,
- and use of the provision for future renewal charges at December 31, 2004, concerning assets due for replacement after the normal term of the concession, for the replacement of facilities formerly classified as French transmission grid assets and now attributed to public distribution concessions as necessary, leading to a €27 million decrease.

(d) The €19 million decrease led to an equivalent increase in equity before taxes.

## 5.2.2 Healthcare coverage for employees of the electricity and gas (IEG) companies

Negotiations undertaken during the second half-year of 2004 resulted in measures ratified by the decree of February 15, 2005. This led to adaptations to the healthcare benefit financing system and released the Group from its obligations in respect of healthcare benefits payable to current and retired employees of EDF SA and certain French subsidiaries, from 2005. As the accounts for the respective sections concerning current and retired employees had not been separated, these obligations could not be measured.

## 5.2.3 Changes in EDF SA's share capital

The extraordinary shareholders' meeting of August 31, 2005 authorized EDF SA to reduce its share capital by a maximum amount of €7,316 million through a transfer to non-distributable reserves, and authorized the Board to implement this operation.

On October 27, 2005, the Board of Directors decided to reduce the share capital from €8,129,000,000 to €812,900,000 through a reduction in the nominal value of shares from €5 to €0.50. The Board also defined the terms of the capital increase related to the Open Price Offer, the Guaranteed Global Placement and the over-allotment option.

On November 18, 2005, the Board of Directors formally recorded the capital increase related to the Open Price Offer and the Guaranteed Global Placement, which raised the share capital to €906,834,514.

Finally, on December 20, 2005, following settlement of the over-allotment option exercised on December 15 by the banks handling the share placement undertaken for the IPO, the share capital was raised to €911,085,545, comprising 1,822,171,090 shares with nominal value of €0.50 each (see note 28).

## 5.2.4 "Employee Offering"

As part of EDF's IPO, in 2005 the French State decided, in application of article 11 of Law 86-912 of August 6, 1986 and article 26 of Law 2004-803 of August 9, 2004, to reserve a preferential offer for current and retired employees of EDF and certain French and foreign subsidiaries, applicable to a number of existing shares representing 15% of the total number of shares put on the market in the partial flotation.

The employees subscribed 34,554,937 shares through this offer.

The expense corresponding to the price discount, the attribution of free shares and deferred payment terms amounted to €329 million and was recognized in full in 2005, in accordance with IFRS 2 (see note 12).

The additional contribution made by EDF to the benefit of employees in connection with this operation amounted to €124 million.

## 5.2.5 Edison

In application of the agreements signed on May 12, 2005, principally the Structure Agreement and the Shareholders' Agreement, EDF and AEM Milan (an integrated Italian operator), finalized their joint takeover of Edison on October 26, 2005 after a public tender offer through their joint venture TdE, held 50% by each.

The Structure Agreement and Shareholders' Agreement, governed by Italian law, define the framework for implementation of their joint takeover and shared control, and the relations between EDF and AEM Milan as regards TdE and Edison. The Shareholders' Agreement was entered into for a period of three years.

Edison's shareholding structure (ordinary shares, savings shares and warrants) was as follows after these operations:

	Ordinary shares	Savings shares <sup>(1)</sup>	Warrants <sup>(2)</sup>
TdE (jointly-owned 50%)	2,965,041,428	-	210,012,399
EDF SA and wholly-owned subsidiaries	721,505,448	-	281,549,617
Delmi (AEM's subsidiary)	384,439,112	-	-
Other companies	91,467,166	110,592,420	527,148,787
<b>TOTAL</b>	<b>4,162,453,154</b>	<b>110,592,420</b>	<b>1,018,710,803</b>

(1) Savings shares with priority dividends but no voting rights.

(2) Including warrants not belonging to the EDF Group and not tendered to TdE's offer in October 2005 (see note 37.4). These warrants have a unit exercise price of €1 and can be exercised at any time before December 31, 2007.

Between September 30, 2005 and December 31, 2006, 93,879 warrants were exercised. At December 31, 2006, the number of warrants not yet exercised was 1,018,616,924.

The number of ordinary shares and savings shares is unchanged at December 31, 2006.

For the EDF Group, the acquisition value for Edison shares breaks down as follows:

(in millions of euros)	Number of shares	Amount
Acquisition price for Edison including expenses and fair value of the IEB debt	2,204,026,162	4,849
Fair value of financial instruments and other obligations	-	(1,433)
<b>ACQUISITION COST</b>	<b>2,204,026,162</b>	<b>3,416</b>

The percentage interest in Edison after the joint takeover was 51.58%, and this remains unchanged at December 31, 2006.

Edison's assets and liabilities were recorded at their fair values at the acquisition date, and the provisional goodwill on the initial allocation of the acquisition price amounted to €1,768 million.

The Group finalized the allocation of the acquisition price at September 30, 2006. The main result was an adjustment to the value of the Rete transmission network and recognition of impairment on the goodwill resulting from utilization of tax losses originating prior to the acquisition.

(in millions of euros)

Net book value of assets acquired	6,099
Goodwill at local level	(3,505)
<b>Net assets acquired, excluding goodwill</b>	<b>2,594</b>
<b>Allocation of acquisition price:</b>	
Property, plant and equipment <sup>(a)</sup>	291
Gas concession <sup>(b)</sup>	115
Intangible assets <sup>(c)</sup>	685
Tecnimont <sup>(d)</sup>	86
Financial debts <sup>(e)</sup>	(156)
Deferred taxes <sup>(f)</sup>	(215)
<b>Total allocations</b>	<b>806</b>
<b>Net assets acquired after allocation</b>	<b>3,400</b>
EDF share (51.58%)	1,754
Fair value of commitments relating to warrants not yet exercised by third parties	(220)
Net acquisition cost	3,416
<b>GOODWILL</b>	<b>1,882</b>

Property, plant and equipment and intangible assets were revalued under the discounted cash flow method.

(a) The €291 million revaluation of property, plant and equipment concern fossil-fired plants (€74 million), hydropower plants (€101 million), gas inventories (€14 million), and the Rete network (€102 million);

(b) Gas concessions essentially concern reserves in Italy;

(c) Intangible assets comprise the values of three gas contracts commonly known as "Take or Pay" contracts;

(d) As the Tecnimont Group was sold by Edison during November 2005, the corresponding assets and liabilities have been stated at fair value less selling costs;

(e) The four Edison bonds listed on the Milan stock exchange are stated at their market value at September 30, 2005;

(f) Deferred taxes of €(317) million resulting from identification of assets and liabilities, and goodwill impairment of €102 million recorded in 2006 due to utilization of tax losses that were unrecorded at the acquisition date.

• Edison results and pro forma information for 2005

EDF's share of Edison's sales and net income for the fourth quarter of 2005 amounted to €1,011 million and €34 million respectively.

Restated pro forma, EDF's share of Edison's sales and net income for the year 2005 would amount to €3,419 million and €217 million respectively.

## 5.2.6 Light

On June 28, 2005, the Brazilian development bank BNDES (*Banco Nacional de Desenvolvimento Economico e Social*) approved the grant of an aid program consisting of a reduced-rate loan convertible up to 50% into share capital. On July 29, 2005, the BNDES transferred to Light the amount of this loan, amounting to 735 million reais (727 million reais nominal value plus late payment interest, or a total of approximately €250 million based on exchange rates at August 31, 2005). In late July 2005, EDF also converted Light's debt of approximately €327 million to its parent company into share capital.

## 5.2.7 Edenor

The EDF Group and Dolphin Energia SA ("Dolphin") entered into a sale agreement on June 10, 2005, in which the EDF Group undertook to sell to Dolphin 100% of the shares in EASA, which held 51% of the share capital and voting rights of Edenor, and 14% of the share capital of Edenor, for a total price of USD 100 million, payable in a single installment. EDF's Board of Directors approved the sale at its meeting held on June 29, 2005.

Following the sale, the EDF Group retained direct ownership of 25% of the share capital and voting rights of Edenor.

The sale was completed on September 1, 2005, generating a capital gain of €188 million included in income, and a reduction of €448 million in the Group's net indebtedness.



## 6.1 CHANGES IN THE SCOPE OF CONSOLIDATION IN 2006

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## 6.2 CHANGES IN THE SCOPE OF CONSOLIDATION IN 2005

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## ➔ 6.1 - CHANGES IN THE SCOPE OF CONSOLIDATION IN 2006

The main changes in the scope of consolidation during 2006 are described below:

- Sale of ASA Holding AG in Austria completed in late March 2006 for a price of €224 million, resulting in deconsolidation of the company at the same date. The disposal generated a net-of-tax gain of €160 million,
- Sale of two power plants in Egypt completed in late March 2006 at the price of €198 million, resulting in deconsolidation of these companies at the same date. It generated a net-of-tax gain of €170 million,
- Sale of 79.4% of its Brazilian subsidiary Light completed on August 10, 2006 for USD 320 million, leading to deconsolidation of Light as of June 30, 2006. The Group retains a 10% interest in Light, recorded in available-for-sale financial assets in the balance sheet, and the remaining balance of its capital (10.6%) is publicly traded on the Brazilian stock market. This operation resulted in a reversal of impairment totaling €624 million,
- Acquisition by EnBW of an additional 25.05% in the capital of Stadtwerke Düsseldorf AG in March 2006 for €360.8 million, raising its percentage ownership to 54.95%. Stadtwerke Düsseldorf has been fully consolidated since March 31, 2006 taking into consideration the contingent purchase of a further 25.05% investment under a put option held by the minority shareholder, bringing the net percentage holding acquired to 50.1%.

The provisional goodwill on Stadtwerke Düsseldorf is recognized as follows in the EDF Group's accounts:

(in millions of euros)

Acquisition price	166
Put option	129
<b>Acquisition cost</b>	<b>295</b>
Non-current assets	750
Current assets	205
Non-current liabilities	(364)
Current liabilities	(173)
<b>Net assets</b>	<b>418</b>
<b>EDF's share for 50.1% of net assets</b>	<b>210</b>
<b>GOODWILL</b>	<b>85</b>

Revaluation of EnBW's previous holding in Stadtwerke Düsseldorf (29.9%) had no significant impact on the consolidated financial statements.

EnBW also raised its investment in the Austrian company EVN from 29.7% to 35.7% for €130 million.

- Acquisition on March 23, 2006 by the EDF Group of a further 17.32% interest in Motor Columbus from the Swiss bank UBS, for an amount of CHF 404 million. Atel also acquired 7.2% of the capital of Motor Columbus from the same bank for CHF 43 million (EDF's share). A public offer to exchange Atel shares for Motor Columbus shares took place from April 12 to May 2, 2006. Following these operations, Motor Columbus and Atel continue to be accounted for under the equity method (on a basis of 41.03% and 25.78% respectively).

The provisional goodwill resulting from these acquisitions is included under "Investments in companies accounted for under the equity method", and was determined as follows:

(in millions of euros)

<b>Acquisition price for Atel and Motor Columbus shares</b>	<b>283</b>
Stockholder's equity	1,344
Impact of fair value measurement	1,154
Restated stockholders' equity	2,498
<b>Share acquired by EDF (11.73% of Atel and 19.18% of Motor Columbus)</b>	<b>(272)</b>
<b>PROVISIONAL GOODWILL</b>	<b>11</b>

Adjustments to fair value mainly concern generation assets and energy supply contracts.

- EDF International, which held 60.9% of its subsidiary Demasz, the Hungarian electricity distributor and supplier, submitted a bid on August 28, 2006 to the Hungarian market authorities to acquire the balance of the capital. Following this operation, the Group held 95% of Demasz, and then proceeded to a public offer to buy out the remaining shares. EDF International has held 99.99% of Demasz since December 15, 2006. The complementary investment amounted to €112 million, generating provisional goodwill of €8 million determined as follows:

(in millions of euros)

Acquisition price for Demasz shares	112
Stockholder's equity acquired	(104)
<b>GOODWILL</b>	<b>8</b>

- EDF Energia Italia was sold to Edison in October 2006, and is fully consolidated by Edison,
- Edison's sale of its subsidiary Rete to Rtl was completed in November 2006 for €294 million,

- Change in consolidation method for *EDF Energies Nouvelles* (*EDF EN*):

On December 1, 2006, the date of settlement and delivery of the shares issued for the IPO of *EDF Energies Nouvelles* (the International offering and the French public offering), the shareholder agreement of July 17, 2006 between the EDF and Mouratoglou Groups came into force, and the EDF Group took control of *EDF EN*.

In compliance with IFRS 3 on business combinations, EDF established a provisional valuation at fair value of *EDF EN*'s identifiable assets, liabilities and contingent liabilities that qualify for recognition under the purchase method. This valuation takes effect for accounting purposes and as the basis for full consolidation of *EDF EN* as of December 31, 2006.

This provisional valuation mainly concerned significant generation assets which were either in operation at December 31, 2006 or scheduled to be put into operation in 2007. For this purpose, terminal values were not taken into consideration beyond the expected duration of energy delivery contracts.

As EDF's percentage interest in *EDF EN* is unchanged after the capital transactions of 2006, the provisional net revaluation has been directly recorded in EDF's equity.

The main data in this provisional valuation, excluding *EDF EN*'s minority interests, are summarized below:

(in millions of euros)

Cancellation of net goodwill of <i>EDF Energies Nouvelles</i> at 12.31.2006	(60)
Revaluation of assets	375
Differed tax liabilities related to these operations	(104)
<b>Net revaluation</b>	<b>211</b>
EDF share (50%)	105
Cancellation of goodwill on <i>EDF Energies Nouvelles</i> recorded by EDF	(19)
<b>IMPACT ON THE EDF GROUP'S EQUITY</b>	<b>86</b>

- The *EDEV* Group subsidiaries Tenesol, Soprolif, Socodei, Cofiva and Sofinel have been directly consolidated since January 1, 2006,
- Sale of EDF Capital Investissement.

## ➔ 6.2 - CHANGES IN THE SCOPE OF CONSOLIDATION IN 2005

The main changes in the scope of consolidation during 2005 are described below:

- Following the takeover of Edison, EDF has proportionally consolidated TdE and Edison in its financial statements since October 1, 2005. After implementation of the Structure Agreement and the Shareholders' Agreement, the percentage interest in Edison after the tender offer was 51.58%. IEB and its holding companies are wholly-owned by EDF and are fully consolidated,
- EDF also sold 20% of its investment in Finel to Edison. As a result of this operation, as Edison held a controlling interest in the company, the consolidation method for Finel was changed from the equity method to proportional consolidation,
- Following EnBW's capital increase of April 2005 through the sale of treasury shares, OEW's holding in EnBW reached the same level as

that of EDF. EDF's percentage ownership of EnBW decreased from 48.43% at December 31, 2004 to 46.12% at June 30, 2005,

- In Argentina, the sale of Sodemsa and Edemsa was finalized on March 30, 2005, leading to deconsolidation of both companies. EDF also sold 100% of Easa and 14% of the capital of Edenor on August 31, 2005. Following these transactions, EDF held a 25% interest in Edenor, which has been accounted for under the equity method as of that date,
- In Brazil, as part of the debt restructuring operations by Light, minority shareholders subscribed to the capital increase of late July 2005 and converted some of the company's convertible bonds into share capital. As a result, EDF's percentage interest decreased by 5.22%, and the Group's investment stood at 89.57% at December 31, 2005.

<b>7.1</b>	<b>REPORTING BY GEOGRAPHICAL AREA</b>	<b>228</b>
<b>7.2</b>	<b>INCOME FROM EXTERNAL SALES BY GEOGRAPHICAL AREA BASED ON CLIENT LOCATION</b>	<b>230</b>
<b>7.3</b>	<b>REPORTING BY BUSINESS SEGMENT</b>	<b>230</b>

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

Segment reporting is primarily by geographical area, with the "country" risk taking priority over the "business" risk in view of the 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.

## ➔ 7.1 - REPORTING BY GEOGRAPHICAL AREA

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

- **"France"**, which refers to *EDF SA* and its subsidiary *RTE EDF Transport*, comprising their regulated activities (mainly Distribution and Transmission) and deregulated activities (mainly Generation and Supply);
- **"United Kingdom"**, which refers to the EDF Energy subgroup;
- **"Germany"**, which refers to the EnBW subgroup;
- **"Italy"** which covers all the entities located in Italy, principally the Edison subgroup, TDE, and Fenice;
- **"Rest of Europe"**, which groups together the other European subsidiaries, mostly located in continental Europe, and new investments and businesses including Electricité de Strasbourg, Dalkia, Tiru, Asa Holding AG (which was sold in 2006), *EDF Energies Nouvelles* and EDF Trading;
- **"Rest of the World"**, which covers subsidiaries in Latin America and Asia.

"Italy" is now a geographical area in its own right, reported separately from the "Rest of Europe".

For purposes of comparison between the segment information at December 31, 2006 and 2005, the information published at December 31, 2005 has been restated to reflect the new division of geographical areas, and the impacts of interpretation IFRIC 4.

In addition, some support functions, and sales activities in Belgium which were considered as part of France in 2005, have since January 1, 2006 been attached to their respective geographical area. The impact of this change is not material.

## 7.1.1 At December 31, 2006

(in millions of euros)	France	United Kingdom	Germany	Italy	Rest of Europe	Rest of the world	Eliminations	Total
External sales	31,927	8,319	6,016	5,615	4,930	2,125	-	58,932
Inter-segment sales	154	-	49	-	504	-	(707)	-
<b>TOTAL SALES</b>	<b>32,081</b>	<b>8,319</b>	<b>6,065</b>	<b>5,615</b>	<b>5,434</b>	<b>2,125</b>	<b>(707)</b>	<b>58,932</b>
<b>OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>8,893</b>	<b>1,268</b>	<b>996</b>	<b>928</b>	<b>1,363</b>	<b>482</b>	<b>-</b>	<b>13,930</b>
<b>Balance sheet:</b>								
Intangible assets and property, plant and equipment	76,770	10,583	6,281	5,351	5,527	1,469	-	105,981
Investments in companies accounted for under the equity method	-	79	574	23	1,691	92	-	2,459
Goodwill	-	2,534	1,501	2,004	1,043	41	-	7,123
Other segment assets <sup>(1)</sup>	17,338	2,531	1,785	1,420	3,875	424	-	27,373
Assets classified as held for sale	-	-	18	122	-	-	-	140
Other non-allocated assets	-	-	-	-	-	-	-	36,010
<b>TOTAL ASSETS</b>	<b>94,108</b>	<b>15,727</b>	<b>10,159</b>	<b>8,920</b>	<b>12,136</b>	<b>2,026</b>	<b>-</b>	<b>179,086</b>
Segment liabilities <sup>(2)</sup>	99,394	4,639	6,101	209	2,946	252	-	113,541
Liabilities related to assets classified as held for sale	-	-	47	69	-	-	-	116
Other non-allocated liabilities	-	-	-	-	-	-	-	65,429
<b>TOTAL LIABILITIES</b>	<b>99,394</b>	<b>4,639</b>	<b>6,148</b>	<b>278</b>	<b>2,946</b>	<b>252</b>	<b>-</b>	<b>179,086</b>
<b>Other information:</b>								
Investments in intangible assets and property, plant and equipment	3,948	932	293	360	410	102	-	6,045
Net depreciation and amortization	(3,667)	(447)	(351)	(451)	(327)	(120)	-	(5,363)
Impairment	-	-	(359)	(47)	(64)	591	-	121

## 7.1.2 At December 31, 2005

(in millions of euros)	France	United Kingdom	Germany	Italy	Rest of Europe	Rest of the world	Eliminations	Total
External sales	30,015	6,682	5,005	2,019	4,446	2,880	-	51,047
Inter-segment sales	127	1	24	-	370	3	(525)	-
<b>TOTAL SALES</b>	<b>30,142</b>	<b>6,683</b>	<b>5,029</b>	<b>2,019</b>	<b>4,816</b>	<b>2,883</b>	<b>(525)</b>	<b>51,047</b>
<b>OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>8,544</b>	<b>1,306</b>	<b>905</b>	<b>300</b>	<b>1,193</b>	<b>658</b>	<b>-</b>	<b>12,906</b>
<b>Balance sheet:</b>								
Intangible assets and property, plant and equipment	76,201	9,764	5,667	5,646	4,246	2,029	-	103,553
Investments in companies accounted for under the equity method	-	76	572	31	1,279	72	-	2,030
Goodwill	-	2,478	1,760	1,884	1,013	46	-	7,181
Other segment assets <sup>(1)</sup>	17,469	1,942	1,419	1,487	3,413	1,693	-	27,423
Assets classified as held for sale	-	-	31	-	696	1	-	728
Other non-allocated assets	-	-	-	-	-	-	-	30,221
<b>TOTAL ASSETS</b>	<b>93,670</b>	<b>14,260</b>	<b>9,449</b>	<b>9,048</b>	<b>10,647</b>	<b>3,841</b>	<b>-</b>	<b>171,136</b>
Segment liabilities <sup>(2)</sup>	95,690	2,850	5,391	199	4,118	1,314	-	109,562
Liabilities related to assets classified as held for sale	-	-	27	-	565	-	-	592
Other non-allocated liabilities	-	-	-	-	-	-	-	60,982
<b>TOTAL LIABILITIES</b>	<b>95,690</b>	<b>2,850</b>	<b>5,418</b>	<b>199</b>	<b>4,683</b>	<b>1,314</b>	<b>-</b>	<b>171,136</b>
<b>Other information:</b>								
Investments in intangible assets and property, plant and equipment	3,276	997	270	186	330	199	-	5,258
Net depreciation and amortization	(3,634)	(434)	(314)	(155)	(329)	(151)	-	(5,017)
Impairment	1	-	(19)	(38)	(91)	-	-	(147)

(1) Other segment assets include inventories, trade receivables and other receivables.

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

## 7.2 - INCOME FROM EXTERNAL SALES BY GEOGRAPHICAL AREA BASED ON CLIENT LOCATION

(in millions of euros)	France	Europe	Rest of the world	EDF Trading	Total
2006	29,462	26,267	2,456	747	58,932
2005	28,166	19,192	3,258	431	51,047

## 7.3 - 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, small businesses and residential 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 energy 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	Transmission	Other	Eliminations <sup>(1)</sup>	Total
<b>At December 31, 2006:</b>						
External sales:						
- France	19,695	8,529	4,009	552	(858)	31,927
- Rest of the world	21,327	1,161	-	4,517		27,005
<b>TOTAL SALES</b>	<b>41,022</b>	<b>9,690</b>	<b>4,009</b>	<b>5,069</b>	<b>(858)</b>	<b>58,932</b>
Segment assets	60,962	58,579	12,592	11,530	(2,732)	140,931
Non-allocated assets	-	-	-	-	-	38,155
Purchases of property, plant and equipment and intangibles	1,634	2,856	602	953	-	6,045
<b>At December 31, 2005:</b>						
External sales:						
- France	17,763	8,914	3,928	350	(940)	30,015
- Rest of the world	16,480	1,460	225	2,867	-	21,032
<b>TOTAL SALES</b>	<b>34,243</b>	<b>10,374</b>	<b>4,153</b>	<b>3,217</b>	<b>(940)</b>	<b>51,047</b>
Segment assets	56,361	62,576	12,312	8,920	(1,836)	138,333
Non-allocated assets	-	-	-	-	-	32,803
Purchases of property, plant and equipment and intangibles	1,554	2,654	566	484	-	5,258

(1) Including eliminations of transactions between regulated activities (Distribution and Transmission): €(120) for 2006, €(41) for 2005;  
Including eliminations of transactions between deregulated activities: €(117) for 2006, €(30) for 2005.

## Note

## 8

## Sales

Sales are comprised of:

(in millions of euros)

	2006	2005
Sales of energy and energy-related services	54,259	47,061
Other sales of goods and services	3,957	3,568
Change in fair value of commodity contracts	(42)	(13)
Net foreign exchange loss	(1)	-
Trading	759	431
<b>SALES</b>	<b>58,932</b>	<b>51,047</b>

Consolidated sales increased by 15.4% compared to 2005, and include €4,434 million of Edison sales (€1,011 million for the final quarter of 2005).

From 2005, sales levels reflect the introduction of the CTA levy (*Contribution tarifaire d'acheminement*) and the application of IAS 32 and 39.

## Note

## 9

## Fuel and energy purchases

Fuel and energy purchases comprise:

(in millions of euros)

	2006	2005
Fuel purchases used - power generation	(8,481)	(6,587)
Energy purchases	(13,481)	(10,164)
Transmission and delivery expenses	(1,934)	(1,315)
Gain/loss on hedging operations	(134)	50
(Increase)/decrease in provisions related to nuclear fuels and energy purchases	81	241
<b>FUEL AND ENERGY PURCHASES</b>	<b>(23,949)</b>	<b>(17,775)</b>

Fuel and energy purchases increase by €6,174 million or 34.7% from 2005. €2,726 million of this increase is mainly attributable to Edison (€693 million for the fourth quarter of 2005), and to significant rises in energy costs are also a contributing factor.

## Note

## 10

## Other external expenses

Other external expenses comprise:

(in millions of euros)

	2006	2005
External services	(8,315)	(8,124)
Other purchases (excluding external services, fuel and energy)	(2,447)	(2,000)
Change in inventories and capitalized production	1,960	1,779
(Increase)/decrease in provisions on other external expenses	81	116
<b>OTHER EXTERNAL PURCHASES</b>	<b>(8,721)</b>	<b>(8,229)</b>



# Note 11 Contractual obligations and commitments

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## ➔ 11.1 - PURCHASE COMMITMENTS

In the course of its generation and supply activities, the Group has entered into long-term contracts for purchases of electricity, gas, other energies and commodities, as well as nuclear fuels, for periods of up to 20 years. In almost all 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 has also entered into long-term purchase contracts with a certain number of electricity producers, by contributing to the financing of power plants.

At December 31, 2006, the firm irrevocable purchase commitments mature as follows (in millions of current euros):

(in millions of euros)	Total	Maturity		
		< 1 year	1-5 years	> 5 years
Electricity purchases	13,888	3,267	3,807	6,814
Gas purchases <sup>(1)</sup>	19,950	1,920	6,039	11,991
Other energy and commodities purchases	3,705	642	1,230	1,833
Nuclear fuel purchases	7,323	1,045	2,747	3,531
<b>FIRM AND IRREVOCABLE PURCHASE COMMITMENTS</b>	<b>44,866</b>	<b>6,874</b>	<b>13,823</b>	<b>24,169</b>

(1) Excluding Edison (see note 11.1.2).

### 11.1.1 Electricity purchases

Electricity purchase commitments concern *EDF SA*, and are mostly for Island Energy Systems (IES), which has an obligation to purchase the electricity generated using bagasse and coal, EnBW and EDF Energy.

In addition to the obligations reported above and under article 10 of the Law of February 10, 2000, EDF is obliged, at the producer's request and subject to compliance with certain technical features, to purchase the power produced by co-generation plants and renewable energy generation units (wind turbines and small hydro-electric plants or operations recycling organic waste). The additional costs generated by this obligation are offset, after validation by the CRE, by the Contribution to the Public Electricity Service (*Contribution au Service Public de l'Electricité* or CSPE) introduced by Law 2003-8 of January 3, 2003. The purchase obligations covered by the CSPE totaled 22.9 TWh for 2006, including 14.6 TWh for co-generation which should decline, and 2.1 TWh for wind power, a sector that is expected to see strong growth.

### 11.1.2 Gas purchases

The Group operates in Mexico and Asia, among other areas, through independent power plants (IPP) under power purchase agreements (PPA). Gas purchase commitments are mostly related to electric IPPs, covered by electricity purchase agreements received. These agreements include "pass-through" clauses allowing almost all fluctuations in supply sources costs to be passed on to the customer.

*EDF SA* has also entered into several purchase contracts valued at €4,968 million.

Edison has entered into "take or pay" gas import contracts for total capacity of 18 billion cubic meters (m<sup>3</sup>) a year. The contracts already in operation concern imports from Russia, Libya and Norway, for total supplies of 7.4 billion cubic meters per year. Three new contracts for a total trading volume of 10.6 billion cubic meters per year from Qatar and Algeria will come into force in the coming years.

### 11.1.3 Other energy and commodity purchases

Purchase commitments for other energies and commodities mainly concern coal and lignite used in the fossil-fired plants.

## ➔ 11.2 - ELECTRICITY SUPPLY COMMITMENTS

EDF SA has signed several long-term contracts with some European electricity operators, undertaking to supply electricity. These contracts are of two types:

- Co-financing agreements for nuclear power plants, either for a specific plant or for a defined group of plants. Companies participating in this financing have a right to draw power from the plants concerned, in proportion to their initial contribution,
- Long-term commercial sales contracts, generally covered by the nuclear power plants.

When it invested in EnBW in 2001, EDF also undertook to sell 6,000 MW on the French market through auctions. Since 2001, EDF has thus been bound by a commitment to make some of its generation capacity available to the market, for an initial duration of 5 years, in principle until February 7, 2006. The purpose of this arrangement was

to facilitate competitors' access to the French market, to make up for supply difficulties on the emerging French market over the early years, compensating for the impact of EDF-EnBW strategic partnership on the competition situation in France.

In 2006, slightly more than 41 TWh was thus made available on the market (43 TWh in 2005).

Since February 2006, EDF has had the right to file a documented application to withdraw from this auction procedure, but has chosen not to exercise this right to date. After discussions with the European Commission and upon a proposal by EDF, the Commission authorized certain adjustments to the auction process in September 2006 (primarily by an experimental proposal of baseload products for period up to 4 years), although the volume of energy made available annually by EDF is unchanged. The auctions continue.

## ➔ 11.3 - OPERATING CONTRACT COMMITMENTS AND GUARANTEES

In the course of its business, the Group provides contract performance guarantees, generally through the intermediary of banks. The Group has also given and received commitments jointly with third parties or subsidiaries, maturing as follows at December 31, 2006:

(in millions of euros)	Total	Maturity		
		< 1 year	1-5 years	> 5 years
Satisfactory performance, completion and bid guarantees	730	456	138	136
Commitments related to orders for operating items <sup>(1)</sup>	1,974	1,360	439	175
Commitments related to orders for fixed assets	4,408	2,294	1,955	159
Other operating commitments	3,986	758	2,752	476
<b>OPERATING COMMITMENTS GIVEN</b>	<b>11,098</b>	<b>4,868</b>	<b>5,284</b>	<b>946</b>
<b>OPERATING COMMITMENTS RECEIVED</b>	<b>4,416</b>	<b>3,830</b>	<b>232</b>	<b>354</b>

(1) Excluding commodities and energy.

Satisfactory performance, completion and bid guarantees mainly consist of guarantees related to operation of the London underground system's electric network (€240 million), and the construction or operation of power plants in Mexico (€61 million) and Laos (€100 million). The Group has also given other guarantees totaling €329 million, principally by Dalkia International and EDF SA.

At December 31, 2006, firm commitments on operating orders other than commodity and energy purchases and commitments for purchases of property, plant and equipment amount to €6,382 million (compared to €4,193 million at December 31, 2005), mainly given by EDF SA (€4,102 million in 2006, €2,941 million in 2005), Edison (€319 million in 2006, €338 million in 2005) and EDF Energy (€390 million in 2006).

## Consolidated financial statements

The increase in *EDF SA*'s commitments principally relates to construction of the future EPR-type nuclear plant (see note 5.1).

Other operating commitments mainly concern:

- The solidarity commitment undertaken by operators of nuclear power plants 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 €1,034 million (€1,035 million at December 31, 2005);

- A contract entered into with CDC Ixis Capital Markets to cover the exposure of EDF's electricity distribution network in France to risk of storm damage, whereby each party undertakes to indemnify the other for any liability connected with issuance of a CAT bond, up to an overall maximum amount of €240 million for each party. The total amount of the fixed premium outstanding at December 31, 2006 is valued at €30 million;
- The operating commitments of Edison (€970 million).

Commitments received mainly concern *EDF SA*, and are mostly commitments from insurance companies to cover risks related to construction of the EPR-type nuclear plant, for €2,842 million.

## ➔ 11.4 - OPERATING LEASE COMMITMENTS

The Group is a party to agreements classified as operating leases under IFRIC 4, which account for most of its operating lease commitments as lessor. These agreements concern the Mexican and Asian IPPs.

The Group is also committed as lessee to irrevocable operating lease contracts for premises, equipment and vehicles used in the course of

its business. The corresponding payments are subject to renegotiation at intervals defined in the contracts. *EDF SA* and EDF Energy are the principal entities concerned.

At December 31, 2006, the total expenses and commitments for irrevocable lease payments are as follows:

(in millions of euros)

	Total	Maturity		
		< 1 year	1-5 years	> 5 years
Operating lease commitments as lessor	5,714	433	1,705	3,576
Operating lease commitments as lessee	2,342	440	1,410	492

## Note 12 Personnel expenses

### ➔ 12.1 - PERSONNEL EXPENSES

Personnel expenses comprise:

(in millions of euros)

	2006	2005
Wages and salaries	(6,385)	(6,076)
Social contributions	(1,116)	(1,086)
Employee profit sharing	(368)	(399)
Non monetary benefits	(347)	(330)
Other expenses linked to short-term benefits	(35)	(18)
<b>Short-term benefits</b>	<b>(8,251)</b>	<b>(7,909)</b>
Expenses under defined benefit plans	(1,430)	(1,654)
Expenses under defined contribution plans	6	46
<b>Post-employment benefits</b>	<b>(1,424)</b>	<b>(1,608)</b>
Other long-term expenses	(23)	(10)
"Employee offering"	-	(329)
Termination payments	(11)	22
<b>Other personnel expenses</b>	<b>(34)</b>	<b>(317)</b>
<b>PERSONNEL EXPENSES</b>	<b>(9,709)</b>	<b>(9,834)</b>

## → 12.2 - AVERAGE WORKFORCE

	2006	2005
IEG status	105,577	108,506
Other	50,391	50,466
<b>TOTAL</b>	<b>155,968</b>	<b>158,972</b>

Average workforce numbers are reported on a full-time equivalent basis.

Personnel corresponding to proportionally consolidated companies included pro rata with the Group's percentage interest represent the equivalent of 26,190 full-time employees (21,922 full-time equivalent employees at December 31, 2005).

The EDF SA workforce for 2005 has been restated for presentation on a full-time equivalent basis.

## Note 13 Other operating income and expenses

Other operating income and expenses comprise:

(in millions of euros)	2006	2005
Operating subsidies	1,482	1,314
Net increase in provisions for renewal of assets operated under concession	(463)	(489)
Provision for electricity generators' contribution to the Tartam <sup>(1)</sup>	(470)	-
Net income on deconsolidation	17	98
Gains on disposal of property, plant and equipment	(21)	113
Net increase in provisions on current assets	(32)	(52)
Net increase in provisions for operating contingencies and losses	(23)	(3)
Other operating income and expenses	62	(189)
<b>OTHER OPERATING INCOME AND EXPENSES</b>	<b>552</b>	<b>792</b>

(1) Tarif réglementé transitoire d'ajustement de marché or Transition tariff.

Operating subsidies mainly comprise the subsidy received by EDF in respect of the Contribution to the Public Electricity Service (CSPE) introduced by French Law 2003-8 of January 3, 2003. This contribution is payable by end-users (both eligible and non-eligible) and collected by network operators or electricity suppliers, which then pay it to the State. Since January 1, 2005, the additional costs resulting from the priority need tariff (*tarif de première nécessité*) and the poverty and vulnerability action measures are also included in subsidies.

In the financial statements, this compensation results in recognition of income of €1,457 million in 2006 (€1,301 million in 2005).

The CSPE income receivable is valued on the basis of the most probable assumptions, assessed at December 31, 2006.

A provision of €470 million has been booked in the Group's financial statements to cover EDF SA's contribution to the compensation for electricity suppliers introduced by the transition price (*Tarif réglementé transitoire d'ajustement du marché* or Tartam), described in note 5.1.1.4, over the two years concerned by the system. This contribution will be payable in 2007 and 2008.

Operations of an unusual amount or nature are reported in "Other income and expenses" (see note 15).

## Note 14 Impairments / reversals

Details of impairments recognized and reversed are as follows:

<i>(in millions of euros)</i>	2006	2005
Impairment on goodwill	(337)	(29)
Impairment on property, plant and equipment	(177)	(139)
Reversal	635	21
<b>IMPAIRMENT NET OF REVERSAL</b>	<b>121</b>	<b>(147)</b>

In application of IAS 36, the net amount of impairment losses recognized on goodwill and other assets and reversals of other assets in 2006 is €121 million, comprising impairment of €318 million booked in respect of EnBW in Germany, a reversal of €624 million in respect of Light in Brazil, and various asset impairments booked by subsidiaries, principally in Europe, totaling €185 million.

### • EnBW

On July 27, 2006, the German Regulator Federal Network Agency notified EnBW of an 8% reduction in electricity transmission network access fees, followed by a 14% reduction in distribution network access fees in the second half-year.

Based on the accounting policies described in notes 2.9 and 2.14 to the consolidated financial statements for the year ended December 31, 2006 and new assumptions regarding future reductions in EnBW's network access fees, EDF recognized impairment of €318 million at June 30, 2006 on its own goodwill recorded in 2001 when it acquired its interest in EnBW.

After this impairment, the EnBW goodwill in EDF's financial statements was €1,552 million at June 30, 2006. If the long-term reduction in network access fees is greater than anticipated by EnBW for its electricity distribution network, impairment test results could be affected.

### • Light

Impairments also include a reversal of €624 million during the first half-year of 2006 of impairment previously recorded in respect of Light on assets other than goodwill, to reflect their fair value less selling costs, based on the terms of the sale agreement for Light signed on March 28, 2006.

## Note 15 Other income and expenses

The heading "Other income and expenses" presented below the operating profit before depreciation and amortization comprises items of an unusual nature or amount.

Other income and expenses for 2006 result in a net income of €668 million, mainly comprising:

- The pre-tax proceeds of deconsolidation of ASA Holding AG (€175 million) and the Egyptian subsidiaries Port Saïd and Port Suez (€170 million);
- A reversal of €328 million from provisions for post-employment benefits following discontinuation of the exceptional additional pension benefit.

Completion of the sale operation concerning Light had no significant impact, other than those recognized at June 30, 2006: €624 million of impairment reversals (see note 14) and the associated tax effects.

In 2005, other income and expenses resulted in a net income of €251 million, mainly comprising income resulting from deconsolidation of Edenor following the sale of 65% of its capital to Edenor (€189 million), and a dilution profit following Light's debt restructuring (€59 million).

## ➔ 16.1 - COST OF GROSS FINANCIAL INDEBTEDNESS

Details of the components of the cost of gross financial indebtedness are as follows:

<i>(in millions of euros)</i>	2006	2005
Interest expenses on financing operations	(1,655)	(1,556)
Ineffective portion of fair value hedges	(54)	(47)
Ineffective portion of cash flow hedges	-	(1)
Transfer to income of changes in the fair value of cash flow hedges	39	28
Net foreign exchange gain on indebtedness	64	104
<b>COST OF GROSS FINANCIAL INDEBTEDNESS</b>	<b>(1,606)</b>	<b>(1,472)</b>

## ➔ 16.2 - DISCOUNT EXPENSE

The discount expense primarily concerns provisions for end of nuclear fuel cycle, decommissioning and last cores, and provisions for long-term and post-employment employee benefits.

Details of this expense are as follows:

<i>(in millions of euros)</i>	2006	2005
Provisions for employee benefits	(1,097)	(1,147)
Provisions for end of nuclear fuel cycle, for decommissioning and for last	(1,393)	(1,343)
Other provisions	(40)	(36)
<b>DISCOUNT EXPENSE</b>	<b>(2,530)</b>	<b>(2,526)</b>

## ➔ 16.3 - OTHER FINANCIAL INCOME AND EXPENSES

Other financial income and expenses comprise:

<i>(in millions of euros)</i>	2006	2005
Financial income on cash and cash equivalents	76	57
Gains on financial assets	1,397	930
Changes in financial instruments carried at fair value with changes in fair value included in income	(93)	(329)
Other financial expenses	(278)	(464)
Foreign exchange gain/loss on financial items other than debts	(28)	71
Return on hedging assets	361	318
<b>OTHER FINANCIAL INCOME AND EXPENSES</b>	<b>1,435</b>	<b>583</b>

The main component of gains on financial assets is the gain on sale of EDF's investment in Arcelor following transactions related to the takeover by the Mittal Steel Cy NV Group (€231 million).

Following a change in the interpretation of standard IAS 39 from January 1, 2006, the Group now records the change in fair value resulting from the interest rate effect of derivatives hedging a net investment in a foreign operation in equity. The interest rate impact on equity for 2006 amounts to €(101) million.



<b>17.1</b>	<b>BREAKDOWN OF TAX LIABILITY</b>	<b>238</b>
<b>17.2</b>	<b>RECONCILIATION OF THE THEORETICAL AND EFFECTIVE TAX EXPENSE</b>	<b>238</b>
<b>17.3</b>	<b>BREAKDOWN OF DEFERRED TAX ASSETS AND LIABILITIES BY NATURE</b>	<b>239</b>
<b>17.4</b>	<b>LOSSES CARRIED FORWARD AND TAX CREDITS</b>	<b>240</b>
<b>17.5</b>	<b>TAX RECORDED AGAINST EQUITY</b>	<b>240</b>

## ➔ 17.1 - BREAKDOWN OF TAX LIABILITY

(in millions of euros)

	2006	2005
Current tax expense	(1,344)	(1,474)
Deferred taxes	198	29
<b>TOTAL</b>	<b>(1,146)</b>	<b>(1,445)</b>

In 2006, €(676) million of the current tax expense relates to EDF's tax consolidated group, and €(668) million to other subsidiaries. It is

affected by various tax savings described in note 17.2, and the impact of the full-year consolidation of Edison.

## ➔ 17.2 - RECONCILIATION OF THE THEORETICAL AND EFFECTIVE TAX EXPENSE

### 17.2.1 Reconciliation of the theoretical and effective tax rate

(in millions of euros)

	2006	2005
<b>Income of consolidated companies before tax</b>	<b>6,655</b>	<b>4,578</b>
Goodwill impairment	337	29
<b>Income of consolidated companies before tax and goodwill impairment</b>	<b>6,992</b>	<b>4,607</b>
<b>Theoretical tax expense</b>	<b>(2,407)</b>	<b>(1,609)</b>
Differences in tax rate	24	90
Permanent differences	873	429
Taxes without basis	338	(300)
Net depreciation of deferred tax assets	(4)	(23)
Other	30	(32)
<b>Actual tax expense</b>	<b>(1,146)</b>	<b>(1,445)</b>
<b>EFFECTIVE TAX RATE</b>	<b>16.39%</b>	<b>31.37%</b>

The main factors explaining the difference between the prevailing official rate and the effective rate are:

- 2006:

- The tax saving resulting from the legal reorganization of the Light Group (€586 million) required by the Brazilian regulator Aneel,
- The tax-neutral effect of reversals of impairment on Light's long-term assets (€212 million) recorded in the first half-year,

- The favorable outcome of contestations to the UK tax authorities by EDF Energy (€104 million),
- The realignment to book value of the tax bases of certain Edison fixed assets, in accordance with the 2006 Italian Finance Law. The reversal of deferred tax liabilities in return for payment of a substitute tax of 12% resulted in a €104 million tax credit,
- Recognition in Germany of tax credits on profits taxed at a higher rate, resulting from changes in the requirements for utilization of these credits (€76 million).

- 2005:

- The impact of differences in tax rates, essentially on the UK subsidiaries EDF Trading and EDF Energy which were taxed at 30%;
- The completion of the Edison takeover terminated a risk the Group had covered by provision in the 2004 financial statements. Since this provision was not tax-deductible, its reversal generated no taxable income, and the effective tax expense was thus €429 million lower than the theoretical tax expense;

- The impact of the tax inspection of EDF SA covering 2003 and 2004, which led to an income tax reassessment of €458 million. A deferred tax asset of €319 million was also recorded, such that the net impact was €(139) million.

## 17.2.2 Change in deferred taxes

(in millions of euros)

	Deferred tax assets	Provision on deferred tax assets	Net deferred tax assets	Deferred tax liabilities	Net deferred taxes
<b>Situation at December 31, 2004</b>	<b>3,457</b>	<b>(2,513)</b>	<b>944</b>	<b>(2,929)</b>	<b>(1,985)</b>
Impacts of IFRIC 4	19	-	19	(60)	(41)
<b>Restated situation at December 31, 2004</b>	<b>3,476</b>	<b>(2,513)</b>	<b>963</b>	<b>(2,989)</b>	<b>(2,026)</b>
Impact of IAS 32 and 39 at opening date	106	-	106	(288)	(182)
<b>Restated situation at January 1, 2005</b>	<b>3,582</b>	<b>(2,513)</b>	<b>1,069</b>	<b>(3,277)</b>	<b>(2,208)</b>
Change in tax basis	564	29	593	(509)	84
Change in scope of consolidation	(114)	195	81	(732)	(651)
Translation adjustments	247	(242)	5	(49)	(44)
<b>Restated situation at December 31, 2005</b>	<b>4,279</b>	<b>(2,531)</b>	<b>1,748</b>	<b>(4,567)</b>	<b>(2,819)</b>
Change in tax basis	(95)	429	334	284	618
Change in scope of consolidation	(780)	850	70	(325)	(255)
Translation adjustments	13	2	15	(38)	(23)
<b>SITUATION AT DECEMBER 31, 2006</b>	<b>3,417</b>	<b>(1,250)</b>	<b>2,167</b>	<b>(4,646)</b>	<b>(2,479)</b>

In 2006, the €618 million change in the tax bases has an impact of €198 million on income and €376 million on equity.

Changes in the scope of consolidation in 2006 mainly reflect the derecognition of deferred tax assets totally written down as a result of the sale of Light (€850 million).

## ➔ 17.3 - BREAKDOWN OF DEFERRED TAX ASSETS AND LIABILITIES BY NATURE

(in millions of euros)

	12.31.2006	12.31.2005
<b>Deferred tax assets:</b>		
Differences between depreciation recorded for accounting and tax purposes	854	788
Non-deductible provisions	5,412	5,345
Other deductible temporary differences	2,072	1,241
Revaluations, revaluation surplus and elimination of intercompany profit	237	644
Tax losses and unused tax credits	171	1,022
Netting of deferred tax assets and liabilities	(5,329)	(4,761)
<b>Deferred tax assets - gross value</b>	<b>3,417</b>	<b>4,279</b>
Provision on deferred tax assets	(1,250)	(2,531)
<b>DEFERRED TAX ASSETS - NET VALUE</b>	<b>2,167</b>	<b>1,748</b>
<b>Deferred tax liabilities:</b>		
Differences between depreciation recorded for accounting and tax purposes	(6,002)	(5,559)
Other deductible temporary differences	(2,310)	(1,846)
Revaluations, revaluation surplus and elimination of intercompany profit	(1,663)	(1,923)
Netting of deferred tax assets and liabilities	5,329	4,761
<b>DEFERRED TAX LIABILITIES</b>	<b>(4,646)</b>	<b>(4,567)</b>
<b>NET DEFERRED TAXES</b>	<b>(2,479)</b>	<b>2,819</b>

## ➔ 17.4 - LOSSES CARRIED FORWARD AND TAX CREDITS

At December 31, 2006, tax loss carryforwards and unrecorded deferred tax assets represent a potential tax saving of €1,250 million.

Most of this tax saving lies in deferred tax assets on pension obligations in France.

## ➔ 17.5 - TAX RECORDED AGAINST EQUITY

At December 31, 2006, the total deferred tax recorded against components of equity amounts to €376 million. €323 million of this total

relates to the recognition of taxes on changes in the fair value of financial instruments deferred in equity.

## Note 18 Goodwill

Goodwill on consolidated entities comprises the following:

(in millions of euros)

	12.31.2006	12.31.2005
<b>Net book value at opening date</b>	<b>7,181</b>	<b>5,371</b>
Acquisitions	102	1,824
Disposals	(9)	(83)
Impairment	(337)	(29)
Translation adjustments	46	81
Other movements	140	17
<b>NET BOOK VALUE AT CLOSING BALANCE</b>	<b>7,123</b>	<b>7,181</b>
Gross value at closing balance	7,885	7,606
Accumulated impairment at closing	(762)	(425)

The breakdown of goodwill is as follows:

(in millions of euros)

	United Kingdom	Germany	Italy	Rest of Europe	Rest of the World	Total
<b>AT DECEMBER 31, 2006</b>	<b>2,534</b>	<b>1,501</b>	<b>2,004</b>	<b>1,043</b>	<b>41</b>	<b>7,123</b>
At December 31, 2005	2,478	1,760	1,884	1,013	46	7,181

For Germany, goodwill of €1,501 million comprises the effects of the €318 million impairment explained in note 14, an increase of €85 million mainly due to the takeover of Stadwerke Düsseldorf (note 6) and recognition of some of the tax credits obtained by EnBW in the second half-year.

The final goodwill resulting from definitive allocation of the acquisition price of Edison (see note 5.2.5) was €1,882 million, taking into account the fair value of the high-voltage network at October 1, 2005, and the goodwill impairment recorded in 2006 due to utilization of tax losses originating before the acquisition date.

In the Rest of Europe, the main factor in the increase was goodwill generated by operations in connection with the IPO of *EDF Energies Nouvelles*.

The weighted average cost of capital net of taxes referred to for impairment tests in 2006 was in the range of 4.7% to 10.8% in Europe and 8.9% to 11.7% in the rest of the world.

Following impairment tests, goodwill impairment of €19 million was booked in 2006 in respect of European subsidiaries.

## Note 19 Other intangible assets

The net value of other intangible assets breaks down as follows:

### ➔ 19.1 - AT DECEMBER 31, 2006

(in millions of euros)

	12.31.2005	Acquisitions	Disposals	Amortization	Translation adjustments	Other movements	12.31.2006
Greenhouse gas emission rights	106	252	(121)	-	4	-	241
Other intangible assets	2,723	302	(26)	-	2	(4)	2,997
<b>Gross values</b>	<b>2,829</b>	<b>554</b>	<b>(147)</b>	<b>-</b>	<b>6</b>	<b>(4)</b>	<b>3,238</b>
Accumulated amortization	(943)	-	24	(271)	(3)	55	(1,138)
<b>NET VALUES</b>	<b>1,886</b>	<b>554</b>	<b>(123)</b>	<b>(271)</b>	<b>3</b>	<b>51</b>	<b>2,100</b>

Research and development expenses recorded in the income statement total €389 million for the year ended December 31, 2006.

### ➔ 19.2 - AT DECEMBER 31, 2005

(in millions of euros)

	12.31.2004	Acquisitions	Disposals	Amortization	Translation adjustments	Other movements	12.31.2005
<b>Gross values</b>	<b>2,075</b>	<b>335</b>	<b>(44)</b>	<b>-</b>	<b>30</b>	<b>433</b>	<b>2,829</b>
Accumulated amortization	(787)	-	32	(202)	(16)	30	(943)
<b>NET VALUES</b>	<b>1,288</b>	<b>335</b>	<b>(12)</b>	<b>(202)</b>	<b>14</b>	<b>463</b>	<b>1,886</b>

Research and development expenses recorded in the income statement totaled €402 million for the year ended December 31, 2005.

## Note 20 Property, plant and equipment

<b>20.1</b>	<b>MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT OWNED BY THE GROUP (EXCLUDING ASSETS IN PROGRESS)</b>	<b>242</b>
<b>20.2</b>	<b>MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT OPERATED UNDER CONCESSION (EXCLUDING ASSETS IN PROGRESS)</b>	<b>243</b>
<b>20.3</b>	<b>FINANCE LEASE OBLIGATIONS</b>	<b>244</b>

The net value of property, plant and equipment breaks down as follows:

(in millions of euros)

	12.31.2006	12.31.2005
Property, plant and equipment owned by the Group	61,019	59,715
Property, plant and equipment operated under concession	38,540	38,110
Property, plant and equipment in progress	3,935	3,479
Leased property, plant and equipment	387	363
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>103,881</b>	<b>101,667</b>

## ➔ 20.1 - MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT OWNED BY THE GROUP (EXCLUDING ASSETS IN PROGRESS)

(in millions of euros)

	Land & Buildings	Nuclear power plants	Fossil-fired & hydropower plants	Networks	Other installations, plant, machinery & equipment	Total
<b>Gross values at 12.31.2004</b>	<b>14,602</b>	<b>44,513</b>	<b>11,506</b>	<b>35,786</b>	<b>10,191</b>	<b>116,598</b>
Impacts of the Law of August 9, 2004	-	-	-	(1,790)	-	(1,790)
Impacts of IFRIC 4	-	-	(14)	(408)	(54)	(476)
Increases	225	562	750	1,260	575	3,372
Decreases	(274)	(504)	(38)	(132)	(523)	(1,471)
Translation adjustment	36	-	195	234	279	744
Changes in the scope of consolidation	412	(24)	3,058	9	(428)	3,027
Other movements	401	163	671	(269)	(188)	778
<b>Gross values at 12.31.2005</b>	<b>15,402</b>	<b>44,710</b>	<b>16,128</b>	<b>34,690</b>	<b>9,852</b>	<b>120,782</b>
Increases	301	512	986	1,410	550	3,759
Decreases	(246)	(208)	(110)	(172)	(419)	(1,155)
Translation adjustment	28	-	(59)	196	(55)	110
Changes in the scope of consolidation	183	318	318	219	594	1,632
Other movements	(5)	142	79	(220)	22	18
<b>Gross values at 12.31.2006</b>	<b>15,663</b>	<b>45,474</b>	<b>17,342</b>	<b>36,123</b>	<b>10,544</b>	<b>125,146</b>
<b>Depreciation and impairment at 12.31.2004</b>	<b>(6,693)</b>	<b>(27,148)</b>	<b>(7,051)</b>	<b>(12,481)</b>	<b>(5,895)</b>	<b>(59,268)</b>
Impacts of the Law of August 9, 2004	-	-	-	1,078	-	1,078
Impacts of IFRIC 4	-	-	-	10	18	28
Net depreciation	(395)	(1,065)	(529)	(984)	(593)	(3,566)
Disposals	162	475	24	126	489	1,276
Translation adjustment	(13)	-	(61)	(43)	(69)	(186)
Changes in the scope of consolidation	28	10	(265)	(96)	(10)	(333)
Other movements	(160)	(47)	(6)	238	(121)	(96)
<b>Depreciation and impairment at 12.31.2005</b>	<b>(7,071)</b>	<b>(27,775)</b>	<b>(7,888)</b>	<b>(12,152)</b>	<b>(6,181)</b>	<b>(61,067)</b>
Net depreciation	(432)	(1,020)	(828)	(948)	(602)	(3,830)
Disposals	135	167	92	131	388	913
Translation adjustment	(10)	-	3	(38)	14	(31)
Changes in the scope of consolidation	(12)	(151)	(115)	1	148	(129)
Other movements	35	(48)	(98)	93	35	17
<b>Depreciation and impairment at 12.31.2006</b>	<b>(7,355)</b>	<b>(28,827)</b>	<b>(8,834)</b>	<b>(12,913)</b>	<b>(6,198)</b>	<b>(64,127)</b>
<b>Net values at 12.31.2005</b>	<b>8,331</b>	<b>16,935</b>	<b>8,240</b>	<b>22,538</b>	<b>3,671</b>	<b>59,715</b>
<b>NET VALUES AT 12.31.2006</b>	<b>8,308</b>	<b>16,647</b>	<b>8,508</b>	<b>23,210</b>	<b>4,346</b>	<b>61,019</b>

Following impairment tests, the Group has booked a net impairment loss of €161 million at December 31, 2006 (€118 million at December 31, 2005) on certain items of property, plant and equipment owned by the Group.

## ➔ 20.2 - MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT OPERATED UNDER CONCESSION (EXCLUDING ASSETS IN PROGRESS)

(in millions of euros)

	Land & Buildings	Fossil-fired & hydropower plants	Networks	Other installations, plant, machinery & equipment & other	Total
<b>Gross values at 12.31.2004</b>	<b>2,631</b>	<b>6,297</b>	<b>50,102</b>	<b>2,149</b>	<b>61,179</b>
Impacts of the Law of August 9, 2004	-	-	1,790	-	1,790
Impacts of IFRIC 4	-	-	-	-	-
Increases <sup>(1)</sup>	11	27	2,253	96	2,387
Decreases	(14)	(2)	(174)	(109)	(299)
Translation adjustment	83	37	342	107	569
Changes in the scope of consolidation	(4)	449	-	(637)	(192)
Other movements	(383)	(602)	(1)	(417)	(1,403)
<b>Gross values at 12.31.2005</b>	<b>2,324</b>	<b>6,206</b>	<b>54,312</b>	<b>1,189</b>	<b>64,031</b>
Increases <sup>(1)</sup>	6	8	2,345	62	2,421
Decreases	(14)	-	(285)	(95)	(394)
Translation adjustment	(5)	(1)	-	(1)	(7)
Changes in the scope of consolidation	(359)	(157)	(1,579)	-	(2,095)
Other movements	6	(33)	22	3	(2)
<b>Gross values at 12.31.2006</b>	<b>1,958</b>	<b>6,023</b>	<b>54,815</b>	<b>1,158</b>	<b>63,954</b>
<b>Depreciation and impairment at 12.31.2004</b>	<b>(1,579)</b>	<b>(3,380)</b>	<b>(18,368)</b>	<b>(1,111)</b>	<b>(24,438)</b>
<b>Impacts of the Law of August 9, 2004</b>	<b>-</b>	<b>-</b>	<b>(1,078)</b>	<b>-</b>	<b>(1,078)</b>
<b>Impacts of IFRIC 4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net depreciation	(22)	(92)	(18)	(59)	(191)
Disposals	13	2	114	109	238
Translation adjustment	(4)	(18)	(398)	(61)	(481)
Changes in the scope of consolidation	2	(89)	-	297	210
Other movements <sup>(2)</sup>	324	653	(1,345)	187	(181)
<b>Depreciation and impairment at 12.31.2005</b>	<b>(1,266)</b>	<b>(2,924)</b>	<b>(21,093)</b>	<b>(638)</b>	<b>(25,921)</b>
Net depreciation	(19)	(85)	620	(14)	502
Disposals	14	-	208	95	317
Translation adjustment	2	1	(18)	-	(15)
Changes in the scope of consolidation	22	78	1,118	-	1,218
Other movements <sup>(2)</sup>	(29)	-	(1,414)	(72)	(1,515)
<b>Depreciation and impairment at 12.31.2006</b>	<b>(1,276)</b>	<b>(2,930)</b>	<b>(20,579)</b>	<b>(629)</b>	<b>(25,414)</b>
<b>Net values at 12.31.2005</b>	<b>1,058</b>	<b>3,282</b>	<b>33,219</b>	<b>551</b>	<b>38,110</b>
<b>NET VALUES AT 12.31.2006</b>	<b>682</b>	<b>3,093</b>	<b>34,236</b>	<b>529</b>	<b>38,540</b>

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

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

Property, plant and equipment operated under concession includes facilities under concession in the following countries: France, Italy and Switzerland. It also includes the facilities of the Brazilian subsidiary until its sale on August 10, 2006.

Based on the sale price defined in the Share Purchase Agreement, in the first half-year of 2006 EDF reversed €624 million of impairment recorded in the years 2002-2004 in respect of this company's fixed assets.



## ➔ 20.3 - FINANCE LEASE OBLIGATIONS

The Group is a party to agreements classified as finance leases under IFRIC 4, which account for most of its finance lease commitments as lessor. These agreements mainly concern EDF Energy.

The corresponding payments are subject to renegotiation at intervals defined in the contracts. The main companies concerned are Tiru, EnBW and Sofilo.

The Group is also bound by irrevocable finance-lease contracts for premises, equipment and vehicles used in the course of its business.

At December 31, 2006, the total expenses and commitments for irrevocable finance-lease payments were as follows:

(in millions of euros)

	Total	Maturity		
		< 1 year	1-5 years	> 5 years
Financial lease commitments as lessor	693	92	413	188
Financial lease commitments as lessee	394	28	188	178

## Note 21 Investments in companies accounted for under the equity method

Investments in associates are as follows:

(in millions of euros)

	Principal activity <sup>(1)</sup>	% voting rights held	12.31.2006		12.31.2005	
			Share of net equity	Share of net income	Share of net equity	Share of net income
Dalkia Holding	S	34.0	469	23	463	20
Estag	G	20.0	352	31	326	15
SSE	D	49.0	219	26	193	20
Atel Group <sup>(2)</sup>	G	25.8	626	112	280	36
EVN	D	16.4	397	42	268	-
Edenor	D	25.0	2	17	(17)	(4)
Other investments in associates			394	12	517	103
<b>INVESTMENTS IN COMPANIES ACCOUNTED FOR UNDER THE EQUITY METHOD</b>			<b>2,459</b>	<b>263</b>	<b>2,030</b>	<b>190</b>

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

(2) The Atel Group comprises Motor Columbus and Atel.

The main transactions of the year were as follows:

- The acquisition of a further 17.32% interest in Motor Columbus from UBS for CHF 404 million and the acquisition by Atel of 7.2% of the capital of Motor Columbus, which have an induced effect of 11.37% on the investment in Atel;

- Acquisition of control over Stadtwerke Düsseldorf, which has been fully consolidated since March 31, 2006. At December 31, 2005 the company was included in "Investments in companies accounted for under the equity method" at the value of €125 million;
- Exceptional depreciation of €73 million in connection with unfavorable developments in the prospects of an investment located in the United Kingdom.

At December 31, 2005, the main published indicators concerning companies accounted for under the equity method were as follows:

(in millions of euros)

	Total Assets	Total Liabilities (excluding Equity)	Sales	Net income
Dalkia holding <sup>(1)</sup>	6,779	5,068	5,432	129
Etag	1,993	914	1,043	66
SSE	320	146	471	51
Atel	4,705	3,120	5,543	267
EVN <sup>(2)</sup>	5,846	3,090	2,072	222
Edenor	989	608	349	(41)

(1) Consolidated financial data including Dalkia Investissement and Dalkia International.

(2) Data as of September 30, 2006.

## Note 22 Financial assets

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Since January 1, 2005, financial assets have been valued and presented under IAS 32 and 39 (see note 38).

### ➔ 22.1 - BREAKDOWN BETWEEN CURRENT AND NON-CURRENT FINANCIAL ASSETS

Current and non-current financial assets break down as follows:

(in millions of euros)

	12.31.2006			12.31.2005		
	Current	Non-current	Total	Current	Non-current	Total
Financial assets carried at fair value with changes in fair value included in income	5,845	-	5,845	6,194	-	6,194
Available-for-sale financial assets	10,274	11,193	21,467	4,592	7,135	11,727
Held-to-maturity investments <sup>(1)</sup>	255	187	442	22	115	137
Positive fair value of hedging derivatives	128	328	456	737	518	1,255
Loans and financial receivables <sup>(1)</sup>	508	1,386	1,894	421	1,244	1,665
<b>FINANCIAL ASSETS</b>	<b>17,010</b>	<b>13,094</b>	<b>30,104</b>	<b>11,966</b>	<b>9,012</b>	<b>20,978</b>

(1) Net of impairment.

## ➔ 22.2 - CHANGE IN FINANCIAL ASSETS

The variation in financial assets is as follows:

### 22.2.1 At December 31, 2006

(in millions of euros)

	12.31.2005	Increases	Decreases	Changes in fair value	Other	12.31.2006
Financial assets carried at fair value with changes in fair value included in income	6,194	414	(556)	(519)	312	5,845
Available-for-sale financial assets	11,727	14,802	(5,892)	737	93	21,467
Held-to-maturity investments	137	329	(39)	-	15	442
Positive fair value of hedging derivatives	1,255	1	(2)	(292)	(506)	456
Loans and financial receivables	1,665	742	(368)	-	(145)	1,894
<b>FINANCIAL ASSETS</b>	<b>20,978</b>	<b>16,288</b>	<b>(6,857)</b>	<b>(74)</b>	<b>(231)</b>	<b>30,104</b>

### 22.2.2 At December 31, 2005

(in millions of euros)

	01.01.2005	Increases	Decreases	Changes in fair value	Other	12.31.2005
Financial assets carried at fair value with changes in fair value included in income	3,020	321	(206)	2,816	243	6,194
Available-for-sale financial assets	8,967	3,618	(939)	592	(511)	11,727
Held-to-maturity investments	17	126	(8)	-	2	137
Positive fair value of hedging derivatives	664	34	-	626	(69)	1,255
Loans and financial receivables	1,140	355	(474)	-	74	1,095
IFRIC 4	466	69	(9)	-	44	570
<b>FINANCIAL ASSETS</b>	<b>14,274</b>	<b>4,523</b>	<b>(1,636)</b>	<b>4,034</b>	<b>(217)</b>	<b>20,978</b>

## ➔ 22.3 - DETAILS OF FINANCIAL ASSETS

### 22.3.1 Financial assets with changes in fair value included in income

(in millions of euros)

	12.31.2006	12.31.2005
Derivatives - positive fair value	5,762	5,817
Fair value of derivatives held for trading <sup>(1)</sup>	83	118
Financial assets carried at fair value with changes in fair value included in income, by option <sup>(2)</sup>	-	259
<b>FINANCIAL ASSETS WITH CHANGES IN FAIR VALUE INCLUDED IN INCOME</b>	<b>5,845</b>	<b>6,194</b>

(1) Portion classified as liquid assets

73 98

(2) Portion classified as liquid assets

- 161

### 22.3.2 Available-for-sale financial assets

(in millions of euros)

	12.31.2006			12.31.2005		
	Equities	Debt securities	Total	Equities	Debt securities	Total
Dedicated assets of EDF SA	4,315	1,942	6,257	2,062	1,214	3,276
Liquid assets	3,876	6,205	10,081	3,390	932	4,322
Other	3,997	1,132	5,129	2,687	1,442	4,129
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>	<b>12,188</b>	<b>9,279</b>	<b>21,467</b>	<b>8,139</b>	<b>3,588</b>	<b>11,727</b>

During 2006, €537 million of changes in the fair value, net of tax, of available-for-sale financial assets were recorded in equity. An amount of €21 million net of tax was transferred from equity to income in connection with disposals of these assets.

During 2005, €487 million of changes in the fair value, net of tax, of available-for-sale financial assets were recorded in equity. An amount of €19 million net of tax was transferred from equity to income in respect of disposals and impairment of these assets.

## 22.3.2.1 EDF SA's dedicated asset portfolio

EDF SA's dedicated asset portfolio consists of financial assets dedicated to cover long-term expenses related to nuclear plant decommissioning and end of nuclear fuel cycle expenses (see note 29.4). In accordance with EDF's policy, these assets are clearly identifiable and managed separately from the company's other financial assets and investments.

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

Certain dedicated assets take the form of equity securities and bonds currently held and managed directly by EDF SA and recorded as such in its balance sheet. The rest comprise specialized collective investment funds on 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, in the form of open-end funds and "reserved" funds established by the Group solely for its own use.

The reserved funds are assigned performance objectives linked to a benchmark stock market index, within strict risk limits expressed in the form of tracking error. As EDF does not intervene in the operational management of funds within the objectives set out in the investment agreements, line-by-line consolidation of reserved funds would not reflect the intended business objective. These funds fully constitute financial assets, for which the net asset value represents market value. They are therefore carried in the balance sheet at net asset value as a component of available-for-sale financial assets.

The table below presents changes in the fair value of the dedicated asset portfolio, with particular details of changes in the net asset value of reserved funds:

(in millions of euros)

	Fair value 12.31.2006	Fair value 12.31.2005
North American equities	494	467
European equities	464	360
Japanese equities	110	126
Worldwide bonds	480	245
<b>Total Reserved investment funds</b>	<b>1,548</b>	<b>1,198</b>
<b>Equities:</b>	<b>2,213</b>	<b>634</b>
Securities	283	188
Equities-based unit trusts	1,930	446
<b>Bonds:</b>	<b>2,138</b>	<b>1,409</b>
Securities	1,942	1,214
Short-term unit trusts	196	194
<b>Other funds</b>	<b>358</b>	<b>35</b>
<b>Total Other financial investments</b>	<b>4,709</b>	<b>2,078</b>
<b>TOTAL DEDICATED INVESTMENT FUNDS</b>	<b>6,257</b>	<b>3,276</b>

The allocation to dedicated assets for 2006 amounts to €2,845 million, following the Board of Directors' decision of September 2005 to establish dedicated assets at an accelerated pace until 2010.

## 22.3.2.2 Liquid assets

Liquid assets are financial assets consisting of funds or interest rate instruments with initial maturity of over three months, that are readily convertible into cash regardless of their maturity, and are managed according to a liquidity-oriented policy.

The increase in liquid assets between 2005 and 2006 mainly reflects short-term investment of cash surpluses in late 2005 related to the EDF SA capital increase.

## 22.3.2.3 Other securities

At December 31, 2006, other securities mainly include:

- At EnBW, €1,113 million in available-for-sale assets (debt instruments, including €948 million of reserved funds) and €1,505 million in available-for-sale assets (equities, including €836 million of reserved funds);
- At EDF SA, shares in AREVA (€482 million).

## 22.4 - FAIR VALUE OF FINANCIAL INSTRUMENTS OTHER THAN DERIVATIVES

(in millions of euros)

	12.31.2006		12.31.2005	
	Fair value	Net book value	Fair value	Net book value
Held-to-maturity investments	442	442	137	137
Loans and financial receivables	1,890	1,894	1,670	1,665
<b>FINANCIAL INSTRUMENTS OTHER THAN DERIVATIVES</b>	<b>2,332</b>	<b>2,336</b>	<b>1,807</b>	<b>1,802</b>

## ➔ 22.5 - INVESTMENT COMMITMENTS

At December 31, 2006, commitments related to investments are as follows:

(in millions of euros)

	Total	Maturity		
		< 1 year	1-5 years	> 5 years
Investment commitments	2,780	2,510	270	-
Other investment commitments given	185	105	80	-
Other investment commitments received	64	11	21	32

### 22.5.1 Investment commitments

- Commitment granted to OEW by *EDF International* relating to EnBW under a shareholder agreement concluded on July 26, 2000:

OEW, which jointly controls EnBW with *EDF*, has a put option on all or some of its Subjected Shares (25% of the capital of EnBW), exercisable at any time until December 31, 2011 at the price of €37.14 per share. This option is included in the EDF Group's off balance sheet commitments at December 31, 2006 at the value of €2,322 million.

- Various options or agreements entered into by *EDF International* (€241 million) and EnBW (€167 million) in respect of shares in various companies in the energy generation industry.

*EDF International* has a put option over all Edenor shares still in its possession in April 2013 and April 2014, based on an enterprise valuation of 6 times the previous year's operating profit before depreciation and amortization. *EDF International* also has a further sale commitment over all Edenor shares still in its possession in April 2015 and April 2016, based on an enterprise valuation of 6 times the previous year's operating profit before depreciation and amortization. These commitments have not been valued due to the uncertainties inherent to their assessment.

- Commitments made by *EDEV SA* in relation to *EDF Energies Nouvelles*:

During 2006, various transactions were undertaken on the shares of *EDF Energies Nouvelles (EDF EN)*. These transactions changed the value of the investment recorded by *EDEV*, although it remained at 50% at December 31, 2006, and the commitments to this subsidiary:

- Agreement of July 17, 2006 and amendment of November 10, 2006

In connection with *EDF EN*'s admission to the regulated market on November 28, 2006, a shareholder agreement and a further agreement concerning *EDF EN* were signed on July 17, 2006 between EDF and *EDEV* (hereafter referred to as "the EDF Group") and Mr Pâris Mouratoglou and the Luxembourg company SIIF - *Société Internationale d'Investissements Financiers* (hereafter referred to as "the Mouratoglou Group"). An amendment to this agreement was also signed between the two Groups on November 10, 2006, notably to neutralize the impact of the

tenfold reduction in the nominal value of *EDF EN* shares, decided by the shareholders at the general meeting of September 18, 2006. This amendment also expanded and/or clarified certain stipulations of the July agreements.

- Sale of shares prior to the IPO

Under the memorandum of understanding signed on July 20, 2000 between *EDEV* and the Mouratoglou Group, which set forth the principle of equal capital shares and voting rights in *EDF EN* for the EDF Group and the Mouratoglou Group and following call options granted to the Mouratoglou Group and promises of share transfers between shareholders, *EDEV* sold 125,014 shares in the company to the Mouratoglou Group on July 17, 2006 for €4.6 million.

In application of a sale agreement dated July 17, 2006, amended on November 10, 2006, in order to bring the two Group's shareholdings back to equal levels, *EDEV* purchased 1,305,520 *EDF EN* shares ("adjustable price shares") from the Mouratoglou Group. This sale gave rise to payment by *EDEV* of €20.5 million, and an upward or downward price adjustment will also be payable, calculated with reference to the *EDF EN* share issue price for the IPO, i.e. €28 per share, depending on the subsequent development in share prices.

This price adjustment will be settled under a similar process as for the settlement of the price of additional shares (see below).

- Capital increase reserved for *EDEV*

To maintain the EDF Group's level in *EDF EN* at 50% of share capital and voting rights, *EDF EN*'s shareholders delegated its powers to the Board of Directors to proceed with an issue of new shares reserved for *EDEV*. 4,798,464 shares were thus issued at the same price as the *EDF EN* IPO issue price, €28 per share, resulting in a €134.4 million increase in *EDEV*'s investment in *EDF EN*.

- Sale of *EDF EN* shares by the Mouratoglou Group to the EDF Group concurrently with the IPO.

Under the agreement of July 17, 2006 and its amendment of November 10, 2006, the Mouratoglou Group and the EDF Group agreed that as part of *EDF EN*'s IPO, the Mouratoglou Group would

sell *EDEV* the number of shares in *EDF EN* (the "additional shares") necessary to maintain the EDF Group's investment in *EDF EN* at 50% during and after the IPO. A total of 4,674,963 additional shares were sold.

The price of these additional shares will be paid in a deferred settlement from the end of the six-month period following *EDF EN*'s IPO and no later than December 31, 2010.

The unit price for the sale of the additional shares will be the volume-weighted average of the closing price of the share over the 60 trading days preceding notification of the demand.

### – Commitments

Under the shareholders' agreement of July 17, 2006 and its amendment, the EDF Group and the Mouratoglou Group also undertook the following additional commitments:

#### – Liquidity commitment

Subject to the laws and regulations applicable to regulated markets, the EDF Group and the Mouratoglou Group will refrain from any direct or indirect acquisition of shares that would reduce the publicly traded portion of the capital of *EDF EN* to below 95% of that portion. This commitment by the EDF Group would expire should the Mouratoglou Group come to own less than 10% of the capital of *EDF EN*.

#### – Preferential right

In the event that the Mouratoglou Group plans to transfer some or all of its shares, the EDF Group will benefit from a preferential right to purchase those shares. This right will be exercised differently, depending on whether the beneficiary of the intended share transfer is (i) one or more financial institutions (for placement with institutional investors or on the market), or (ii) other parties.

(i) In the first case, the EDF Group may purchase the shares at a price based on the stock market price.

(ii) In the second case, the EDF Group may purchase the shares either at a price proposed by the third party, if the transfer takes the form of a straightforward sale for cash, or otherwise (for instance in the event of a contribution, exchange or other transaction) at a price determined by an independent expert.

If the EDF Group does not exercise its preferential right, the Mouratoglou Group may proceed with the intended transfer.

This preferential right shall not apply in certain circumstances defined in the agreement.

#### – Provisions concerning the Mouratoglou Group's investment

Should the Mouratoglou Group's investment fall below 10% of the capital of *EDF EN*, subject to compliance with its lockup commitments related to the IPO, *EDEV* would grant the Mouratoglou Group a put option for three months from the date at which the investment falls below 10%, covering all the Mouratoglou Group's residual investment in *EDF EN*, at a per-share price equal to the average volume-weighted closing price of the *EDF EN* share over the 60 trading days preceding notification of exercise of the option; this price cannot be more than 10% higher than the share's last closing price before such notification.

If the Mouratoglou Group does not exercise this put option, *EDEV* will have a call option over all shares held by the Mouratoglou Group for a three-month period starting upon the expiry of the exercise period for the above put option, at a per-share price equal to the average volume-weighted closing price of the *EDF EN* share over the 60 trading days preceding notification of exercise of the option; this price cannot be more than 10% lower than the share's last closing price before such notification.

These two options will automatically expire on December 31, 2015.

– Agreement with *Veolia Environnement*: *Veolia Environnement* has granted *EDF* a call option on all its Dalkia shares in the event that a competitor of *EDF* takes control over *Veolia Environnement*. *EDF* has also granted *Veolia Environnement* a call option over all its Dalkia shares in the event that the status of *EDF* should change 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 an independent expert.

### 22.5.2 Other investment commitments

These commitments primarily concern investment guarantees provided by Dalkia International (€66 million), EnBW (€71 million) and ECW (€25 million).

Through its subsidiaries *EDF Energies Nouvelles*, *Tiru* and *Dalkia International*, the EDF Group has also received various commitments amounting to a total of €64 million.



## Note 23 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 progress for production of goods and services	Other inventories	Total inventories
Gross value	5,312	565	916	153	148	7,094
Provisions	(213)	(5)	(158)	(23)	-	(399)
<b>Net value at 12.31.2005</b>	<b>5,099</b>	<b>560</b>	<b>758</b>	<b>130</b>	<b>148</b>	<b>6,695</b>
Gross value	5,363	724	1,059	358	342	7,846
Provisions	(218)	(4)	(169)	(24)	-	(415)
<b>NET VALUE AT 12.31.2006</b>	<b>5,145</b>	<b>720</b>	<b>890</b>	<b>334</b>	<b>342</b>	<b>7,431</b>

The long-term portion (more than one year) mainly concerns nuclear fuel inventories amounting to €3,884 million.

## Note 24 Trade receivables

Details of net trade receivables are as follows:

(in millions of euros)

	12.31.2006	12.31.2005
Trade receivables - gross value excluding EDF Trading	14,815	15,257
Trade receivables EDF Trading - gross value	1,303	1,480
Provisions	(402)	(630)
<b>TRADE RECEIVABLES</b>	<b>15,716</b>	<b>16,107</b>

Most trade receivables mature within one year.

## Note 25 Other receivables

Details of other receivables are as follows:

(in millions of euros)

	Current accounts receivables	Prepaid expenses	Other receivables	Total
Gross values at 12.31.2005	262	794	3,604	4,660
Provisions at 12.31.2005	(13)	-	(26)	(39)
<b>Net values at 12.31.2005</b>	<b>249</b>	<b>794</b>	<b>3,578</b>	<b>4,621</b>
Gross values at 12.31.2006	240	543	3,480	4,263
Provisions at 12.31.2006	(17)	-	(20)	(37)
<b>NET VALUES AT 12.31.2006</b>	<b>223</b>	<b>543</b>	<b>3,460</b>	<b>4,226</b>

"Other receivables" mainly comprise amounts due to the French State and public authorities.  
The majority of other receivables are due within one year.

## Note 26 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 as stated in the cash flow statements include the following amounts recorded in the balance sheet:

<i>(in millions of euros)</i>	12.31.2006	12.31.2005
Cash	1,265	1,060
Cash equivalents	1,806	5,813
Financial current accounts	237	347
<b>CASH AND CASH EQUIVALENTS</b>	<b>3,308</b>	<b>7,220</b>

At December 31, 2005, this heading included €5 billion for temporary investment of the proceeds of the capital increase. In 2006, the corresponding funds were invested in longer-term instruments, included in liquid assets comprised under available-for-sale financial assets.

## Note 27 Held-for-sale assets and liabilities

At December 31, 2006, held-for-sale assets and liabilities mainly concern Serene (Edison Group) and two EnBW Group entities.

<i>(in millions of euros)</i>	12.31.2006	12.31.2005
	Total	Total
<b>Assets classified as held for sale:</b>	<b>140</b>	<b>728</b>
Intangible assets, plant, property and equipment	81	558
Other non-current assets	18	38
Current assets (excluding cash)	31	103
Cash	10	29
<b>Liabilities related to assets classified as held for sale:</b>	<b>116</b>	<b>592</b>
Non-current financial liabilities	-	391
Other non-current liabilities	64	28
Current financial liabilities	26	72
Other current financial liabilities	26	101

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## → 28.1 - SHARE CAPITAL

Changes in EDF's share capital are as follows:

(in euros)	Number of shares	Nominal value	Capital
<b>Capital at January 1, 2005</b>	<b>1,625,800,000</b>	<b>5</b>	<b>8,129,000,000</b>
Reduction in nominal value	1,625,800,000	(4.5)	(7,316,100,000)
<b>Capital after reduction</b>	<b>1,625,800,000</b>	<b>0.5</b>	<b>812,900,000</b>
Subscription of new shares under the Global Guaranteed Placement	58,239,399	0.5	29,119,700
Subscription of new shares under the French Open Price Offer	129,629,629	0.5	64,814,815
Exercise of share subscription warrants under the over-allotment option	8,502,062	0.5	4,251,031
<b>Capital increases</b>	<b>196,371,090</b>	<b>0.5</b>	<b>98,185,545</b>
<b>CAPITAL AT DECEMBER 31, 2005 AND DECEMBER 31, 2006</b>	<b>1,822,171,090</b>	<b>0.5</b>	<b>911,085,545</b>

On October 27, 2005, the Board of Directors exercised the authorization granted by the shareholders at their general meeting of August 31, 2005 to reduce the share capital.

On November 18, 2005, the Board formally recorded the capital increases which raised the share capital from €812,900,000 to €906,834,514.

On December 20, 2005, the banks exercised their over-allotment option, and the capital was thus raised to €911,085,545.

External expenses directly related to these capital increases, amounting to €219 million (€142 million net of tax), were charged directly to the share issue premium.

At December 31, 2005, the share capital amounted to €911,085,545, comprising 1,822,171,090 fully subscribed and paid-up shares with nominal value of €0.50 each, owned 87.3% by the French State, 10.8% by the public (institutional and private investors) and 1.9% by current and retired Group employees.

There were no changes in 2006 in EDF SA's share capital, which amounts to €911,085,545, comprising 1,822,171,090 shares with nominal value of €0.50 each.

## → 28.2 - TREASURY SHARES

A share repurchase program authorized by the General Shareholders' meeting of June 9, 2006 was implemented by the Board of Directors, within the limits of 10% of the total number of shares making up the Company's capital. The duration of the program is 18 months.

In execution of this program, for which a liquidity contract exists as required by the French market regulator AMF, 1,796,568 shares were

acquired in 2006 for a total of €74 million, and 1,761,825 shares were sold for a total of €74 million.

At December 31, 2006, treasury shares deducted from consolidated equity represent 34,743 shares with total value of €1 million.

## ➔ 28.3 - DIVIDENDS

The General Shareholders' meeting of June 9, 2006 decided to distribute dividends for a total of €1,439 million corresponding to €0.79 per share. Payment took place on June 20, 2006.

## ➔ 28.4 - BASIC EARNINGS PER SHARE AND DILUTED EARNINGS PER SHARE

The diluted earnings per share is calculated by dividing the Group's share of net income, corrected for dilutive instruments, by the weighted average number of potential shares outstanding over the period after elimination of treasury shares.

At December 31, 2006, dilutive instruments for the EDF Group exist in the form of Edison warrants. Of the 1,018,616,924 warrants in cir-

culation, the EDF Group holds 386,555,817. The Tassara Group exercised its Edison warrants in January 2007.

The following table shows the reconciliation of the basic and diluted earnings used to calculate earnings per share, and the variation in the weighted average number of shares used in calculating basic and diluted earnings per share:

	2006	2005
Net income attributable to ordinary shares	5,605	3,230
Dilutive effect	(6)	-
<b>Net income used to calculate diluted earnings per share (in millions of euros)</b>	<b>5,599</b>	<b>3,230</b>
<b>Average weighted number of ordinary shares outstanding at December, 31</b>	<b>1,822,070,091</b>	<b>1,648,188,742</b>
EDF SA's dilutive effect	-	-
<b>Average weighted number of diluted shares outstanding at December, 31</b>	<b>1,822,070,091</b>	<b>1,648,188,742</b>
<b>Earnings per share in euros:</b>		
<b>NET EARNINGS PER SHARE IN EUROS</b>	<b>3.08</b>	<b>1.96</b>
<b>DILUTED EARNINGS PER SHARE IN EUROS</b>	<b>3.07</b>	<b>1.96</b>

## Note 29 Provisions

<b>29.1</b>	<b>BREAKDOWN BETWEEN CURRENT AND NON-CURRENT PROVISIONS</b>	<b>253</b>
<b>29.2</b>	<b>PROVISIONS FOR END OF NUCLEAR FUEL CYCLE</b>	<b>254</b>
<b>29.3</b>	<b>PROVISIONS FOR DECOMMISSIONING AND LAST CORES</b>	<b>255</b>
<b>29.4</b>	<b>SECURE FINANCING OF LONG-TERM OBLIGATIONS</b>	<b>257</b>
<b>29.5</b>	<b>PROVISIONS FOR EMPLOYEE BENEFITS</b>	<b>257</b>
<b>29.6</b>	<b>OTHER PROVISIONS</b>	<b>261</b>

## ➔ 29.1 - BREAKDOWN BETWEEN CURRENT AND NON-CURRENT PROVISIONS

For comparability, the breakdown between current and non-current provisions is reported at January 1, 2005, i.e. after the effect of application of IAS 32 and 39:

(in millions of euros)	12.31.2006			12.31.2005		
	Current	Non-current	Total	Current	Non-current	Total
Provisions for end of nuclear fuel cycle	745	14,636	15,381	834	13,918	14,752
Provisions for decommissioning and last cores	218	13,606	13,824	229	12,907	13,136
Provisions for employee benefits	1,551	12,377	13,928	1,601	12,971	14,572
Other provisions	1,504	2,505	4,009	1,411	2,178	3,589
<b>PROVISIONS</b>	<b>4,018</b>	<b>43,124</b>	<b>47,142</b>	<b>4,075</b>	<b>41,974</b>	<b>46,049</b>

## ➔ 29.2 - PROVISIONS FOR END OF NUCLEAR FUEL CYCLE

The movement in provisions for end of nuclear fuel cycle breaks down as follows:

- At December 31, 2006:

(in millions of euros)

	12.31.2005	Increases	Decreases		Other changes	12.31.2006
			Utilizations	Reversals		
Provisions for reprocessing of nuclear fuel	10,336	1,057	(681)	(220)	20	10,512
Provisions for removal and storage of the resulting waste	4,416	640	(79)	(88)	(20)	4,869
<b>PROVISIONS FOR END OF NUCLEAR FUEL CYCLE</b>	<b>14,752</b>	<b>1,697</b>	<b>(760)</b>	<b>(308)</b>	<b>-</b>	<b>15,381</b>

At December 31, 2006, provisions for end of nuclear fuel cycle concern:

- EDF SA for €14,602 million (€13,887 million at December 31, 2005),
- And the subsidiaries for €779 million (€865 million at December 31, 2005).

- At December 31, 2005:

(in millions of euros)

	01.01.2005	Increases	Decreases		Other changes	12.31.2005
			Utilizations	Reversals		
Provisions for reprocessing of nuclear fuel	10,408	1,056	(624)	(13)	(491)	10,336
Provisions for removal and storage of the resulting waste	3,904	288	(102)	(126)	452	4,416
<b>PROVISIONS FOR END OF NUCLEAR FUEL CYCLE</b>	<b>14,312</b>	<b>1,344</b>	<b>(726)</b>	<b>(139)</b>	<b>(39)</b>	<b>14,752</b>

### 29.2.1 Provisions for reprocessing EDF SA's nuclear fuel

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

- Transportation from the production center to the AREVA plant at La Hague, reception, storage and reprocessing of burnt fuel from the various types of reactors (including conditioning and storage of waste);
- 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 the economic conditions of December 2006, these costs amount to €15,413 million at December 31, 2006 (€17,198 million at December 31, 2005). Spread over the forecast disbursement schedule and assuming 2% inflation and a 5% discount rate, an amount of €10,202 million is included in provisions at December 31, 2006 (compared to €9,993 million at December 31, 2005), corresponding to the present value at that date.

This provision is estimated based on the EDF-AREVA agreement signed on August 24, 2004, which covers the period 2001-2007, and the same assumptions are applied for the provisions for quantities that will be reprocessed after 2007 based on forecast reprocessing costs.

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.

Regarding the recovery and conditioning of old waste from reprocessing at La Hague, and the final shutdown and dismantling costs for the La Hague facilities, EDF's obligations are covered by provisions based on assumptions shared with AREVA. The change in costs estimated under December 2006 economic conditions compared to December 2005 conditions reflects the short-term payment of a final amount to AREVA under terms yet to be fixed, which will replace a long-term schedule of operations.

Finally, in December 2004, EDF, AREVA and the French Atomic Energy Commission (*Commissariat à l'Energie Atomique - 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 paid 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. This payment to the CEA was spread over the period from late 2004 to January 2006.

### 29.2.2 Provisions for removal and storage of EDF SA's radioactive waste

These provisions cover expenses related to:

- Monitoring of the Manche storage facility, and monitoring and coverage of the Aube storage facility, both of which store short-life low-level waste derived from plant maintenance and decommissioning;
- Removal and underground storage of long-life low-level waste, and the associated research;
- Long-term management of long-life high and medium-level waste governed by the Law of June 28, 2006 originating at the La Hague and Marcoule sites (EDF SA's share only).

Estimated based on the economic conditions of December, 2006, these costs amount to €12,554 million at December 31, 2006 (€11,498 million at December 31, 2005). Spread over the forecast disbursement schedule and assuming 2% inflation and a 5% discount rate, an amount of €4,400 million is included in provisions at December 31, 2006 (€3,894 million at December 31, 2005) corresponding to the present value at that date.

The volumes of waste concerned by provisions include both existing waste and all waste awaiting conditioning (obtained after processing burnt fuel at La Hague) corresponding to all fuel burnt at December 31, 2006.

Most of the provisions for removal and storage of radioactive waste concern the management of long-life high and medium-level waste generated by processing EDF's burnt fuels. Historically, EDF has based its estimate of future charges for long-term management of such waste on the assumption that geological storage will be implemented.

Since 2005, the gross value and disbursement schedules for forecast expenses have been based on a scenario of industrial geological waste storage, following conclusions presented in the first half of 2005 by the task force set up by the French department for Energy and Raw Materials (*Direction Générale de l'Energie et des Matières Premières - DGEMP*) comprising members representing the relevant government departments (DGEMP, APE and Budget Department), Andra and the producers of waste (EDF, AREVA, CEA). The approach applied by EDF to the working party's conclusions is reasonable and coherent with information available internationally.

French Law 2006-739 of June 28, 2006 on the sustainable management of radioactive materials and waste (see note 5.1.1.3) has confirmed EDF's assumption of geological storage. Provisions are based on that assumption.

Based on the instructions of the Law and the information available at December 31, 2006, EDF has revised its provisions to reflect the new deadlines set by the law and the obligations related to ANDRA research and regional support projects. Provisions were thus adjusted upward by €373 million.

### 29.2.3 Provisions for end of nuclear fuel cycle for subsidiaries

These provisions, amounting to €779 million at December 31, 2006 (€865 million at December 31, 2005), mainly cover the cost of eliminating the EnBW Group's burnt fuel and radioactive waste.

Since July 1, 2005, end-of-cycle fuels have been confined within the site of the plant for temporary storage before transfer to the final storage site operated by the German state. The provisions for this storage are calculated based on criteria defined by German government-approved bodies.

The discount rate applied is 5.5%.

## ➔ 29.3 - PROVISIONS FOR DECOMMISSIONING AND LAST CORES

The change in decommissioning and last cores provisions breaks down as follows:

### 29.3.1 At December 31, 2006:

(in millions of euros)

	12.31.2005	Increases	Decreases		Other changes	12.31.2006
			Utilizations	Reversals		
Provisions for decommissioning	11,518	632	(150)	(28)	167	12,139
Provisions for last cores	1,618	81	-	(14)	-	1,685
<b>PROVISIONS FOR DECOMMISSIONING AND LAST CORES</b>	<b>13,136</b>	<b>713</b>	<b>(150)</b>	<b>(42)</b>	<b>167</b>	<b>13,824</b>



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At December 31, 2006, provisions for decommissioning and last cores concern:

- EDF SA for €12,301 million (€11,831 million at December 31, 2005),
- And the subsidiaries for €1,523 million (€1,305 million at December 31, 2005).

### 29.3.2 At December 31, 2005:

(in millions of euros)	01.01.2005	Increases	Decreases		Other changes	12.31.2005
			Utilizations	Reversals		
Provisions for decommissioning	10,997	580	(161)	(12)	114	11,518
Provisions for last cores	1,641	81	-	(99)	(5)	1,618
<b>PROVISIONS FOR DECOMMISSIONING AND LAST CORES</b>	<b>12,638</b>	<b>661</b>	<b>(161)</b>	<b>(111)</b>	<b>109</b>	<b>13,136</b>

### 29.3.3 Decommissioning provisions for power plants belonging to EDF SA

These provisions concern the decommissioning of:

- Pressurized Water Reactor (PWR) nuclear power plants currently in operation and nuclear power plants that have been permanently shut down;
- Fossil-fired power plants.

Estimated based on the economic conditions of December 2006, these costs amount to €21,613 million (€21,279 million at December 31, 2005). Spread over the forecast disbursement schedule and assuming 2% inflation and a 5% discount rate, an amount of €10,646 million is included in provisions at December 31, 2006 (compared to €10,248 million at December 31, 2005), corresponding to the present value at that date of costs concerning all power plants.

#### 29.3.3.1 Decommissioning provisions for nuclear power plants belonging to EDF SA

- For nuclear power plants currently in operation (PWR plants 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 focusing on a specific site, carried out in 1999. 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 obligations concerning decommissioning of nuclear power plants 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 to the fact that payments will only be made in the long term.

An asset corresponding to the provision is recognized under the accounting policies described in note 2.11.

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

- For permanently shut-down nuclear power plants (first-generation UNGG power plants and other plants including Creys-Malville), the provision is based on the cost of work already completed and on studies, quotations and a comparison made by EDF. Forecast disbursements, based on internally-prepared schedules, are adjusted to reflect inflation, then discounted.

- Decommissioning provisions also include a provision for EDF's share of the decommissioning costs for the Phénix and Brennilis power plants.

#### 29.3.3.2 Decommissioning provisions for fossil-fired power plants belonging to EDF SA

The expenses related to decommissioning of fossil-fired power plants are determined according to regularly updated studies based on estimated future costs, measured by reference to the charges recorded on past operations and the most recent estimates for plants still in operation.

For plants still in operation, an asset is recorded against the provision under the principles presented in note 2.11.

#### 29.3.4 Decommissioning provisions for subsidiaries' power plants

Decommissioning commitments in respect of plants belonging to subsidiaries concern the non-nuclear power plants in Europe and also EnBW's nuclear power plants. For these plants, a provision is recorded to cover the full present value of the decommissioning obligations. 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 plants.

### 29.3.5 Provision 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:

- Write-down 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 November 30, 2006;
- 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 of fuel and the removal and storage of waste at December 31, 2006.

Since this provision relates to an obligation that existed at the commissioning date of the nuclear unit containing the core, all costs are fully covered by provision and an asset associated with the provision is recognized under the accounting policies described note 2.11.

Estimated based on the economic conditions of December 2006, these costs amount to €3,477 million at December 31, 2006 (€3,419 million at December 31, 2005). Spread over the forecast disbursement schedule and assuming 2% inflation and a 5% discount rate, an amount of €1,669 million is included in provisions at December 31, 2006 (compared to €1,597 million at December 31, 2005), corresponding to the present value at that date.

## ➔ 29.4 - SECURE FINANCING OF LONG-TERM OBLIGATIONS

In order to secure financing of long-term obligations in an increasingly open electricity market, *EDF SA* is progressively building up a portfolio of assets dedicated to covering nuclear-related costs, specifically the decommissioning of currently active nuclear power plants and the long-term storage of long-life high and medium-level waste (see note 29.2.2).

In September 2005, the pace of the process was accelerated and EDF's Board of Directors decided to:

- Include plants that have already shut down and are being dismantled, and the share of the provision for last cores corresponding to the reprocessing of fuel and removal and storage of the waste from those plants, in the basis covered by dedicated assets;

- Accelerate the pace of development of dedicated assets, such that by the end of 2010 they will cover the level of the provisions concerned.

These measures are now an obligation for EDF with the enactment of French Law of June 28, 2006 on the sustainable management of radioactive materials and waste, which requires nuclear power operators to implement a plan to constitute dedicated assets within five years of publication of the law at the latest.

At December 31, 2006, the fair value of the dedicated asset portfolio amounts to €6,257 million.

## ➔ 29.5 - PROVISIONS FOR EMPLOYEE BENEFITS

### 29.5.1 Changes in provisions

The changes in provisions for employee benefits were as follows in the last 2 years:

#### 29.5.1.1 At December 31, 2006:

(in millions of euros)

	12.31.2005	Increases	Decreases		Other changes	12.31.2006
			Utilizations	Reversals		
Provisions for post-employment benefits	14,167	1,434	(1,424)	(328)	(1,049)	12,799
Provisions for other long-term benefits	405	185	(130)	-	669	1,129
<b>PROVISIONS FOR EMPLOYEE BENEFITS</b>	<b>14,572</b>	<b>1,619</b>	<b>(1,554)</b>	<b>(328)</b>	<b>(380)</b>	<b>13,928</b>

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(in millions of euros)

	France	United Kingdom	Germany	Italy	Rest of Europe	Rest of the World	Total
<b>Provisions at 12.31.2005</b>	<b>11,748</b>	<b>478</b>	<b>1,790</b>	<b>63</b>	<b>171</b>	<b>322</b>	<b>14,572</b>
Amounts used during the year	(1,379)	(59)	(91)	(3)	(23)	-	(1,555)
Changes in the scope of consolidation	9	-	6	(2)	3	(328)	(312)
Net additions for the year	1,066	26	152	7	24	6	1,281
Other	-	(55)	(1)	(6)	4	-	(58)
<b>PROVISIONS AT 12.31.2006</b>	<b>11,444</b>	<b>390</b>	<b>1,856</b>	<b>59</b>	<b>179</b>	<b>-</b>	<b>13,928</b>

### 29.5.1.2 At December 31, 2005:

(in millions of euros)

	12.31.2004	Increases	Decreases		Other Changes	12.31.2005
			Utilizations	Reversals		
Provisions for post-employment benefits	14,135	1,526	(1,530)	-	36	14,167
Provisions for other long-term benefits	369	79	(54)	(2)	13	405
<b>PROVISIONS FOR EMPLOYEE BENEFITS</b>	<b>14,504</b>	<b>1,605</b>	<b>(1,584)</b>	<b>(2)</b>	<b>49</b>	<b>14,572</b>

(in millions of euros)

	France	United Kingdom	Germany	Rest of Europe	Rest of the World	Total
<b>Provisions at 12.31.2004</b>	<b>11,768</b>	<b>506</b>	<b>1,871</b>	<b>116</b>	<b>243</b>	<b>14,504</b>
Amounts used during the year	(1,413)	(113)	(88)	(6)	(20)	(1,640)
Changes in the scope of consolidation	-	-	(90)	38	-	(52)
Net additions for the year	1,350	58	133	29	31	1,601
Other	43	27	(36)	57	68	159
<b>PROVISIONS AT 12.31.2005</b>	<b>11,748</b>	<b>478</b>	<b>1,790</b>	<b>234</b>	<b>322</b>	<b>14,572</b>

The changes in these provisions since December 31, 2005 result from variations in vested benefits, financial discounting of the obligation, payments made to external funds, benefits paid out, derecognition of Light's employee benefit liabilities after the company was sold, and the recovery of the provision for exceptional additional pension payments due to discontinuation of the system in France.

### 29.5.2 Provisions for post-employment benefits

#### 29.5.2.1 French and foreign subsidiaries not covered by the special IEG system

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

Pension obligations are partly covered by contributions to external funds. The present value of these fund assets is €3.74 billion at December 31, 2006 compared to €3.7 billion at December 31, 2005.

Unamortized actuarial variances concern the same subsidiaries.

#### 29.5.2.2 French subsidiaries covered by the IEG system

##### • Pensions

The main measures of the financing reform for the special IEG pension system took effect at January 1, 2005.

Following the financing reform for the special electricity and gas industries' pension system that took place in 2004, provisions recorded for the special pension system correspond to the specific benefits of employees, i.e. benefits not covered by the standard benefit systems.

The provision for pensions thus covers:

- Specific benefits of employees in the deregulated or competitive activities,
- Specific benefits earned by employees from January 1, 2005 for the regulated activities (transmission and distribution) (past benefits were financed by the CTA levy (*Contribution tarifaire d'acheminement*),

- Specific benefits of employees benefiting from early retirement before the standard legal retirement age.

The valuation also includes CNIEG management expenses payable by EDF for the administration and payment of retired employees' pensions by the CNIEG.

The provision for pensions amounts to €8,874 million at December 31, 2006.

## • Other post-employment benefits

In addition to pensions, other benefits are granted to employees not currently in active service, as detailed below:

<i>(in millions of euros)</i>	12.31.2006	12.31.2005
Benefits in kind (electricity/gas)	1,073	1,044
Retirement gratuities	8	16
Exceptional additional pension	-	328
Bereavement benefit	255	246
Bonus paid leave	177	175
Annuities following industrial accident or work-related illness for inactive employees	-	669
Other post-employment	65	71
<b>PROVISIONS FOR POST-EMPLOYMENT BENEFITS</b>	<b>1,578</b>	<b>2,549</b>

The change between December 31, 2006 and 2005 mainly results from reclassification of annuities following industrial accident or work-related illness for inactive employees (€669 million) as a component of provisions for long-term employee benefits, and the full reversal of the provision for exceptional additional pension payments.

- 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". EDF's obligation for supplies of energy to EDF and Gaz de France employees corresponds to the probable present value of kWhs supplied to beneficiaries during their retirement, valued on the basis of the unit cost, taking into account the payment received under the energy exchange agreement with Gaz de France.

- Retirement gratuities

Retirement gratuities are paid upon retirement to employees due to receive the statutory old-age pension, or to their dependants if the employee dies before reaching retirement. These obligations are almost totally covered by an insurance policy.

- Exceptional additional pension

The exceptional additional pension benefit was a complementary benefit paid annually to retired employees and their dependants. As it was governed by a specific agreement signed only by certain IEG companies, it was not determined by the electricity and gas industries' national statutes but by decisions of the CEOs of EDF and Gaz de France, renewed since 1987 and published every three years. This decision was not renewed in 2006, and the Group has reversed the total corresponding provision.

- Bereavement benefit

The bereavement benefit is paid out upon the death of an inactive or handicapped employee, in order 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 dependants (statutory indemnity equal to two months' pension) or to a third party that has paid funeral costs (discretionary indemnity equal to the costs incurred).

- 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.

- Other benefits

Other benefits include end-of-studies bonuses, retirement indemnities and pensions for personnel seconded to Group companies.

## 29.5.3 Provisions for other long-term employee benefits

Personnel are also granted other long-term benefits. At December 31, 2006, the related obligations total €992 million for IEG status employees (€278 million at December 31, 2005). These benefits include:

- Annuities following industrial accident or work-related illness; 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. These benefits cover all employees and the dependants 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 obligation is measured as the probable present value of future benefits payable to current beneficiaries, including any possible reversions,
- Long-service awards,
- Invalidity benefits,
- Discretionary benefit for asbestos-related illness.

The change results from the reclassification in 2006 of annuities following industrial accident or work-related illness as long-term benefits.

## 29.5.4 Changes in the discounted value of the obligation and fund assets

The main actuarial assumptions used for provisions for post-employment benefits and long-term employee benefits are as follows:

(in %)	France	United Kingdom	Germany	Italy
Discount rates of the obligations	4.25	5.2	4.5	4.5
Expected return on plan assets	3.69	6.0	5.5	na
Pay increase rates	2.0 <sup>(1)</sup>	4.1	3.0	3.5

(1) Excluding inflation.

The discount rate applied for France is 4.25% at December 31, 2006, identical to the rate used at December 31, 2005. The decrease in the discount rate from 5% at December 31, 2004 to 4.25%, is the principal source of the unamortized actuarial variance of €2,078 million at December 31, 2006.

### 29.5.4.1 Changes in the discounted value of the obligation

(in millions of euros)	France	United Kingdom	Germany	Italy	Rest of Europe	Rest of the World	Total
<b>Obligations at 01.01.2006</b>	<b>18,748</b>	<b>3,859</b>	<b>2,145</b>	<b>63</b>	<b>254</b>	<b>650</b>	<b>25,719</b>
Current year service cost	599	62	32	3	18	-	714
Interest expenses	799	179	89	2	11	17	1,097
Actuarial gains and losses	150	(9)	(47)	(1)	1	-	95
Effect of curtailment or settlement of a plan	(340)	-	-	-	1	-	(339)
Benefits paid	(817)	(133)	(94)	-	(15)	-	(1,060)
Change rate and others	(11)	97	5	(7)	24	(667)	(559)
<b>OBLIGATIONS AT 12.31.2006</b>	<b>19,128</b>	<b>4,055</b>	<b>2,130</b>	<b>60</b>	<b>294</b>	<b>-</b>	<b>25,667</b>
- Fair value of plan assets	(5,606)	(3,590)	(49)	(1)	(100)	-	(9,346)
- Actuarial gains (losses)	(2,078)	(100)	(230)	-	(17)	-	(2,425)
<b>NET PROVISIONS RECORDED</b>	<b>11,444</b>	<b>365</b>	<b>1,851</b>	<b>59</b>	<b>177</b>	<b>-</b>	<b>13,896</b>
<b>- Provisions for post-employment benefits</b>	<b>11,444</b>	<b>390</b>	<b>1,856</b>	<b>59</b>	<b>179</b>	<b>-</b>	<b>13,928</b>
<b>- Pensions assets</b>	<b>-</b>	<b>(25)</b>	<b>(5)</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>(32)</b>

The experience adjustment for EDF SA amounts to €574 million.

### 29.5.4.2 Change in the discounted value of fund assets

(in millions of euros)	France	United Kingdom	Germany	Italy	Rest of Europe	Rest of the World	Total
<b>Fair value of dedicated financial assets as of January 1, 2006</b>	<b>(4,908)</b>	<b>(3,239)</b>	<b>(47)</b>	<b>(1)</b>	<b>(86)</b>	<b>(325)</b>	<b>(8,606)</b>
Expected return on plan assets	(131)	(218)	(2)	-	(6)	-	(357)
Net contributions	(1,220)	(134)	-	-	(8)	-	(1,362)
Actuarial gains and losses	(22)	(34)	1	-	1	-	(53)
Benefits paid through dedicated assets	675	133	3	-	-	-	810
Others	-	(98)	(4)	-	(1)	325	222
<b>FAIR VALUE OF DEDICATED FINANCIAL ASSETS AS OF DECEMBER 31, 2006</b>	<b>(5,606)</b>	<b>(3,590)</b>	<b>(49)</b>	<b>(1)</b>	<b>(100)</b>	<b>-</b>	<b>(9,346)</b>

### 29.5.5 Breakdown of the value of fund assets

This item includes €5,606 million of fund assets to cover EDF SA's long-term employee benefit obligations allocated to retirement gratuities (covered 100%) and the specific benefits of the special pension system. They consist of insurance contracts.

At December 31, 2006, investments under the contracts are as follows:

- For retirement gratuities: 48% equities, 51% bonds and 1% monetary instruments,
- For the special pension system: 2% equities, 25% bonds and 73% monetary instruments.

### 29.5.6 Post-employment and other long-term employee benefit expenses

(in millions of euros)

	12.31.2006	12.31.2005
Current year service cost	(714)	(768)
Interest expense (current value method)	(1,097)	(1,147)
Expected return on plan assets	357	324
Actuarial gains and losses recorded during the year	(151)	12
Effect on curtailment or settlement of a plan	333	8
Cost of past service vested	(1)	-
<b>NET CHARGES RELATED TO POST-EMPLOYMENT BENEFITS AND OTHER LONG-TERM BENEFITS</b>	<b>(1,273)</b>	<b>(1,571)</b>

## ➔ 29.6 - OTHER PROVISIONS

Details of changes in other provisions are as follows:

### 29.6.1 At December 31, 2006:

(in millions of euros)

	12.31.2005	Increases	Decreases		Other changes	12.31.2006
			Utilizations	Reversals		
Provisions for contingencies related to investments	15	108	(3)	-	(2)	118
Provisions for tax liabilities	191	49	(13)	(38)	(38)	151
Provisions for restructuring	44	3	(21)	(11)	(2)	13
Other provisions	3,339	1,477	(681)	(81)	(327)	3,727
<b>OTHER PROVISIONS</b>	<b>3,589</b>	<b>1,637</b>	<b>(718)</b>	<b>(130)</b>	<b>(369)</b>	<b>4,009</b>

### 29.6.2 At December 31, 2005:

(in millions of euros)

	01.01.2005 <sup>(1)</sup>	Increases	Decreases		Other changes	12.31.2005
			Utilizations	Reversals		
Provisions for contingencies related to investments	33	1	(28)	-	9	15
Provisions for tax liabilities	105	5	(5)	-	86	191
Provisions for restructuring	77	2	(34)	(3)	2	44
Other provisions	3,083	822	(391)	(190)	15	3,339
<b>OTHER PROVISIONS</b>	<b>3,298</b>	<b>830</b>	<b>(458)</b>	<b>(193)</b>	<b>112</b>	<b>3,589</b>

(1) The difference between December 31, 2004 and January 1, 2005 results from reclassifications for application of IAS 39 (see note 38).



## 29.6.3 Other provisions

This heading includes in particular:

- A provision of €470 million established at December 31, 2006 to cover the future contribution payable by *EDF SA* under the transition tariff system (*tarif réglementé transitoire d'ajustement du marché – Tartam*) (see notes 2.2.7, 5.1.1.4 and 13),
- A provision of €333 million to cover *EDF SA*'s share of the expenses relating to future work programs adopted by the *Fonds d'Amortissement des Charges d'Electrification* (sinking fund for electrification charges),
- A provision of €352 million for the contribution to preserve entitlements to the unregulated benefits related to agreements signed with the additional pension organizations,
- A provision of €266 million for litigation with social security bodies,
- Provisions of €406 million for onerous contracts,
- Provisions of €247 million for greenhouse gas emission quotas.

## 29.6.4 Contingent liabilities

### • Discharge by the *Saint-Chamas* power plant into the *Etang de Berre*

In 1999, a professional association initiated legal action against *EDF* relating to operation of the hydropower plant at *Saint-Chamas*. The final resolution of the plant's situation is dependent on the outcome of discussions between the French government and the European Commission regarding the arrangements for execution of the ruling issued on October 7, 2005 by the European Court of Justice, which considered that France had failed to comply with its obligations under the Barcelona Convention and the Athens protocol. In early 2006, the French government put forward additional new proposals to the Commission, designed to significantly reduce freshwater emissions.

The decree modifying the terms of the concession was published on December 9, 2006 and until the results of an experimental 4-year phase are known, it appears unlikely that the case will return to the European Court of Justice. *EDF* considers that the new freshwater emission constraints resulting from the decree will have a non-negligible impact on the *Saint-Chamas* plant generation output.

### • Labor litigation

*EDF* is party to a number of labor lawsuits with employees regarding the payment method to compensate for "on call" duty at home and the calculation and implementation of rest periods. *EDF* estimates that none of these lawsuits, individually, is likely to have a significant impact on its profits and financial position. However, because they concern situations likely to involve a large number of *EDF*'s employees in France, these litigations could present a systemic risk which could have a material, negative impact on the company's financial results.

### • Contract between London Underground and the Powerlink consortium

*EDF Energy* owns 80% of the Powerlink consortium, which in 1998 was awarded a 30-year contract to maintain and modernize the London Underground system's high-voltage electric distribution network.

Following operating difficulties potentially giving rise to fines or even termination of the contract by London Underground Ltd (LUL), the parties entered into negotiations resulting in a draft base agreement approved by the Board of Transport for London in September 2006. Under this agreement, LUL should not exercise its right to terminate the current contract.

### • Edipower

In May 2006, Rome's municipal energy supplier *ACEA Spa* filed a complaint with the Italian government, the regulator (AEEG) and the national competition authorities (AGCM) that the joint takeover of Edison by *EDF* and *AEM* would bring their holdings in the company's capital above the 30% limit applicable to public companies (fixed by the Chairman of the Italian Council of Ministers in the decree of November 8, 2000). On July 7, 2006, the AGCM issued an opinion ("segnalazione") supporting *ACEA*'s position, and officially requested the Italian government and parliament to take steps to ensure compliance with the decree of November 8, 2000. In August 2006, *ACEA* brought proceedings before the Rome civil courts against *EDF*, *IEB* and *WGRMH 4* (and also Edison, *AEM Milan*, *Delmi*, *Edipower*, *AEM Turin*, *Atel* and *TdE*), arguing that exceeding the 30% limit is a breach of the applicable legislation and could have a negative impact on the energy market, to the detriment of fair competition and the final interests of consumers.

The hearing will take place on May 24, 2007, but it is likely that the judge will hold an initial hearing before that date to rule on the application for interim measures requested by *ACEA*.

### • Individual training entitlement (*Droit individuel à la formation* or *DIF*)

French Law of May 4, 2004 allows each employee an individual entitlement to a minimum of 20 hours of training per year, which may be accumulated over 6 years. The company agreement signed on February 24, 2006 defines the conditions for exercising this entitlement, listing the types of training eligible. Expenses for such training are recorded as incurred.

For *EDF SA*, at December 31, 2006, *DIF* entitlements earned but not yet used represent more than 6 million hours.

## Note 30 Special concession liabilities

Details of changes in special concession liabilities are as follows at December 31, 2006:

(in millions of euros)

	01.01.2005	Change over the period	12.31.2005	Change over the period	12.31.2006
Value in kind of assets	33,167	1,362	34,529	336	34,865
Unamortized financing by the operator	(16,302)	(950)	(17,252)	187	(17,065)
<b>Rights in existing assets - net value</b>	<b>16,865</b>	<b>412</b>	<b>17,277</b>	<b>523</b>	<b>17,800</b>
Amortization of financing by the grantor	6,401	397	6,798	566	7,364
Provision for renewal	10,405	427	10,832	231	11,063
<b>Rights in assets to be replaced</b>	<b>16,806</b>	<b>824</b>	<b>17,630</b>	<b>797</b>	<b>18,427</b>
<b>SPECIAL CONCESSION LIABILITIES</b>	<b>33,671</b>	<b>1,236</b>	<b>34,907</b>	<b>1,320</b>	<b>36,227</b>

## Note 31 Current and non-current financial liabilities

<b>31.1</b>	<b>BREAKDOWN BETWEEN CURRENT AND NON-CURRENT FINANCIAL LIABILITIES</b>	<b>263</b>
<b>31.2</b>	<b>LOANS AND OTHER FINANCIAL LIABILITIES</b>	<b>264</b>
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### 31.1 - BREAKDOWN BETWEEN CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

Current and non-current financial liabilities break down as follows:

(in millions of euros)

	12.31.2006			12.31.2005		
	Non-current	Current	Total	Non-current	Current	Total
Loans and other financial liabilities	19,462	8,680	28,142	23,319	6,399	29,718
Negative fair value of derivatives held for trading	-	5,960	5,960	-	5,269	5,269
Negative fair value of hedging derivatives	521	470	991	192	265	457
<b>FINANCIAL LIABILITIES</b>	<b>19,983</b>	<b>15,110</b>	<b>35,093</b>	<b>23,511</b>	<b>11,933</b>	<b>35,444</b>

## ➔ 31.2 - LOANS AND OTHER FINANCIAL LIABILITIES

### 31.2.1 Changes 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
<b>At 01.01.2005</b>	<b>17,822</b>	<b>4,620</b>	<b>2,580</b>	<b>310</b>	<b>577</b>	<b>25,909</b>
Increases	306	1,530	995	1	368	3,200
Decreases	(1,570)	(1,171)	(398)	(20)	(319)	(3,478)
Changes in scope of consolidation	2,338	1,082	57	20	(51)	3,446
Translation adjustments	536	372	81	-	27	1,016
Other	(141)	(355)	137	48	(64)	(375)
<b>At 12.31.2005</b>	<b>19,291</b>	<b>6,078</b>	<b>3,452</b>	<b>359</b>	<b>538</b>	<b>29,718</b>
Increases	1,477	361	1,806	-	218	3,862
Decreases	(2,004)	(974)	(1,210)	(29)	(166)	(4,383)
Changes in scope of consolidation	(247)	(571)	151	18	(55)	(704)
Translation adjustments	(27)	(141)	1	-	(12)	(179)
Other	(62)	(25)	(127)	17	25	(172)
<b>AT 12.31.2006</b>	<b>18,428</b>	<b>4,728</b>	<b>4,073</b>	<b>365</b>	<b>548</b>	<b>28,142</b>

The main entities contributing to loans and other financial liabilities are:

(in millions of euros)

	12.31.2006	12.31.2005
EDF SA	10,447	10,017
EDF Energy	6,663	6,297
EnBW	2,460	2,278
Edison	2,369	2,825

At December 31, 2006, Group borrowings exceeding €750 million are as follows:

(in millions of euros)

	Entity	Issue	Maturity	Amount	Currency	Rate
Bond	EDF SA	1993	2008	987	EUR	6.3%
Bond	EDF SA	1998	2009	1,996	EUR	5.0%
Euro MTN	EDF SA	2000	2010	1,000	EUR	5.8%
Euro MTN	EDF SA	2001	2016	1,100	EUR	5.5%
Bond	EDF SA	2001	2031	650	GBP	5.9%
Bond	IEB	2002	2007	1,272	EUR	4.9%
Euro MTN	EDF SA	2003	2033	850	EUR	5.6%
Bond	RTE	2006	2016	1,000	EUR	4.1%

### 31.2.2 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
Less than one year	3,280	1,319	3,540	25	518	8,682
From one to five years	5,839	1,443	236	187	-	7,705
More than five years	9,309	1,966	297	153	30	11,755
<b>LOANS AND FINANCIAL LIABILITIES AT 12.31.2006</b>	<b>18,428</b>	<b>4,728</b>	<b>4,073</b>	<b>365</b>	<b>548</b>	<b>28,142</b>

### 31.2.3 Breakdown of loans by currency

(in millions of euros)

	12.31.2006			12.31.2005		
	Initial debt structure	Impact of hedging derivatives <sup>(1)</sup>	Debt structure after hedging derivatives	Initial debt structure	Impact of hedging derivatives <sup>(1)</sup>	Debt structure after hedging derivatives
Euro (EUR)	19,613	(3,284)	16,329	18,671	(3,150)	15,521
American Dollar (USD)	2,302	(334)	1,968	3,212	(627)	2,585
Pound sterling (GBP)	4,901	2,959	7,860	5,933	3,191	9,124
Other	1,326	659	1,985	1,902	586	2,488
<b>LOANS AND FINANCIAL LIABILITIES</b>	<b>28,142</b>	<b>-</b>	<b>28,142</b>	<b>29,718</b>	<b>-</b>	<b>29,718</b>

(1) Hedges of liabilities and net assets of foreign subsidiaries.

### 31.2.4 Breakdown of loans by type of interest rate, before and after swaps

(in millions of euros)

	12.31.2006			12.31.2005 <sup>(1)</sup>		
	Initial debt structure	Impact of derivatives	Debt structure after derivatives	Initial debt structure	Impact of derivatives	Debt structure after derivatives
Fixed rates	21,509	(174)	21,335	21,687	(908)	20,779
Floating rate	6,633	174	6,807	8,031	908	8,939
<b>LOANS AND FINANCIAL LIABILITIES</b>	<b>28,142</b>	<b>-</b>	<b>28,142</b>	<b>29,718</b>	<b>-</b>	<b>29,718</b>

(1) Excluding Edison and TdE derivatives. Interest rate hedging derivatives published by Edison and TdE amounted to €1,269 million at December 31, 2005 (EDF's share).

The breakdown of loans and other financial liabilities by interest rate includes the impact of all hedging derivatives and derivatives held for trading.

### 31.2.5 Credit lines

At December 31, 2006, the Group has credit lines with various banks totaling €9,816 million (€9,465 million at December 31, 2005).

(in millions of euros)

	Total	Maturity		
		< 1 year	1-5 years	> 5 years
Confirmed credit lines available	9,816	2,619	6,002	1,195

### 31.2.6 Fair value of loans and other financial liabilities at December 31, 2006

(in millions of euros)

	12.31.2006		12.31.2005	
	Fair value	Net book value	Fair value <sup>(1)</sup>	Net book value
<b>LOANS AND FINANCIAL LIABILITIES</b>	<b>29,528</b>	<b>28,142</b>	<b>30,535</b>	<b>29,718</b>

(1) This figure has been corrected since initial publication in 2005.

## ➔ 31.3 - NET INDEBTEDNESS

Net indebtedness comprises total loans and financial liabilities, less cash and cash equivalents and liquid assets. Liquid assets are financial assets consisting of funds or securities with initial maturity of over

three months, that are readily convertible into cash regardless of their maturity and are managed according to a liquidity-oriented policy.

(in millions of euros)

	12.31.2006	12.31.2005
Loans and other financial liabilities	28,142	29,718
Derivatives used to hedge liabilities	237	240
Cash and cash equivalents	(3,308)	(7,220)
Liquid assets	(10,154) <sup>(1)</sup>	(4,580) <sup>(2)</sup>
Net financial liabilities from companies disclosed in non-current liabilities related to the assets classified as held for sale	15	434
<b>NET INDEBTEDNESS</b>	<b>14,932</b>	<b>18,592</b>

(1) Available-for-sale financial assets: €10,081 million, financial assets carried at fair value: €73 million.

(2) Available-for-sale financial assets: €4,322 million, financial assets carried at fair value: €258 million.

## ➔ 31.4 - CHANGES IN NET INDEBTEDNESS

Changes in net indebtedness in 2006 include the impact of the sales of businesses during the year (€2,416 million) and the €2,845 million allocation to dedicated assets.

Changes in net indebtedness in 2005 included the impact of EDF SA's

capital increase (€6,350 million) and the takeover of Edison (€7,083 million), corresponding to the amounts disbursed for the acquisition of IEB shares and the public tender offer for Edison shares, and Edison's share of indebtedness.

(in millions of euros)

	12.31.2006	12.31.2005 <sup>(1)</sup>
<b>Operating profit before depreciation and amortization (EBITDA)</b>	<b>13,930</b>	<b>12,906</b>
Cancellation of non-monetary items included in EBITDA	138	(670)
Dividends received from companies accounted for under the equity method	92	90
Change in net working capital	654	1,371
Other items	(75)	96
<b>Net cash flow from operations</b>	<b>14,739</b>	<b>13,793</b>
Acquisitions of intangible assets and property, plant and equipment	(5,935)	(5,168)
Disposals of intangible assets and property, plant and equipment	272	392
Net financial expenses disbursed	(931)	(1,143)
Income tax paid	(1,462)	(392)
<b>Free cash flow</b>	<b>6,683</b>	<b>7,482</b>
Investments (including investments in consolidated companies)	(2,704)	(4,585)
Dividends paid	(1,532)	(428)
Increase in capital and change in other equity	-	6,350
Payment related to the pension reform	-	(3,296)
Payment related to the dismantling of the Marcoule site	(551)	(523)
Other items	354	83
<b>Monetary decrease in net indebtedness, excluding the impact of changes in scope of consolidation and exchanges rates</b>	<b>2,250</b>	<b>5,083</b>
Effect of change in scope of consolidation	1,287	(2,314)
Effect of change in accounting methods on net indebtedness	(1)	-
Effect of exchange rate fluctuations	79	(830)
Other non-monetary changes	45	(198)
<b>(Increase) / decrease in net indebtedness</b>	<b>3,660</b>	<b>1,741</b>
<b>Net indebtedness at beginning of period<sup>(1)</sup></b>	<b>18,592</b>	<b>20,333</b>
<b>NET INDEBTEDNESS AT END OF PERIOD</b>	<b>14,932</b>	<b>18,592</b>

(1) After the effects of application of standards IAS 32/39 at January 1, 2005.

## ➔ 31.5 - GUARANTEES OF BORROWINGS

Guarantees of borrowings by the Group at December 31, 2006 comprise the following:

(in millions of euros)

	Total	Maturity		
		< 1 year	1-5 years	> 5 years
Security interests in real property	2,754	348	1,484	922
Guarantees related to borrowings	718	257	260	201
Other financing commitments	371	132	185	54
<b>FINANCING COMMITMENTS GIVEN</b>	<b>3,843</b>	<b>737</b>	<b>1,929</b>	<b>1,177</b>
<b>FINANCING COMMITMENTS RECEIVED <sup>(1)</sup></b>	<b>423</b>	<b>275</b>	<b>120</b>	<b>28</b>

(1) Excluding credit lines (see note 31.2.5).

Security interests in real property and assets provided as guarantees mainly concern property, plant and equipment and take the form of pledges or mortgages, and shares representing investments in consolidated subsidiaries which own property, plant and equipment. The net book value of current and non-current assets given as guarantees is €2,754 million at December 31, 2006.

Guarantees on loans were principally given by *EDF SA*, *EDF International* and *Fenice*.

Financing commitments received mainly concern *EDF SA* and *EDF Energies Nouvelles*.

## Note 32 Derivatives

<b>32.1</b>	<b>DERIVATIVES AND HEDGE ACCOUNTING</b>	<b>268</b>
<b>32.2</b>	<b>DERIVATIVE INSTRUMENTS NOT RECORDED AS HEDGES</b>	<b>270</b>

As an operator in the energy sector at international level, the EDF Group is exposed to interest rate risks, exchange rate risks and the risk of fluctuations in commodity prices.

To limit and control these risks, the Group has introduced a dedicated structure responsible for defining risk management policy and its governing principles, and supervising their correct application.

EDF entities and Group subsidiaries, particularly EDF Trading, EnBW and EDF Energy and Edison have adapted these principles as appropriate for management of the risks inherent to their business.

The commitment on the energy markets of EDF Trading, which trades on organized and over-the-counter markets in derivatives such as futures, forwards, swaps and options, is monitored at Group level by reference to a VaR (Value at Risk) limit.

Exchange rate risks, interest rate risks and commodity price risks create volatility affecting Group results, equity and cash flows from one period to the next. The EDF Group uses derivatives in a range of hedging strategies to eliminate or limit such risks.

The main derivatives used are forward exchange contracts and currency swaps, interest rate swaps, cross currency swaps and commodity futures, forwards and swaps.

## ➔ 32.1 - DERIVATIVES AND HEDGE ACCOUNTING

Hedge accounting is applied in compliance with IAS 39, and concerns interest rate derivatives used to hedge long-term indebtedness, currency derivatives used to hedge net foreign investments and debts in foreign currencies, and currency and commodity derivatives used to hedge future cash flows.

### 32.1.1 Fair value hedging

The EDF Group hedges the exposure to changes in the fair value of fixed-rate debts. The derivatives used for this hedging are fixed/floating interest rate swaps and cross currency swaps, with changes in fair value recorded in the income statement.

At December 31, 2006, the ineffective portion of fair value hedging represents a gain of €0.1 million, included in the financial result.

The Group also hedges certain firm commitments to purchase nuclear fuels, using forward currency contracts.

### 32.1.2 Cash flow hedging

The EDF Group uses cash flow hedging principally for the following purposes:

- To hedge its floating-rate debt, using interest rate swaps (floating/fixed rate),
- To hedge the exchange rate risk related to debts contracted in foreign currencies, using currency swaps,
- To hedge future cash flows related to expected sales and purchases of electricity, gas, coal and nuclear fuel, using futures, forwards and swaps.

At December 31, 2006, the ineffective portion of cash flow hedging represents a loss of €2 million.

### 32.1.3 Hedging of net foreign investments

Hedging of net foreign investments is used for protection against exposure to the exchange rate risk related to net investment in the Group's foreign entities.

This risk is hedged at Group level either by contracting debts for investments in the same currency, or through the markets, in which case the Group uses currency swaps and forward exchange contracts.

At December 31, 2006, the changes in fair value of these derivatives used to hedge net foreign investments amount to €(84) million (€(108) million at December 31, 2005), recorded in equity.

### 32.1.4 Impact of hedging derivatives on equity

In 2006, the impact of hedging derivatives recorded in equity, after deferred taxes, amounts to:

- €30 million for interest rate hedging derivatives,
- €(14) million for exchange rate hedging derivatives,
- €(1,080) million for commodity hedging derivatives.

Changes in the fair value of commodity hedging derivatives comprise:

- €165 million on contracts hedging electricity contracts;
- €715 million on contracts hedging EDF Energy's gas purchase contracts.

#### 32.1.4.1 Interest rate hedging derivatives

Interest rate hedging derivatives are swaps and break down as follows:

(in millions of euros)

	Notional at 12.31.2006				Notional at 12.31.2005 <sup>(1)</sup>				Fair value	
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total	12.31.2006	12.31.2005
<b>Interest rate transactions</b>	<b>395</b>	-	-	<b>395</b>	-	-	-	-	-	-
Fixed rate payer / floating rate receiver	316	361	814	1,491	49	234	532	815	19	(13)
Floating rate payer / fixed rate receiver	659	670	497	1,826	193	770	671	1,634	15	37
<b>Interest rate swaps</b>	<b>975</b>	<b>1,031</b>	<b>1,311</b>	<b>3,317</b>	<b>242</b>	<b>1,004</b>	<b>1,203</b>	<b>2,449</b>	<b>34</b>	<b>24</b>
<b>INTEREST RATE</b>	<b>1,370</b>	<b>1,031</b>	<b>1,311</b>	<b>3,712</b>	<b>242</b>	<b>1,004</b>	<b>1,203</b>	<b>2,449</b>	<b>34</b>	<b>24</b>
<b>HEDGING DERIVATIVES</b>										

(1) Excluding Edison and TdE derivatives. Interest rate hedging derivatives published by Edison and TdE amounted to €1,269 million at December 31, 2005 (EDF's share), with fair value of €(12) million.

The fair value of interest rate/exchange rate cross-currency swaps comprises the interest rate effect only.



### 32.1.4.2 Exchange rate hedging derivatives

Exchange rate hedging derivatives break down as follows:

- At December 31, 2006:

(in millions of euros)

	Notional amount to be received at 12.31.2006				Notional amount to be given at 12.31.2006				Fair value
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total	12.31.2006
Forward exchange transactions	2,415	3,070	-	5,485	1,144	1,859	1,398	4,401	52
Swaps	3,057	2,391	1,927	7,375	2,940	2,086	1,854	6,880	(101)
Options	172	-	-	172	172	-	-	172	-
<b>FOREIGN CURRENCY HEDGES</b>	<b>5,644</b>	<b>5,461</b>	<b>1,927</b>	<b>13,032</b>	<b>4,256</b>	<b>3,945</b>	<b>3,252</b>	<b>11,453</b>	<b>(49)</b>

The fair value of interest rate/exchange rate cross-currency swaps comprises the interest rate effect only.

- At December 31, 2005:

(in millions of euros)

	Notional amount to be received at 12.31.2005				Notional amount to be given at 12.31.2005				Fair value
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total	12.31.2005
Forward exchange transactions	574	673	-	1,247	439	399	-	838	3
Swaps	1,374	4,015	2,492	7,881	1,271	3,546	2,558	7,375	195
<b>FOREIGN CURRENCY HEDGES</b>	<b>1,948</b>	<b>4,688</b>	<b>2,492</b>	<b>9,128</b>	<b>1,710</b>	<b>3,945</b>	<b>2,558</b>	<b>8,213</b>	<b>198</b>

### 32.1.4.3 Commodity hedging derivatives

The fair value of commodity hedging derivatives breaks down as follows:

(in millions of euros)

	Units of measure	12.31.2006	12.31.2006	12.31.2005
		Net notional	Fair value	Fair value
Swaps		-	(27)	(4)
Forwards/futures		44	(390)	(147)
<b>Power</b>	<b>TWh</b>	<b>44</b>	<b>(417)</b>	<b>(151)</b>
Forwards/futures		3,045	(584)	608
<b>Gas</b>	<b>Millions of therms</b>	<b>3,045</b>	<b>(584)</b>	<b>608</b>
Swaps		(2,556)	(65)	-
<b>Oil products</b>	<b>Thousands of barrels</b>	<b>(2,556)</b>	<b>(65)</b>	<b>-</b>
Swaps		2	10	(22)
Forwards/futures		-	-	(2)
Freight		4	(19)	-
<b>Coal</b>	<b>Millions of tonnes</b>	<b>6</b>	<b>(9)</b>	<b>(24)</b>
Options		612	2	-
Forwards/futures		27,668	(137)	(1)
<b>CO<sub>2</sub></b>	<b>Thousands of tonnes</b>	<b>28,280</b>	<b>(135)</b>	<b>(1)</b>
<b>HEDGING COMMODITY DERIVATIVES</b>			<b>(1,210)</b>	<b>432</b>

## ➔ 32.2 - DERIVATIVE INSTRUMENTS NOT RECORDED AS HEDGES

As a general policy, the Group uses derivatives to hedge the financial risks to which it is exposed and not for speculative purposes.

Interest rate and currency derivatives that act as an economic hedge of a risk but do not qualify for hedge accounting under IFRS are stated at fair value, with changes in fair value recorded in the income statement.

The Group enters into trading operations on the wholesale electricity, natural gas and fossil fuel markets, mainly through its subsidiary EDF Trading. EDF Trading undertakes spot and forward transactions using instruments such as forward contracts involving physical delivery of a commodity, swaps and options, and other contractual agreements.

While EDF Trading is responsible for controlling its own exposure to energy market risks, its commitment on the markets is also managed at Group level through a VaR limit with a stop-loss limit.

Regarding the credit risk, i.e. the risk of default on contractual obligations by counterparties, EDF Trading has set up a management system based on the four following principles:

- Quantitative and qualitative analysis of all counterparties, in order to define the limits for exposure to counterparty risk; these limits are approved by EDF Trading's Credit Committee.
- Daily measurement of risk exposure; EDF Trading measures the credit risk based on future payments, plus the cost of replacing contracts. For the purposes of these assessments, the company assumes maximum increases in the replacement cost over the residual terms of contracts.
- Daily management of limits, involving monitoring and reporting of overall exposure.
- Daily monitoring of guarantees. 90% of EDF Trading's credit exposure concerns "investment grade" counterparties.

### 32.2.1 Interest rate derivatives held for trading

Interest rate derivatives held for trading break down as follows:

(in millions of euros)

	Notional amount 12.31.2006				Notional amount 12.31.2005 <sup>(1)</sup>				Fair value	
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total	12.31.2006	12.31.2005
Purchases of CAP contracts	293	609	-	902	-	168	-	168	3	-
Purchases of FLOOR contracts	125	-	-	125	-	-	-	-	1	-
Sales of FLOOR contracts	293	609	-	902	-	168	-	168	(1)	(1)
<b>Interest rate transactions</b>	<b>711</b>	<b>1,218</b>	<b>-</b>	<b>1,929</b>	<b>-</b>	<b>336</b>	<b>-</b>	<b>336</b>	<b>3</b>	<b>(1)</b>
Fixed rate payer / floating rate receiver	3,584	100	1,930	5,614	2,575	-	1,872	4,447	(63)	(182)
Floating rate payer / fixed rate receiver	921	554	1,657	3,132	1,474	-	1,872	3,346	74	263
Variable / variable	461	609	-	1,070	-	-	-	-	(5)	-
<b>Interest rate swaps</b>	<b>4,966</b>	<b>1,263</b>	<b>3,587</b>	<b>9,816</b>	<b>4,049</b>	<b>-</b>	<b>3,744</b>	<b>7,793</b>	<b>6</b>	<b>81</b>
<b>INTEREST RATE DERIVATIVES HELD FOR TRADING</b>	<b>5,677</b>	<b>2,481</b>	<b>3,587</b>	<b>11,745</b>	<b>4,049</b>	<b>336</b>	<b>3,744</b>	<b>8,129</b>	<b>9</b>	<b>80</b>

(1) Excluding Edison interest rate derivatives that do not qualify as hedges under IAS 39 (€3,204 million) and fair value of €(10) million (EDF's share).

### 32.2.2 Currency derivatives held for trading

Currency derivatives held for trading break down as follows:

- At December 31, 2006:

(in millions of euros)

	Notional to be received at 12.31.2006				Notional to be given at 12.31.2006				Fair value
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total	12.31.2006
Forward transactions	1,851	107	-	1,958	1,777	67	-	1,844	(82)
Swaps	4,564	2,251	1,834	8,649	4,554	2,205	1,816	8,575	107
Embedded currency derivatives	-	-	-	-	-	-	-	-	(44)
<b>CURRENCY DERIVATIVES HELD FOR TRADING</b>	<b>6,415</b>	<b>2,358</b>	<b>1,834</b>	<b>10,607</b>	<b>6,331</b>	<b>2,272</b>	<b>1,816</b>	<b>10,419</b>	<b>(19)</b>

- At December 31, 2005:

(in millions of euros)

	Notional to be received at 12.31.2005				Notional to be given at 12.31.2005				Fair value
	< 1 year	1-5 years	> 5 years	Total	< 1 year	1-5 years	> 5 years	Total	12.31.2006
Forward transactions	1,249	795	56	2,100	1,201	756	48	2,005	(18)
Swaps	2,295	977	83	3,355	2,297	960	64	3,321	53
Embedded currency derivatives	-	-	-	-	-	-	-	-	(41)
<b>CURRENCY DERIVATIVES HELD FOR TRADING</b>	<b>3,544</b>	<b>1,772</b>	<b>139</b>	<b>5,455</b>	<b>3,498</b>	<b>1,716</b>	<b>112</b>	<b>5,326</b>	<b>(6)</b>

### 32.2.3 Equity derivatives

Equity derivatives consist of Edison share warrants and amount to €228 million.

### 32.2.4 Commodity derivatives not classified as hedges

Details of commodity derivatives not classified as hedges are as follows:

(in millions of euros)

	Units of measure	12.31.2006 Net notional	12.31.2006 Fair value	12.31.2005 Fair value
Swaps		(3)	(6)	5
Options		24	26	(9)
Forwards/futures		454	251	400
<b>Power</b>	<b>TWh</b>	<b>475</b>	<b>271</b>	<b>396</b>
Swaps		(40)	25	61
Options		4,387	170	951
Forwards/futures		21,585	(18)	(1,377)
<b>Gas</b>	<b>Millions of therms</b>	<b>25,932</b>	<b>177</b>	<b>(365)</b>
Swaps		1,752	(11)	190
Options		3,150	10	48
Forwards/futures		2,766	(12)	12
<b>Oil products</b>	<b>Thousands of barrels</b>	<b>7,668</b>	<b>(13)</b>	<b>250</b>
Swaps		(10)	(117)	118
Forwards/futures		76	79	(73)
Freight		24	81	(22)
<b>Coal</b>	<b>Millions of tonnes</b>	<b>90</b>	<b>43</b>	<b>23</b>
Forwards/futures		25,001	(29)	9
<b>CO<sub>2</sub></b>	<b>Thousands of tonnes</b>	<b>25,001</b>	<b>(29)</b>	<b>9</b>
Forwards / futures		-	21	3
<b>Other</b>		-	<b>21</b>	<b>3</b>
<b>Embedded commodity derivatives</b>		-	<b>18</b>	-
<b>NON HEDGING COMMODITY DERIVATIVES</b>			<b>488</b>	<b>316</b>

## Note 33 Other liabilities

Details of other liabilities are as follows:

(in millions of euros)	12.31.2006	12.31.2005
Advances received	4,105	3,749
Liabilities related to property, plant and equipment	487	506
Tax and social charges	5,231	5,364
Deferred income	7,753	7,120
Other	3,409	3,201
<b>OTHER LIABILITIES</b>	<b>20,985</b>	<b>19,940</b>
- Non current	5,385	5,971
- Current	15,600	13,969

At December 31, 2006, deferred income include €3,077 million of partner advances to *EDF SA* under the nuclear plant financing plans, and €2,344 million of connection fees. "Other" includes debts related to commitments given for acquisition of minority interests for 202 million of euros, to put and call options for acquisition of 10% of

Eaipower by Edison, totaling €128 million, and the deferred settlement and additional price due on shares purchased from the Mouratoglu Group (€203 million) in connection with the IPO of *EDF Energies Nouvelles*.

## Note 34 Contribution of joint ventures

The Group holds investments in joint ventures (see note 39). As stated in note 2.3, these investments are proportionally consolidated.

The joint ventures' contributions to the balance sheet and income statement are as follows:

(in millions of euros)	% owned	Current assets	Non current assets	Current liabilities	Non current liabilities	Sales	Operating profit before depreciation and amortization
<b>At december 31, 2006:</b>							
EnBW	46.07%	3,345	7,003	2,918	7,598	6,016	996
Edison	51.58%	1,569	3,625	2,410	2,311	4,434	815
Other		2,167	2,540	1,734	1,665	1,905	311
<b>TOTAL</b>		<b>7,081</b>	<b>13,168</b>	<b>7,062</b>	<b>11,574</b>	<b>12,355</b>	<b>2,122</b>
<b>At december 31, 2005:</b>							
EnBW	46.12%	2,635	6,604	2,168	7,402	5,005	905
Edison	51.58%	1,524	3,661	1,186	3,872	1,010	165
Other		1,219	1,885	1,244	1,268	1,595	245
<b>Total</b>		<b>5,378</b>	<b>12,150</b>	<b>4,598</b>	<b>12,542</b>	<b>7,610</b>	<b>1,315</b>

## Note 35 Related parties

<b>35.1</b>	<b>TRANSACTIONS WITH ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATION</b>	<b>273</b>
<b>35.2</b>	<b>RELATIONS WITH THE FRENCH STATE AND STATE-OWNED ENTITIES</b>	<b>273</b>
<b>35.3</b>	<b>MANAGEMENT COMPENSATION</b>	<b>274</b>

Details of transactions with related parties are as follows:

(in millions of euros)

	Proportionally consolidated companies		Companies accounted for under the equity method		French State and state-owned entities		Group Total	
	12.31.2006	12.31.2005	12.31.2006	12.31.2005	12.31.2006	12.31.2005	12.31.2006	12.31.2005
Sales	128	110	313	291	481	585	922	986
Fuel and energy purchases	223	81	142	119	1,778	1,556	2,143	1,756
Other external purchases	-	-	-	20	281	171	281	191
Financial assets	17	89	1	3	548	620	566	712
Other assets	109	33	21	18	402	511	532	562
Financial liabilities	27	64	1	1	83	-	111	65
Other liabilities	317	309	143	162	590	283	1,050	754

### → 35.1 - TRANSACTIONS WITH ENTITIES INCLUDED IN THE SCOPE OF CONSOLIDATION

EDF has entered into various commercial contracts with its subsidiaries and affiliates. EDF and EnBW, in particular, entered into an agreement in 2001 defining the methods of cooperation between the two companies. This contract is for an unlimited term, but can be terminated from 2007.

Transactions with joint ventures and associates concern sales and purchases of energy.

### → 35.2 - RELATIONS WITH THE FRENCH STATE AND STATE-OWNED ENTITIES

#### 35.2.1 Relations with the French State

Since the company's IPO of December 20, 2005, the French State has held 87.3% of the capital of *EDF SA*, and is thus entitled in the same way as any majority shareholder to control company decisions that require approval by the shareholders.

In accordance with the legislation applicable to all companies having the French State as their majority shareholder, EDF is subject to certain inspection procedures, in particular economic and financial inspections by the State, audits by the French Court of Auditors (*Cour des Comptes*) or Parliament, and verifications by the French General Finance Inspectorate (*Inspection Générale des Finances*).

Under an agreement entered into by the French State and the EDF Group on July 27, 2001 concerning the monitoring of external investments, procedures exist for prior approval by the French State or notification (advance or otherwise) of the State in respect of certain planned investments, additional investments or disposals by the Group. This agreement also introduced a procedure for monitoring the results of external growth operations.

The public service contract between the French State and EDF was signed on October 24, 2005. This contract is intended to form the framework for public service missions entrusted by the lawmaker to EDF for an unlimited period, since the Law of August 9, 2004 simply

requires presentation of a report every three years to the French parliament without stipulating the duration of the contract.

EDF, like other electricity producers, also participates in the multi-annual generation investment program defined by the minister in charge of energy, which sets objectives for the allocation of generation capacity.

Finally, the French State intervenes through the regulation of electricity and gas markets, particularly for authorization to build and operate generation facilities, and establishment of the sales tariffs for non-eligible customers, transmission and distribution tariffs, and the level of the Contribution to the Public Electricity Service (*Contribution aux charges de service public de l'électricité* or CSPE).

#### 35.2.2 Relations with Gaz de France

Since 1951, all of EDF's distribution activities have been undertaken with Gaz de France within the scope of a common structure. Since July 1, 2004, EDF and Gaz de France have each set up their own distribution network operator. The common electricity and gas network operator, EDF Gaz de France Distribution (EGD), manages local energy distribution public services, covering network construction, operation and maintenance, metering, and relations with non-eligible customers.

In October 2004, *EDF* and *GDF* signed a contract defining their relationship in respect of the common operator, its scope of competence and the allocation of costs generated by its activities, as well the governance methods.

*EDF* and *GDF* also have three other common services governed by contracts:

- The National Center for Assessment of Professional relations (*CNERP*) in charge of personnel management;
- The Health and Safety Delegation;
- The Information Technology and Telecommunications Division (*DIT*), which is responsible for certain information systems.

### 35.2.3 Relations with public sector entities

The Group enters into normal business transactions with public sector entities, mainly for electricity supplies and invoicing for access to the transmission network.

Reprocessing and transportation of nuclear fuel by *AREVA* for *EDF* account for most of the energy purchase costs from state-owned entities. Other purchases concern nuclear plant maintenance services provided by the *AREVA* Group.

Other assets mainly consist of advances on these purchase contracts.

The Group also holds shares in *AREVA*, as mentioned in note 22.3.2.3.

## ➔ 35.3 - MANAGEMENT COMPENSATION

The Group's key management personnel are the Chairman of the Board of Directors, the Chief Officers and the external members of the Board of Directors.

The total compensation paid by *EDF* and controlled companies to the Group's key management personnel amounted to €4.1 million for 2006 for short-term benefits (salaries, the variable portion paid in 2006, profit share, director's fees and benefits in kind) and the corresponding employer contributions.

Management personnel who belong to the *IEG* regime also benefit from employee benefits (as defined by IAS 19) attached to that status. The past service cost for these benefits was €0.3 million for 2006.

Other than the benefits reported above, key management personnel benefit from no other special pension system, starting bonus or severance payment entitlement.

Compensation paid by *EDF* and controlled companies to the Group's key management personnel in 2005 amounted to €3.7 million for short-term benefits (including social security charges and director's fees).

At the time of *EDF*'s IPO in 2005, they were able to benefit from the preferential terms granted to employees: discounted share prices, attribution of free shares and a contribution made by *EDF* to the benefit of personnel.

## Note 36 Environment

### ➔ 36.1 - GREENHOUSE GAS EMISSION QUOTAS

In application of the Kyoto protocol, the EU Directive aiming to reduce greenhouse gas emission levels by attributing emission quotas came into effect in 2005 for an initial three-year period.

In the *EDF* Group, the companies subject to this Directive are *EDF SA*, *EnBW*, *EDF Energy*, *Edison*, *Fenice*, *Dalkia International* and *Dalkia Investissement*, *Bert*, *Demasz*, *Kogeneracja*, *Zielonagora*, *ECK*, *Rybnick* and *ECW*.

In 2006, the Group surrendered 71 million tonnes in respect of emissions generated in 2005.

The Group's total quota allocation for 2006 recorded in the national registers was 83 million tonnes (50.7 million tons in 2005).

The volume of emissions at December 31, 2006 stood at 87 million tonnes (56.1 million tonnes at December 31, 2005). The provision resulting from over-quota emissions amounts to €247 million.

The greenhouse gas emission quotas receivable for 2007 represent 85 million tonnes, valued at €557 million at December 31, 2006.

## ➔ 36.2 - ENERGY SAVINGS CERTIFICATES AND MEASURES TO DEVELOP USE OF RENEWABLE ENERGIES

In all its subsidiaries, the Group is engaged in a process to control energy consumption through various measures developed by national legislations, in application of European Union Directives.

The French Law of July 13, 2005 introduced a system of energy savings certificates. Legal entities selling electricity, gas, heat or cold to end-users with sales above a certain level are subject to energy savings obligations for a three-year period running till June 30, 2009. They fulfill these obligations by making direct or indirect energy savings rewarded by certificates, or by purchasing energy savings certificates. At the end of the three years, the entities concerned must provide evidence of compliance with obligations by surrendering the certificates, or pay a fine to the French Treasury.

For the Group's French companies, the obligation is to save 30.4 TWh over the three-year period.

At December 31, 2006, *EDF SA* and other Group subsidiaries have plans in action to obtain their energy savings certificates, and the first certificates had been awarded for an amount of 0.3 TWh.

In the United Kingdom, Poland and Italy, certificates are awarded when electricity is generated from renewable energy sources, to encourage greater use of renewable energies through a system of indemnities for generation costs. Similar systems have been introduced for cogeneration.

## Note 37 Subsequent events

### ➔ 37.1 - INDUSTRIAL PARTNERSHIP BETWEEN *EDF SA* AND THE EXCELTUM CONSORTIUM

*EDF* and the Exeltium consortium signed a memorandum of understanding on January 15, 2007 concerning long-term electricity purchases, covering more than 350 TWh spread over 24 years. The agreement defines the terms and conditions of a long-term industrial and commercial partnership, particularly in terms of volume, price and

industrial risk-sharing. The Exeltium consortium comprises electricity-intensive customers representing some sixty companies operating on 160 sites in France. The agreement will be presented to the relevant European competition authorities with the objective of beginning the electricity supply in the second quarter of 2007.

### ➔ 37.2 - INDUSTRIAL AGREEMENT BETWEEN *EDF SA* AND *POWEO*

The long-term industrial agreement signed by *Poweo* and *EDF* concerns the supply by *EDF* of 160 MW of nuclear electricity between 2007 and 2021 on economic terms that reflect the cost of developing a new nuclear generation plant. In return, *Poweo* will make part

of the output of its future 412 MW combined cycle gas turbine power plant at Pont sur Sambre available to *EDF*, for the same capacity and duration, starting in 2009.

### ➔ 37.3 - LAUNCH OF THE PROCESS FOR SALE OF MEXICAN ACTIVITIES

On February 7, 2007, *EDF* announced that it was beginning the process to sell its Mexican activities.

### ➔ 37.4 - EXERCISE OF EDISON WARRANTS

Edison announced on February 1, 2007 that 519 554 810 warrants had been exercised at the subscription price of €1, generating

receipts of €519.6 million for Edison. The *EDF* Group did not exercise its warrants as part of this operation.



# Note **38** Transition to standards IAS 32 and 39 concerning financial instruments

<b>38.1</b>	<b>RECONCILIATION OF THE BALANCE SHEET AT DECEMBER 31, 2004 UNDER IFRS WITH THE OPENING BALANCE SHEET AT JANUARY 1, 2005</b>	<b>276</b>
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The impacts of the transition to standards IAS 32 and 39 on financial instruments at January 1, 2005, compared to the figures published at December 31, 2004, are summarized below.

## ➔ **38.1 - RECONCILIATION OF THE BALANCE SHEET AT DECEMBER 31, 2004 UNDER IFRS WITH THE OPENING BALANCE SHEET AT JANUARY 1, 2005**

<b>ASSETS</b> (in millions of euros)	<b>Notes</b>	<b>12.31.2004</b>	<b>Reclassifications IAS 32/39</b>	<b>Valuation under IAS 32/39</b>	<b>01.01.2005</b>
Goodwill		5,371	-	-	5,371
Intangible assets other than goodwill		1,288	-	-	1,288
Property, plant and equipment		97,645	-	-	97,645
Investments in companies accounted for under the equity method		2,198	-	5	2,203
Non-current financial assets	38.2	7,434	13	671	8,118
Deferred tax assets		944	-	106	1,050
<b>Non-current assets</b>		<b>114,880</b>	<b>13</b>	<b>782</b>	<b>115,675</b>
Inventories, including work-in-process		6,678	-	-	6,678
Trade receivables	38.2	15,782	(2,051)	2	13,733
Current financial assets	38.2	3,121	2,270	299	5,690
Other receivables		5,920	(54)	(3)	5,863
Cash and cash equivalents	38.4	3,150	678	(8)	3,820
<b>Current assets</b>		<b>34,651</b>	<b>843</b>	<b>290</b>	<b>35,784</b>
<b>TOTAL ASSETS</b>		<b>149,531</b>	<b>856</b>	<b>1,072</b>	<b>151,459</b>

<b>EQUITY AND LIABILITIES</b> (in millions of euros)	<b>Notes</b>	<b>12.31.2004</b>	<b>Reclassifications IAS 32/39</b>	<b>Valuation under IAS 32/39</b>	<b>01.01.2005</b>
Capital		8,129	-	-	8,129
Consolidated reserves and income		307	-	636	943
<b>Equity (EDF's share)</b>	38.5	<b>8,436</b>	<b>-</b>	<b>636</b>	<b>9,072</b>
Minority interests		899	-	(2)	897
<b>Total Equity</b>		<b>9,335</b>	<b>-</b>	<b>634</b>	<b>9,969</b>
Provisions for end of nuclear fuel cycle		13,494	-	-	13,494
Provisions for decommissioning and for last cores		12,367	-	-	12,367
Provisions for employee benefits		13,620	-	-	13,620
Other provisions	38.3	1,999	(1,253)	-	746
Special concession liabilities		33,694	-	-	33,694
Non-current financial liabilities	38.3	20,888	47	(299)	20,636
Other liabilities		6,479	(46)	5	6,438
Deferred tax liabilities		2,929	-	288	3,217
<b>Non-current liabilities</b>		<b>105,470</b>	<b>(1,252)</b>	<b>(6)</b>	<b>104,212</b>
Provisions		4,525	-	-	4,525
Trade payables and other current liabilities payable	38.3	9,017	(2,346)	(8)	6,663
Current financial liabilities	38.3	4,899	4,466	394	9,759
Current tax liabilities		395	-	58	453
Other liabilities		15,890	(12)	-	15,878
<b>Current liabilities</b>		<b>34,726</b>	<b>2,108</b>	<b>444</b>	<b>37,278</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>149,531</b>	<b>856</b>	<b>1,072</b>	<b>151,459</b>

## ➔ 38.2 - CURRENT AND NON-CURRENT FINANCIAL ASSETS

"Current and non-current financial assets" increased from €10,555 million to €13,808 million as a result of application of IAS 39. Details are as follows:

(in millions of euros)

	12.31.2004	Reclassifications for compliance with IAS 39	Valuation under IAS 39 at 01.01.2005	01.01.2005
Non-consolidated investments	1,304	(1,304)	-	-
Investment securities	4,946	(4,946)	-	-
Other investments	182	(182)	-	-
Other long-term financial assets	1,162	(1,162)	-	-
Short-term financial assets	2,961	(2,961)	-	-
<b>Total financial assets before reclassification for compliance with IAS 39</b>	<b>10,555<sup>(1)</sup></b>	<b>(10,555)</b>	<b>-</b>	<b>-</b>
Available-for-sale financial assets	-	8,399	568	8,967
Financial assets carried at fair value with changes in fair value included in income	-	2,837	183	3,020
Held-to-maturity investments	-	17	-	17
Loans and financial receivables	-	1,138	2	1,140
Positive fair value of hedging derivatives	-	447	217	664
<b>TOTAL FINANCIAL ASSETS</b>	<b>10,555</b>	<b>2,283</b>	<b>970</b>	<b>13,808<sup>(2)</sup></b>

(1) €7,434 million non-current, €3,121 million current.

(2) €8,118 million non-current, €5,690 million current.

The net impact of reclassifications of financial assets in accordance with the categories defined by IAS 39 is €2,283 million, mainly comprising:

- €2,505 million representing the positive fair value of EDF Trading's derivatives, reclassified from trade receivables to financial assets at fair value,
- €(680) million of marketable securities reclassified as cash equivalents.

The impact of valuation of financial assets under IAS 39 amounts to €970 million, comprising:

- €568 million due to revaluation of available-for-sale financial assets: this is the difference between the market value of available-for-sale financial assets and the historical cost of the financial instruments classified in this category,

- €183 million due to revaluation of financial instruments classified as financial assets carried at fair value with changes in fair value included in income, mainly corresponding to:
  - Recognition of options and warrants concerning Edison (€94 million),
  - The fair value of other derivatives held for trading (approximately €220 million) concerning commodity contracts that qualify as derivatives under IAS 39,
  - The impact of elimination of commodity contracts internal to the Group (€(138) million).
- €217 million for the fair value of hedging derivatives, including €174 million for hedges of net investments by EDF SA in foreign entities.

## ➔ 38.3 - FINANCIAL LIABILITIES

(in millions of euros)

	12.31.2004	Reclassifications for compliance with IAS 39	Valuation under IAS 39 at 01.01.2005	01.01.2005
Financial loans and debts	25,787	418	(296)	25,909
Negative fair value of derivatives held for trading	-	3,688	216	3,904
Negative fair value of hedging derivatives	-	407	175	582
<b>FINANCIAL LIABILITIES</b>	<b>25,787<sup>(1)</sup></b>	<b>4,513</b>	<b>95</b>	<b>30,395<sup>(2)</sup></b>

(1) €20,888 million non-current, €4,899 million current.

(2) €20,636 million non-current, €9,759 million current.

The net impact of reclassification of financial liabilities, amounting to €4,513 million, breaks down as follows:

- €2,346 million corresponding to the negative fair value of EDF Trading's derivatives held for trading, previously classified as trade payables,
- €1,227 million for the provision recorded by EDF SA in respect of IEB shares and a provision related to share repurchase commitments for EDF SA's put and call options, reclassified as derivatives held for trading,
- €454 million for securitization of EDF Energy's trade receivables, reclassified as financial debts.

The impact of valuation of financial liabilities under IAS 39 amounts to €95 million, comprising:

- €(296) million due to valuation of liabilities at amortized cost, including €(206) million concerning the loan from the French Atomic Energy Commission (*Commissariat à l'Energie Atomique* or CEA) to EDF for the initial financing of the Creys-Malville power plant,
- €216 million due to valuation of derivatives held for trading, including commodity contracts classified as derivatives (€28 million) and embedded derivatives (€42 million),
- €175 million due to valuation of hedging derivatives: €40 million for commodity contracts classified as hedges, and the balance for interest rate and currency swaps classified as cash flow hedges.

### ➔ 38.4 - CASH AND CASH EQUIVALENTS

The reclassifications to this category, amounting to €678 million, mainly concern marketable securities previously recorded as short-term investments.

### ➔ 38.5 - EQUITY

The impact on equity of application of IAS 39 at January 1, 2005, after tax effects, amounts to €634 million (EDF share: €636 million).

#### 38.5.1 Impact on consolidated reserves

The impact on consolidated reserves amounts to €366 million net of taxes, including €366 million for EDF SA, €61 million for subsidiaries, and €(61) million in intercompany eliminations.

For EDF SA, the main components of the impact are:

- €219 million due to valuation of liabilities at amortized cost;
- €94 million in adjustments to impairment of financial assets classified as available for sale,
- €205 million due to recognition of unrealized gains on derivatives (including €69 million corresponding to the fair value of IEB/Edison derivatives),
- €(159) million in taxes.

For the subsidiaries, the €61 million impact is principally due to valuation of financial assets at fair value, and recognition of embedded derivatives.

Finally, at Group level, eliminations mainly concern internal profits on commodity contracts.

#### 38.5.2 Impacts on gains and losses on financial instruments deferred in equity

The €274 million impact on gains and losses on financial instruments deferred in equity breaks down as follows:

- The impact resulting from adjustment to fair value of available-for-sale financial assets amounts to €363 million, including €48 million relating to Edison shares,
- The impact of gains and losses on hedging instruments recorded directly in reserves amounts to €(89) million and concerns commodity contracts classified as cash flow hedges, and interest rate hedging swaps.

# Note 39 Scope of consolidation

The scope of consolidation at December 31, 2006 is as follows:

COMPANY		HEAD OFFICE	% OWNED	% VOTING RIGHTS	CONSOLIDATION METHOD	BUSINESS SECTOR	SIREN Nr
FRANCE							
Électricité de France	(1)	22-30, avenue de Wagram 75382 Paris Cedex 08 / France	100	100	parent company	G, D, S	552081317
RTE EDF Transport	(1)	Tour Initiale 1, terrasse Bellini - TSA 41000 92919 Paris-La Défense Cedex / France	100	100	FC	T	444619258
UNITED KINGDOM							
EDF Energy	(3)	40 Grosvenor Place, London SW1X 7EN / England	100	100	FC	G, D, S	
GERMANY							
EnBW	(3)	Durlacher allee 93 D-76131 Karlsruhe / Germany	46.07	46.07	PC	G, D, S, T	
ITALY							
Edison	(3, 4)	Foro Buonaparte n° 31 20121 Milan / Italy	51.58	50	PC	G, D, S	
Transalpina di Energia (TdE)		Foro Buonaparte n° 31 20121 Milan / Italy	50	50	PC	S	
Italenergia bis		Studio Pirola Corso Montevecchio 39 10129 Torino / Italy	100	100	FC	S	
Wagram 1		Studio Pirola Corso Montevecchio 39 10129 Torino / Italy	100	100	FC	S	
Wagram 4		Studio Pirola Corso Montevecchio 39 10129 Torino / Italy	100	100	FC	S	
Finel		Foro Buonaparte n° 31 20121 Milano / Italy	61.26	61.26	PC	G	
Fenice	(3)	Via Acqui n° 86 10090 Rivoli / Italy	100	100	FC	G	
REST OF EUROPE							
EDF Trading	(3)	Mid City Place - 71, High Holborn London WC 1V6ED / England	100	100	FC	S	
EDF International	(1)	20, place de la Défense 92050 Paris-La Défense / France	100	100	FC	S	380415125
ECK Cracovie		Ul. Ciepłownicza 1 31-587 Cracovie 28 / Poland	66.26	66.26	FC	G	
Kogeneracja		Ul. Lowiecka 24 50-220 Wrocław / Poland	35.61	49.83	FC	G	
ECW		Ul. Swojska 9 80-867 Gdansk / Poland	77.5	77.48	FC	G	
Rybnik		Ul. Podmiejska 44-270 Rybnik / Poland	78.5	70.32	FC	G	
Zielona Gora		Elektrociepłownia Zielona Gora ul. Zjednoczenia 103 - 65120 Zielona Gora / Poland	35.55	99.85	FC	G,D	
Demasz	(3)	Klauzal Ter 9 6720 Szeged / Hungary	100	100	FC	D	
Bert		Budafoki ut 52 1117 Budapest XI / Hungary	95.57	95.57	FC	G	
Société d'investissement en Autriche		La Défense 4/Tour EDF 20, place de la Défense 92050 Paris-La Défense Cedex / France	80	80	FC	G	421089913
Groupe Estag		Palais Heberstein/Leonhardstrasse 59 A-8010 Graz / Austria	20	25	EM	G,S	
SSE		Ulica Republiky c. 5 01047 Zilina / Slovakia	49	49	EM	D	
Motor Columbus		Parkstrasse 27 CH-5401 Baden / Switzerland	41.03	36.94	EM	G	

## Consolidated financial statements

COMPANY	HEAD OFFICE	% OWNED	% VOTING RIGHTS	CONSOLIDATION METHOD	BUSINESS SECTOR	SIREN Nr
Groupe Atel	Bahnhofquai 12 CH-4601 Olten / Switzerland	25.78	38.17	EM	G, D, S, T	
EDF Alpes Investissements	Centrale de la Bâtiaz CH-1920 Martigny / Switzerland	100	100	FC	S	
Emosson	Centrale de la Bâtiaz CH-1920 Martigny / Switzerland	50	50	PC	G	
EDF Belgium	Boulevard Bischoffsheim B-1000 - Bruxelles / Belgium	100	100	FC	G	
Finelex BV	Drentestraat 20 1083 HK Amsterdam / Nederland	100	100	FC	G	
Cinergy Holding Company BV	Burgemeester Haspelslaan 455/F 1181 NB Amstel Veen / Nederland	50	50	PC	G	
Hispaelec	C/Alcala 54-3 <sup>o</sup> Izda 28014 Madrid / Spain	100	100	FC	G	
Azito O&M SA	Yopougon Niangon Sud-village Azito 23 BP 220 2204 Abidjan / Ivory Coast	50	50	PC	G	
Azito Énergie	01 B.P. 3963 Abidjan 01 / Ivory Coast	32.85	32.85	PC	G	
Dalkia Holding	37, avenue Maréchal-de-Lattre-de-Tassigny 59350 St-André-lez-Lille / France	34	34	EM	S	403211295
Edenkia	37, avenue Maréchal-de-Lattre-de-Tassigny 59350 St-André-lez-Lille / France	50	50	EM	S	434109807
Dalkia International	37, avenue Maréchal-de-Lattre-de-Tassigny 59350 St-André-lez-Lille / France	50	24.14	PC	S	433539566
Dalkia Investissement	37, avenue Maréchal-de-Lattre-de-Tassigny 59350 St-André-lez-Lille / France	67	50	PC	S	404434987
Richemont <sup>(1)</sup>	Centrale sidérurgique de Richemont 57270 Richemont / France	100	100	FC	G	
EDF Développement Environnement SA <sup>(1)</sup>	La Défense 4 Cœur Défense immeuble 1 90, esplanade du Général-de-Gaulle 92933 Paris-La Défense Cedex / France	100	100	FC	G	380414482
Société pour le Conditionnement des Déchets et Effluents Industriels (Socodei)	Chemin départemental 138 SITE Centraco 30200 Codolet / France	51	51	FC	S	380303107
Société Provençale du Lit Fluidise (Soprolif)	Ancien chemin départemental 6 13590 Meyreuil / France	55	55	FC	G	389091562
Tenesol	ZAC de la Tour, 12-14, allée du Levant 69890 La Tour-de-Salvagny / France	45	45	PC	S	344 584 818
Cofiva <sup>(1)</sup>	Cœur Défense, Imm B1 90, esplanade du Général-de-Gaulle, 92933 Paris-La Défense Cedex / France	100	100	FC	S	380414946
Sofinel	22-30, ave de Wagram, 75008 Paris / France	54.98	54.98	FC	S	312664824
Electricité de Strasbourg	26, boulevard du Président-Wilson 67953 Strasbourg Cedex 9 / France	74.71	74.71	FC	D	558501912
Vero GmbH	Libertas-Intercount Revisions- und Beratungsgesellschaft WIEN Teinfaltstrasse 4 / Austria	100	100	FC	S	
Tiru SA - Traitement <sup>(3)</sup> industriel des résidus urbains	Tour Franklin La Défense 8 92042 Paris-La Défense Cedex / France	51	51	FC	S	334303823
EnXco <sup>(2)</sup>	63-665 19 <sup>th</sup> avenue North Palm Springs California 92258 / USA	50	50	PC	S	
EDF énergies Nouvelles <sup>(2)(3)</sup>	Défense 4 Immeuble 1 90, esplanade du Général-de-Gaulle 92933 Paris-La Défense Cedex / France	50	50	PC	G,S	379677636
Immobilière Wagram Etoile <sup>(1)</sup>	20, place de la Défense/Tour EDF 92050 Paris-La Défense Cedex / France	100	100	FC	S	414660043
La Gérance Générale Foncière <sup>(1)</sup>	Immeuble Guynemer 18, rue du Capitaine-Guynemer 92938 Paris-La Défense Cedex / France	99.86	99.86	FC	S	562054510

COMPANY	HEAD OFFICE	% OWNED	% VOTING RIGHTS	CONSOLIDATION METHOD	BUSINESS SECTOR	SIREN Nr
Immobilière PB6	Immeuble Grand Seine, 21, quai d'Austerlitz 75013 Paris / France	50	50	PC	S	414875997
Société Foncière Immobilière et de Location (Sofilo) <sup>(1)</sup>	Tour EDF, 20, place de la Défense 92050 Paris-La Défense Cedex / France	100	100	FC	S	572184190
Sapar Finance <sup>(1)</sup>	Site Cap Ampère Les Patios, 1, place Pleyel 93282 Saint-Denis Cedex / France	100	100	FC	S	347889149
Société C2 <sup>(1)</sup>	1, place Pleyel 93200 Saint-Denis / France	100	100	FC	S	421328162
Société C3 <sup>(1)</sup>	22-30, ave de Wagram 75382 Paris Cedex / France	100	100	FC	S	428722714
Société C11	1, place Pleyel 93200 Saint-Denis / France	100	100	FC	S	489967778
REST OF THE WORLD						
Edenor <sup>(2)</sup>	Azoparado 1025 Piso 171107/Buenos Aires / Argentina	25	25	EM	D	
Ute 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	
Altamira	Paseo de la Reforma 287 3er. Piso 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	27 <sup>th</sup> Floor, n° 1 Tai an office building 38-2, Minzu road Nanning Guangxi / 530022 / China	100	100	FC	G	
Synergie	Laibin Power Plant Post Box 09 Laibin County 546138 Guangxi / China	85	85	FC	G	
Shandong Zhonghua Power Company	14 Jing San Road 25001 Jinan / Shandong / 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	Unit 09, That Luang Road, Nong Bone Village PO Box 5862 Vientiane, Lao PDR	35	35	EM	G	

Consolidation method: FC = full consolidation, PC = proportional consolidation, EM = accounted for under the equity method;

Business segments: G = Generation, D = Distribution, S = Services, T = Transmission.

(1) Companies fiscally consolidated by EDF under the option initially registered on January 1, 1988.

(2) Following application of the new shareholder agreements with the Mouratoglou Group and the IPO of EDF Energies Nouvelles, EDF EN and EnXco are fully consolidated at December 31, 2006.

(3) Group.

(4) including potential voting rights (warrants excluding savings shares).

## 20.2 - STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2006

*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.*

To the shareholders,

In accordance with our appointment as statutory auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Electricité de France S.A. for the year ended December 31, 2006.

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.

### 1. 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 consolidated 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 aspects, the financial position and assets and liabilities of the Group as of December 31, 2006 and the results of its operations for the year then ended in accordance with IFRS as adopted in the European Union.

Without qualifying our opinion, we draw your attention to the following points described in the notes to the consolidated financial statements:

- the valuation of long-term provisions relating to nuclear electricity production, as described in notes 2.2.1, 29.2 and 29.3 to the consolidated financial statements, results as indicated in note 2.2.1 from Management best estimates. This valuation is sensitive to the assumptions made concerning costs, inflation rates, long-term discount rates, and forecast cash outflows as well as the results of current negotiations with AREVA. Changes in these parameters could lead to a material revision of the level of provisioning,
- the approach adopted by EDF to present in the balance sheet its obligation to renew property plant and equipments used for the French public distribution of electricity, as described in note 3, is based on the specific characteristics of concession contracts. The amount of contractual obligations as calculated and disclosed to the grantors in reports is used for evaluating the obligation. An alternative approach based on the discounted value of future payments necessary for replacement of these assets at the end of their industrial useful life would result in a different representation of the obligation towards grantors. The impacts this approach would have had on the accounts are shown in note 3 for information purposes. Measurement of the concession liability concerning assets to be replaced is notably subject to uncertainty in terms of costs and disbursement dates.

### 2. Justification of assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:



# Financial information concerning the company's assets and liabilities, financial position and profits and losses

## Accounting principles and policies

- As part of our assessment of the Group's accounting principles and methods, we have verified the appropriateness of the disclosures presented in notes 2.4, 2.10.2, 2.12 and 3.2 with respect to commitments to purchase minority interests in a fully consolidated company, to greenhouse gas emission quotas and concessions, areas which are not mandatory or specifically treated in IFRS as adopted in the European Union.

Regarding concessions, note 2.12 indicates that EDF is currently analyzing the possible impact of the new IFRIC 12 interpretation on the Group consolidated financial statements; the interpretation is currently undergoing the process for approval by the European Commission, for mandatory application on January 1, 2008.

- Note 4 mentions accounting changes resulting from the first adoption of interpretation IFRIC 4 "Determining whether an arrangement contains a lease", which came into force on January 1, 2006.

In accordance with IAS 8, 2005 comparative information has been restated to take into account retrospectively this change in accounting policy. Consequently, comparative information differs from the one published in the 2005 consolidated financial statements. As part of our assessment of the Company's accounting principles, we have made an examination of the restatement of 2005 financial information, and of the related information disclosed in note 4.

## Management Judgments and Estimates

Note 2.2. mentions the accounting methods used by Management which are sensitive to judgments and estimates. Our procedures consisted in assessing the financial information and underlying assumptions on which these estimates are based, reviewing, on a test basis, the calculations performed by the Company, comparing last years accounting estimates with corresponding actual amounts, reviewing the procedures for approving these estimates by Management and finally verifying that the notes to the consolidated financial statements provide appropriate disclosures with respect to the assumptions adopted by the Group.

These 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.

## 3. Specific procedures

Furthermore, in accordance with professional standards applicable in France, we have also verified the information relating to the Group given in the management report. We have nothing to report regarding its fair presentation and consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

**KPMG Audit**  
**Department of KPMG S.A.**

**Deloitte & Associés**

Jean-Luc Decornoy

Michel Piette

Amadou Raimi

Tristan Guerlain

# Financial information concerning the company's assets and liabilities, financial position and profits and losses

## ➡ 20.3 - RESTATEMENTS CONCERNING THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

The financial statements for the year ended December 31, 2004 which are presented in a comparison with those concerning the year ended December 31, 2005, were prepared in accordance with IFRS standards and were published in Section 20.1 (pages 213 to 208) of 2005's *Document de Référence*, are included by reference in this Document.

In order to provide information prepared under identical accounting principles and standards for the years 2004, 2005 and 2006, the impact of the changes in the accounting methods and presentation of the balance sheet, the income statement, the cash flow statement and the variation in equity at December 31, 2004, implemented in 2006 and detailed in note 4 to the 2006 consolidated financial statements, are presented hereunder.

The 2005 published consolidated financial statements, restated in accordance with the impact of the changes in the accounting methods and presentation occurred in 2006, are themselves presented in note 4 to the consolidated financial statements at December 31, 2006 (see Section 20.1 ("Historical financial information") of the present document).

- The changes in the accounting methods reflect the application of IFRIC 4, which aims at "determining whether an arrangement contains a lease". This interpretation became mandatory from January 1, 2006. This interpretation concerns the identification of agreements that convey the right to use an asset or group of specific assets to the purchaser although they do not have the legal form of a lease contract, in that the purchaser in the arrangement benefits from a substantial share

of the asset's production and payment is not dependent on production or market price.

Such agreements must be recognized as operating or finance leases in accordance with IAS 17.

In accordance with IFRIC 4, the effects of this interpretation have been presented since January 1, 2004.

- The changes in presentation concern income statement reclassifications. To provide a more economic analysis of energy-related costs, "Fuel and energy purchases" in the income statement have since January 1, 2005 included:
  - energy delivery costs, previously reported under "Other external expenses";
  - and costs related to CO<sub>2</sub> emission rights, previously reported under in "Other operating income and expenses".

### 20.3.1 2004 consolidated income statement restated of the changes in accounting methods and presentation

The consolidated income statement restated for the financial year 2004 includes the reclassification of energy delivery costs and costs related to CO<sub>2</sub> emission rights, the impacts of IFRIC 4, as well as of Law of August 9, 2004. This Law concerns IEG special retirement pension system financing reform and concession agreements (article 36). Their impacts are detailed in note 7 to the published financial statements at December 31, 2005.

(in millions of euros)	2004	Changes in presentation	IFRIC 4 impacts	2004 restated	Impacts of the Law of August 9, 2004	2004 pro forma restated
Sales	46,788	-	38	46,826	(638)	46,188
Fuel and energy purchases	(13,486)	(880)	-	(14,366)	-	(14,366)
Other external expenses	(8,748)	880	(58)	(7,926)	-	(7,926)
Personnel expenses	(8,744)	-	-	(8,744)	(301)	(9,045)
Taxes other than income taxes	(2,827)	-	-	(2,827)	-	(2,827)
Other operating income and expenses	434	-	-	434	80	514
<b>Operating profit before depreciation and amortization</b>	<b>13,417</b>	<b>-</b>	<b>(20)</b>	<b>13,397</b>	<b>(859)</b>	<b>12,538</b>
Net depreciation and amortization	(4,842)	-	11	(4,831)	-	(4,831)
(Impairments) / reversals	(1,373)	-	-	(1,373)	-	(1,373)
Other income and expenses	(190)	-	-	(190)	-	(190)
<b>Operating profit</b>	<b>7,012</b>	<b>-</b>	<b>(9)</b>	<b>7,003</b>	<b>(859)</b>	<b>6,144</b>
<b>Financial result</b>	<b>(5,432)</b>	<b>-</b>	<b>37</b>	<b>(5,395)</b>	<b>2,375</b>	<b>(3,020)</b>
<b>Income before taxes of consolidated companies</b>	<b>1,580</b>	<b>-</b>	<b>28</b>	<b>1,608</b>	<b>1,516</b>	<b>3,124</b>
Income taxes	(1,072)	-	(5)	(1,077)	(533)	(1,610)
Share in income of companies accounted for under the equity method	103	-	1	104	-	104
<b>GROUP NET INCOME</b>	<b>611</b>	<b>-</b>	<b>24</b>	<b>635</b>	<b>983</b>	<b>1,618</b>
Minority interests	(13)	-	(1)	(14)	-	(14)
<b>EDF NET INCOME</b>	<b>624</b>	<b>-</b>	<b>25</b>	<b>649</b>	<b>983</b>	<b>1,632</b>

## Financial information concerning the company's assets and liabilities, financial position and profits and losses

### 20.3.2 2004 consolidated balance sheet restated for the changes in accounting methods and presentation

The consolidated balance sheet restated for the financial year 2004 includes the effects of the application of IFRIC 4, as well as the impact of the mandatory application at January 1, 2005 of rules IAS 32 and IAS 39 about the financial instruments. Note 38 to the consolidated financial statements for the year ended December 31, 2006 details the effects of such reclassifications and evaluations as of January 1, 2005.

<b>ASSETS</b> (in millions of euros)	<b>12/31/2004</b>	<b>IFRIC 4 Impacts</b>	<b>12/31/2004 restated</b>	<b>Reclassifications IAS 32/39</b>	<b>valuation under IAS 32/39</b>	<b>01/01/2005 restated</b>
Goodwill	5,371	-	5,371	-	-	5,371
Other intangible assets	1,288	-	1,288	-	-	1,288
Property, plant and equipment	97,645	(448)	97,197	-	-	97,197
Investments in companies accounted for under the equity method	2,198	-	2,198	-	5	2,203
Non-current financial assets	7,434	466	7,900	13	671	8,584
Deferred tax assets	944	20	964	-	106	1,070
<b>Non-current assets</b>	<b>114,880</b>	<b>38</b>	<b>114,918</b>	<b>13</b>	<b>782</b>	<b>115,713</b>
Inventories, including work-in-process	6,678	-	6,678	-	-	6,678
Trade receivables	15,782	(7)	15,775	(2,051)	2	13,726
Current financial assets	3,121	-	3,121	2,270	299	5,690
Current tax assets	1,369	-	1,369	-	-	1,369
Other receivables	4,551	144	4,695	(54)	(3)	4,638
Cash and cash equivalents	3,150	-	3,150	678	(8)	3,820
<b>Current assets</b>	<b>34,651</b>	<b>137</b>	<b>34,788</b>	<b>843</b>	<b>290</b>	<b>35,921</b>
<b>Assets classified as held for sale</b>	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>149,531</b>	<b>175</b>	<b>149,706</b>	<b>856</b>	<b>1,072</b>	<b>151,634</b>
<b>EQUITY AND LIABILITIES</b> (in millions of euros)	<b>12/31/2004</b>	<b>IFRIC 4 Impacts</b>	<b>12/31/2004 restated</b>	<b>Reclassifications IAS 32/39</b>	<b>valuation under IAS 32/39</b>	<b>01/01/2005 restated</b>
Capital	8,129	-	8,129	-	-	8,129
Consolidated reserves and income	307	142	449	-	636	1,085
<b>Equity (EDF share)</b>	<b>8,436</b>	<b>142</b>	<b>8,578</b>	-	<b>636</b>	<b>9,214</b>
Minority interests	899	(2)	897	-	(2)	895
<b>Total Equity</b>	<b>9,335</b>	<b>140</b>	<b>9,475</b>	-	<b>634</b>	<b>10,109</b>
Provisions for end of nuclear fuel cycle	13,494	-	13,494	-	-	13,494
Provisions for decommissioning and for last cores	12,367	-	12,367	-	-	12,367
Provisions for employee benefits	13,620	-	13,620	-	-	13,620
Other provisions	1,999	-	1,999	(1,253)	-	746
<b>Non-current provisions</b>	<b>41,480</b>	-	<b>41,480</b>	<b>(1,253)</b>	-	<b>40,227</b>
Special concession liabilities	33,694	-	33,694	-	-	33,694
Non-current financial liabilities	20,888	-	20,888	47	(299)	20,636
Other liabilities	6,479	-	6,479	(46)	5	6,438
Deferred tax liabilities	2,929	60	2,989	-	288	3,277
<b>Non-current liabilities</b>	<b>105,470</b>	<b>60</b>	<b>105,530</b>	<b>(1,252)</b>	<b>(6)</b>	<b>104,272</b>
Provisions	4,525	-	4,525	-	-	4,525
Trade payables and other current liabilities payable	9,017	(25)	8,992	(2,346)	(8)	6,638
Current financial liabilities	4,899	-	4,899	4,466	394	9,759
Current tax liabilities	395	-	395	-	58	453
Other liabilities	15,890	-	15,890	(12)	-	15,878
<b>Current liabilities</b>	<b>34,726</b>	<b>(25)</b>	<b>34,701</b>	<b>2,108</b>	<b>444</b>	<b>37,253</b>
<b>Liabilities related to assets classified as held for sale</b>	-	-	-	-	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>149,531</b>	<b>175</b>	<b>149,706</b>	<b>856</b>	<b>1,072</b>	<b>151,634</b>

## Financial information concerning the company's assets and liabilities, financial position and profits and losses

### 20.3.3 2004 consolidated cash flow statement restated for the changes in accounting methods and presentation

As shown in the table hereunder, only the retrospective application of IFRIC 4 has an effect over the cash flow statement published in the consolidated financial statements at December 31, 2006.

(in millions of euros)	2004	IFRIC 4	2004 restated
<b>Operating activities:</b>			
<b>Income before tax from consolidated companies</b>	<b>1,580</b>	<b>28</b>	<b>1,608</b>
Impairments	1,373	-	1,373
Accumulated depreciation and amortization, provisions and change in fair value	8,480	(11)	8,469
Financial income and expenses	490	(37)	453
Dividends received from companies accounted for under the equity method	90	-	90
Capital gains/losses	(214)	-	(214)
Other income and expenses without effect on cash	90	-	90
Change in working capital	473	(32)	441
<b>Net cash flow from operations</b>	<b>12,362</b>	<b>(52)</b>	<b>12,310</b>
Net financial expenses disbursed	(1,096)	37	(1,059)
Income taxes paid	(2,047)	-	(2,047)
Tax and interest paid following the decision of the European Commission	(1,224)	-	(1,224)
<b>Net cash flow from operating activities</b>	<b>7,995</b>	<b>(15)</b>	<b>7,980</b>
<b>Investing activities:</b>			
Acquisition of companies, net of cash acquired	(97)	-	(97)
Purchases of property, plant and equipment and intangible assets	(4,940)	61	(4,879)
Net proceeds from sale of property, plant and equipment and intangible assets	383	-	383
Changes in financial assets	761	(46)	715
<b>Net cash flow used in investing activities</b>	<b>(3,893)</b>	<b>15</b>	<b>(3,878)</b>
<b>Financing activities:</b>			
Issuance of borrowings	3,865	-	3,865
Repayment of borrowings	(7,230)	-	(7,230)
Dividends paid by parent company	(321)	-	(321)
Dividends paid to minority interests	(46)	-	(46)
Capital increase subscribed by minority interests	43	-	43
Increase in special concession liabilities	174	-	174
Investment subsidies	31	-	31
Other	3	-	3
<b>Net cash flow from financing activities</b>	<b>(3,481)</b>	<b>-</b>	<b>(3,481)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>621</b>	<b>-</b>	<b>621</b>
Cash and cash equivalents - opening balance	2,497	-	2,497
Effect of currency fluctuations	21	-	21
Reclassifications upon application of IAS 32 and 39	-	-	-
Financial income on cash and cash equivalents	-	-	-
Effect of other reclassifications	11	-	11
<b>Cash and cash equivalents - closing balance</b>	<b>3,150</b>	<b>-</b>	<b>3,150</b>

## Financial information concerning the company's assets and liabilities, financial position and profits and losses

### 20.3.4 2004 variation in consolidated equity restated of the changes in accounting methods and presentation

The impact of IFRIC 4 as of January 1, 2004 in the consolidated equity is as follows:

	Capital	Consolidated reserves and net income	Translation adjustments	Equity (EDF share)	Minority interests	Total Equity
<i>(in millions of euros)</i>						
<b>Equity at January 1, 2004 IFRS</b>	<b>8,129</b>	<b>(47,259)</b>	<b>-</b>	<b>(39,130)</b>	<b>913</b>	<b>(38,217)</b>
Restatements for application of IFRIC 4 at January 1, 2004	-	127	-	127	(1)	126
Net income <sup>(1)</sup>	-	649	-	649	(14)	635
Dividends paid	-	(321)	-	(321)	(46)	(367)
Translation adjustments <sup>(2)</sup>	-	-	64	64	42	106
Impact of the Law of August 9, 2004 <sup>(3)</sup>	-	47,167	-	47,167	-	47,167
Other changes	-	22	-	22	3	25
<b>Equity at December 31, 2004 restated for application of IFRIC 4</b>	<b>8,129</b>	<b>385</b>	<b>64</b>	<b>8,578</b>	<b>897</b>	<b>9,475</b>

(1) Including IFRIC 4 impact €25 million on Group share equity.

(2) Including IFRIC 4 impact (€10) million on Group share equity.

(3) As the financing reform of the special gas and industry (IEG) pension system substantially came into effect at December 31, 2004, EDF reversed €49,755 million from provisions. An amount of €(2,392) million was also recorded in respect of the payments and contributions to preserve benefit entitlements, as was an amount of €(196) million in respect of other benefits for IEG personnel.

## Financial information concerning the company's assets and liabilities, financial position and profits and losses

### ➔ 20.4 - FEES PAID BY THE GROUP TO STATUTORY AUDITORS

The following table sets forth the fees related to the 2006 financial year for EDF and its fully consolidated subsidiaries for services by its statutory auditors and their respective affiliates:

Audit	Deloitte		KPMG	
	Amount (taxes excluded)	%	Amount (taxes excluded)	%
<i>(in thousands of euros)</i>				
Statutory audit, certification, review of company and consolidated accounts				
• Issuer	3,218	37.7	2,960	48.8
• Fully consolidated subsidiaries	3,155	37.0	2,660	43.8
Other tasks and services directly connected to the statutory auditor's mission				
• Issuer	650	7.6	299	4.9
• Fully integrated subsidiaries	803	9.4	0	
<b>Sub-total</b>	<b>7,826</b>	<b>91.7</b>	<b>5,919</b>	<b>97.5</b>
<b>Other services provided by the auditors' networks to fully integrated subsidiaries</b>				
Legal, tax, social	619	7.3	35	0.6
Other (specify if >10% of auditor's fees)	89	1.0	114	1.9
<b>Sub-total</b>	<b>708</b>	<b>8.3</b>	<b>149</b>	<b>2.5</b>
<b>TOTAL</b>	<b>8,534</b>	<b>100</b>	<b>6,068</b>	<b>100</b>

In 2006, KPMG network's fees include the tasks carried out in relation to the initial public offering of EDF Energies Nouvelles.

All of EDF's statutory auditors were renewed for 6 years from the 2005 financial year.

The fees were approved for each auditor after the process of necessary discussions and deliberations.

#### The information given for the 2005 financial year:

Audit	Deloitte		KPMG	
	Amount (taxes excluded)	%	Amount (taxes excluded)	%
<i>(in thousands of euros)</i>				
Statutory audit, certification, review of company and consolidated accounts				
• Issuer	6,968	57.8	4,238	82.2
• Fully consolidated subsidiaries	2,941	24.4	373	7.2
Other tasks and services directly connected to the statutory auditor's mission				
• Issuer	838	6.9	229	4.4
• Fully integrated subsidiaries	286	2.4	199	3.9
<b>Sub-total</b>	<b>11,033</b>	<b>91.5</b>	<b>5,039</b>	<b>97.7</b>
<b>Other services provided by the auditors' networks to fully integrated subsidiaries</b>				
Legal, tax, social	569	4.7	0	
Other (specify if >10% of auditor's fees)	463	3.8	120	2.3
<b>Sub-total</b>	<b>1,032</b>	<b>8.5</b>	<b>120</b>	<b>2.3</b>
<b>TOTAL</b>	<b>12,065</b>	<b>100</b>	<b>5,159</b>	<b>100</b>

In 2005, the fees include the services provided as part of the opening of the share capital of EDF.

## ➔ 20.5 - DIVIDEND POLICY

### 20.5.1 Dividends paid to the French State

#### 20.5.1.1 Dividends paid before the transformation of EDF into a French société anonyme

Between 2001 and 2003, the method of calculating the dividend was defined in the Group contract signed on March 14, 2001 between the French State and EDF. It was equal to 37.5% of the Group share of net income and was supposed to increase by between a minimum of 1.5% and a maximum of 4.5% of the shareholders equity (Group share).

#### 20.5.1.2 Dividends paid following the transformation of EDF into a French société anonyme

Since the transformation of EDF into a French *société anonyme*, the establishment and payment of dividends have been carried out in accordance with the rules applicable to French *sociétés anonymes*. For the financial year ended on December 31, 2005, the annual shareholders' meeting held on June 9, 2006 decided on the payment of a dividend of €0.79 per share, equivalent to a total amount of €1,439,170,388.51 (excluding repurchased shares), which has been paid out.

#### 20.5.1.3 Dividends paid within the last three years

The amount of dividends paid within the last three years was as follows :

Financial year	Number of shares	Dividend per share	Total dividend distributed in euros (excluding repurchased shares)	Dividends Payment date
2003 <sup>(*)</sup>	N.A.	321,311,000.00	May 17, 2004	
2004 <sup>(*)</sup>	1,625,800,000	€0.23	373,934,000.00	July 6, 2005
2005	1,822,171,090	€0.79	1,439,170,388.51	June 20, 2006

<sup>(\*)</sup> Dividends paid to the French State.

### 20.5.2 Dividend distribution policy

The dividend distribution policy of EDF is determined by its Board of Directors. It takes into account, in particular, the Company's results and financial situation as well as the dividend distribution policies of the main French and international companies in the sector. EDF's current target is a distribution rate of 50% of Group share net income, excluding non-recurring items. This target is, under no circumstances, to be interpreted as a commitment by EDF. Future dividends will depend, in particular, on the Group's earnings, financial position and all other factors that the Board of Directors may consider relevant.

As such, in accordance with this objective, at its meeting of February 20, 2007, the Board of Directors decided to propose to the shareholders meeting of May 24, 2007 the distribution of a dividend amounting to €2,113,718,464.40 or €1.16/share. If this proposal is approved, the dividend will be paid within 30 days following the shareholders meeting.

### 20.5.3 Prescription

Dividends on shares that are not claimed within five years of the date of declared payment revert to the French State.

## ➔ 20.6 - LEGAL AND ARBITRATION PROCEEDINGS

In its everyday business, the Group is involved in a certain number of legal, arbitration and administrative proceedings.

The charges that may result from these proceedings are only provisioned if they are likely to occur and if their amount can be quantified, or assessed within a reasonable range, in which case, the amount provisioned is determined based on the best possible estimate. The provisions made are based on an appraisal of the level of risk in each case and do not initially depend on the progress of the proceedings. However, events that occur during the proceedings may nonetheless lead to a reappraisal of the risk.

Other than the proceedings described below, as well as the proceedings and/or investigations set forth in Chapter 6 of the present document, the EDF Group (excluding subsidiaries and holdings where the Group does not have operational control, in particular, EnBW and Dalkia) is not party, or has not been party in the last 12 months, to

any legal, governmental or arbitration proceedings, that had in the recent past, or that the Group's management believes could reasonably result in the future in, a material adverse effect on its profits, its business or its consolidated financial situation.

The potential proceedings and disputes concerning EnBW cannot be included in this statement since EnBW, itself listed on the Frankfurt and Stuttgart stock exchange markets does not communicate on those issues in a manner as detailed as French companies do. Nevertheless, EDF is not aware of any proceedings, that had in the recent past, or that the EDF Group's management believes could reasonably result in the future, in a material adverse effect on its consolidated financial situation, other than those publicly released in Germany and those for which a provision has been recorded in EnBW's financial statements. Regarding Dalkia, EDF holds only 34% of the share capital of this company, the remainder being entirely held by Véolia Environnement.



## Financial information concerning the company's assets and liabilities, financial position and profits and losses

### 20.6.1 Legal proceedings concerning EDF

#### French State aid

Through a letter dated October 16, 2002, the European Commission initiated proceedings against France, claiming that State aid had been granted to EDF when its balance sheet was restructured on January 1, 1997. By a decision dated December 16, 2003, the European Commission set the amount of aid to be repaid at €889 million (principal). On February 11, 2004, the French State issued a collection note for €1,224 million, comprised of the aid principal to be repaid, plus interest, which was paid by EDF. On April 27, 2004, EDF filed an appeal with the European Court of First Instance to have the decision of the European Commission reversed. On November 14, 2004, the French State filed a brief in support of EDF's appeal. At the time of the present document, the date for the hearing has not yet been set up.

#### Saint Chamas/Etang de Berre power plant

In 1999, the professional association "*Coordination des pêcheurs de l'étang de Berre*" (the "Association") initiated a proceeding for "*voie de fait*" in the civil courts against EDF, arguing that the authorization to operate the hydroelectric plant at Saint Chamas was not valid, since it did not comply with the environmental requirements provided for in the two international conventions concerning the protection of the Mediterranean Sea and its lagoons against pollution from land-based sources: the Barcelona Convention (of February 17, 1976) and the Athens Protocol (of May 17, 1980). Due to the fact that although both of these regulations were approved at the European level, they were not transposed into or applied in French law, the Association's claim was dismissed by the trial court (*Tribunal de Grande Instance*) of Marseille and by the court of appeals (*Cour d'appel*) of Aix-en-Provence. The supreme court (*Cour de cassation*) questioned the European Court of Justice (ECJ) for a preliminary ruling concerning the direct applicability of such Conventions in French law. On July 15, 2004, the ECJ ruled that the provisions of the Conventions were both clear and precise, and therefore directly applicable under French law. The French *Cour de cassation*, in a judgment dated March 8, 2005, therefore referred the case to the court of appeals of Lyon. The hearing took place on December 4, 2006 and on January 22, 2007, the court ruled that the facts alleged could not be accepted because the non compliance of the authorization legally granted to EDF concerning facility's waste (operation authorization of April 22, 1997) to the requirements provided for by the international conventions, could not be considered as a significant irregularity, considering the operation of the public facility. The fishermen association filed an appeal before the French *Cour de cassation* on March 29, against the Lyon Court of Appeals' decision of January 22, 2007.

In parallel, a formal notice had been addressed to the French State by the European Commission in 1999, followed by a founded opinion in 2000, after the Association filed a second appeal before the Commission, which considered the French answer to be insufficient and brought the matter before the ECJ. On October 7, 2004, the ECJ ruled that France had breached its obligations by failing to implement all necessary measures for the implementation of the international conventions and that the operation authorization granted in 1997 did not meet the requirements provided for in such conventions. On February 25, 2005, the French government sent the European Commission a memorandum stating specifically that:

- a new decree would amend the specifications of the concession within one year;
- there would be a trial phase of four years, during which measures would be taken aimed at reducing the variations of salinity by regulating discharges of fresh water;
- silt discharges would be reduced to 60,000 tons per year; and
- this trial would be supervised by an international scientific committee.

On December 14, 2005, the European Commission addressed a new formal notice to the French government, judging the proposed measures to be inefficient. At the beginning of March 2006, the French government made new additional proposals to the European Commission aiming at reducing significantly wastes in fresh water.

Following several discussions between the French State and the European Commission, the thresholds for waste discharges of fresh water were finally settled at 1.2 billion cubic meter and a minimum requirement for salinity of the "*Etang*" was set up.

On December 9, 2006, the decree amending the concession's specifications, which includes the fresh water disposal thresholds and the salinity requirement agreed with the European Commission, was published and while waiting for the outcome of this trial phase, a new complaint before the ECJ seems to be excluded.

EDF considers that the new restrictions concerning fresh water disposals resulting from this decree will have a significant impact on Saint Chamas power plant's generation capacity.

#### National Association of Independent Producers (Syndicat National des Producteurs Indépendants, or "SNPIET")

In 1996, the Competition Council (*Conseil de la concurrence*) ruled against EDF on the basis that it had abused its dominant position by hindering the conclusion of electricity supply agreements with independent providers. The SNPIET as well as approximately 20 producers, following the ruling, applied for damages in the amount of €70 million at the commercial court (*Tribunal de Commerce*) of Paris.

On July 2, 2002, the court of appeals of Paris overruled the commercial court's decision which had partially ruled in favor of the SNPIET claim, on the grounds that jurisdiction fell to the administrative courts (and not to the civil court in question). The supreme court, in a judgment dated September 29, 2004, upheld the ruling on the administrative jurisdiction.

On December 12, 2005, EDF received from SNPIET a petition for a right of review which is a necessary condition for a litigation to take place in an administrative court. Within the framework of this petition, SNPIET is asking for €160 million.

In a letter dated February 9, 2006, EDF refused the producers' preliminary claim, which led 11 of them to file an appeal to obtain damages before the Paris Administrative court, which transferred their claims before the local administrative courts.

#### Asbestos

EDF has used products containing asbestos in the past. As such, certain employees, namely some working on fossil-fired power plant maintenance engineers, may have been exposed before replacement or protection measures implemented starting in the end of the 1970's.

## Financial information concerning the company's assets and liabilities, financial position and profits and losses

In France, EDF was the subject of nearly 400 proceedings, between 1997 and the end of December 2006, which alleged gross negligence in connection with the asbestos exposure of its employees in their working environment. If gross negligence is admitted, it may lead to the payment of additional compensation by the employer to victims or their assignees.

Since June 2004, EDF has also agreed not to appeal rulings made by Social Security Case Panels (*Tribunaux des Affaires de Sécurité Sociales*, "TASS") which recognized the employer's gross negligence (FIE).

By the end of 2006, the total amount of EDF's cumulated final condemnations attained approximately €14.5 million for judicial actions recognizing employer's gross negligence.

As of December 31, 2006, an amount of approximately €30 million is provisioned in EDF's financial statements with respect to the legal proceedings relating to the compensation of victims of asbestos.

### Direct Energie

On March 16, 2006, Direct Energie sued EDF before the Paris Commercial Court (*tribunal de commerce*) for abuse of market power and discriminatory practice contrary to article 82 of the EC Treaty and to the provisions of the French Commercial Code because EDF refused to allow it to benefit from its sale tariffs. Direct Energie wishes to obtain from EDF similar tariffs to those awarded to Non-Nationalized Distributors (NND). According to Direct Energie, the level of those tariffs provides NND with a discriminatory competitive advantage compared to other suppliers such as Direct Energie, thus harming significantly its economic development.

Direct Energie assesses the damage in 2006 to be €28 million, on the basis of its supply agreement. In response to the EDF's defense arguing that EDF has simply followed the law, Direct Energie argues that the national legal and regulatory provisions cannot justify an abuse of dominant position and that those national provisions are contrary to European competition rules. Direct Energie therefore asks the Court to ask the European Commission its position on the issue or to ask a preliminary question to the European Court of Justice. Direct Energie waived its claim in December 2006.

Direct Energie then referred to the French competition authority (*Conseil de la concurrence*) on February 22, 2007 the matter concerning an abuse of a dominant position that would have been carried out by EDF, according to that company. In addition, the company asked for conservatory measures.

Concerning the grounds of this claim, Direct Energie argues that EDF would take advantage of its power in the intermediary market giving access to energy and/or of its generation capacities and would have thereby locked up all potential competition in this sector.

Taking into account, in particular, the fact that such actions, on the one hand, "have seriously affected Direct Energie by jeopardizing its development and even its existence in the downstream market", and on the other hand, harm the interests of consumers and of the sector, Direct Energie requires that conservatory measures are taken, namely so that "Direct Energie can benefit, for the needs of its elec-

tricity supply in France, (...) from a nuclear energy supply offer with price, volume and delay conditions that are the same as those applied by EDF in its internal energy sales (...)".

### EPR

In relation to EPR's development works, several actions were initiated by different associations before the Caen administrative court:

- a motion for summary judgment (*recours en référé*) suspending works in progress, filed on October 11, 2006 against the building permit. The hearing took place in front of the Caen administrative court on October 24, 2006 and the motion has been repealed on October 26, 2006 for lack of emergency;
- two actions for cancellation filed on August 23, 2006 and October 11, 2006 against the building permit granted by the *Préfet* and two actions for cancellation filed on September 11, 2006 against the public seaborne domaine works permit and the permit concerning other facilities and works, granted by the *Préfet*. These various actions were repealed by the Caen administrative court in March 15, 2007.

### Labor litigation

EDF is party to a number of labor lawsuits with employees regarding the calculation and implementation of rest periods. EDF estimates that none of these lawsuits, individually, is likely to have a significant impact on its profits and its financial situation. However, because they are likely to involve a large number of EDF's employees in France, these lawsuits could present a systemic risk which may have a material negative effect on the Group's profits.

The Group is also a party to other litigations with social bodies. The main one is between EDF and the "URSSAF" in Toulouse relating to the inclusion of certain bonuses, indemnifications and other benefits in kind in the tax base. As of December 31, 2006, an amount of €266 million was provisioned in EDF's consolidated financial statements with respect to litigation with social authorities (see note 29.6.3 to the financial consolidated statements).

### Environmental lawsuits

Due to its industrial business, the Group is party to various environmental lawsuits, in particular, regarding ground decontamination. As of the date of the registration of this Document, the Group believes that none of these lawsuits, individually, is likely, in the event of an unfavorable outcome, to have a material, negative effect on the Group's profits.

### Tax litigation

EDEV's tax audit carried out in 2005 regarding 2002 and 2003 financial years led to an assessment of €14.5 million in overdue taxes. If the disagreement was to continue, EDEV could decide to submit this litigation to tax courts.

Moreover, following an audit based on records, EDF received in 2004 an assessment with respect to its financial results recorded for the 2001 financial year. After being contested, the administration withdrew the assessment. The amount of €15.8 million provisioned in EDF's statutory accounts for the year ended December 31, 2004 was reversed in June 30, 2006.

### 20.6.2 Legal proceedings concerning EDF's subsidiaries

#### • RTE – EDF Transport

##### Agreement for the annual rent with SNCF

In December 2001, RTE terminated a contract signed on December 22, 1999, entered into with SNCF, by which RTE-EDF Transport paid SNCF an annual rent of €21.5 million per year for the use of the facilities and installations of the high voltage electricity transmission network that was transferred to SNCF by the French law of December 30, 1982. RTE-EDF Transport has paid, since termination of the contract, an annual rent of €3.1 million. This payment is based on the principles used by the CRE to remunerate RTE-EDF Transport's assets.

By way of an administrative order claim on February 22, 2002, SNCF initiated a procedure against RTE-EDF Transport before the administrative court (*Tribunal administratif*) of Paris contesting the new amount of the annual rent paid to SNCF by RTE-EDF Transport and claiming the difference with the initial rent. RTE-EDF Transport believes that this proceeding should not result in an obligation to pay the difference between the initial rent and the rent actually paid, as RTE-EDF Transport considers the initial rent to be largely overvalued.

This proceeding is part of ongoing discussions between SNCF and RTE-EDF Transport on the price for the transfer of this network to RTE-EDF Transport.

##### The transfer of high voltage lines to the SNCF

Pursuant to the French law of December 30, 1982 relating to inland transport, in accordance with the Law of August 9, 2004, the high voltage lines transferred to the SNCF on January 1, 1983 (as equipment related to the public transmission network), must be transferred for consideration to RTE-EDF Transport within one year as from the creation of this company.

The SNCF and RTE have considered a sale of this equipment since 2002 and have worked together in determining the value of this equipment on the basis of objective criteria. However, this valuation process was disrupted due to a dispute concerning the appraisal amount. The maximum value proposed by RTE was €80 million while the minimum value proposed by the SNCF/RFF was €200 million. The Minister of Industry appointed at the end of 2003 a mediator at the French Tax Inspectorate (*Inspection Générale de Finances*, or "IGF") to resolve the disagreement between the SNCF and RTE regarding the valuation of this equipment.

At the date of this *Document de Référence*, the IGF mediator has not rendered any official conclusion regarding this issue.

Moreover, the Law of August 9, 2004 provides for, at the expiration of the aforementioned one-year period, an *ad hoc* commission, comprised of three members and presided over by a judge at the French Court of Auditors (*Cour des comptes*), to rule on any dispute within a six-month period as from the time of the referral. The decision of this commission may be contested before the administrative courts. At the date of this *Document de Référence*, no referral has yet been made to this commission.

#### • Edison

##### Action initiated by ACEA SpA concerning Edison's shareholding in Edipower

On May 2006, ACEA SpA ("ACEA"), Rome's municipal utility, addressed a complaint to the Italian government and to Italian regulation

(AEEG) and competition (AGCM) authorities, alleging that the joint takeover of Edison by EDF and AEM had exceeded the upper limit of 30% of the share capital of Edipower held by public corporations (that limit was defined a decree issued by the Italian Prime Minister, dated November 8, 2000, which defined the rules applicable to the privatization of the companies (called Gencos) then held by Enel SpA ).

On July 7, 2006, the AGCM rendered an opinion ("*segnalazione*") supporting ACEA's position and officially requiring from the Italian government and parliament that measures be taken in order to comply with the provisions of the November 8, 2000 decree.

On August 2006, ACEA initiated an action against EDF, IEB and WGRMH Holding 4 (along with Edison, AEM Milan, Delmi, Edipower, AEM Turin, Atel and TdE) before the civil court of Rome.

According to ACEA, the fact that the 30% threshold was exceeded constitutes a violation of the applicable laws and could have a negative impact on the competition on the energy market and on consumers' interests.

Therefore, ACEA has required the court to:

- acknowledge EDF and AEM's unfair behavior;
- force EDF and AEM to sell their stakes in order to remain within the 30% limit and inhibit them to take and use energy for the amount above 30%;
- indemnify ACEA's prejudice, which amount is still under evaluation.

ACEA has also indicated that it would require the court to take conservatory measures in order to guarantee its interests while waiting for the court's ruling.

The hearing was settled to take place on May 24, 2007 but it is possible that the judge will notify an earlier hearing in order to render a decision concerning the conservatory measures required by ACEA.

Since January 2007, Endesa is also a party to the proceedings against EDF and AEM, which nevertheless has no effect on the proceedings' evolution and schedule.

##### Action initiated by Carlo Tassara concerning Italenergia Bis' warrants

Italenergia Bis (IEBIS) is an Italian holding company which held, in 2002, 63% of the share capital of Edison, another Italian company. At that time, IEBIS shareholders were Electricité de France (EDF), Carlo Tassara, Fiat and three Italian banks.

In September 2002, in order to be able to acquire the control of IEBIS and consequently of Edison, EDF entered into a put and call options agreement with each one of IEBIS' shareholders, under which it would have the right (and eventually the obligation) to purchase, in 2005, all of their shareholdings in IEBIS. Such Put and Call agreements, except for the one entered into with Carlo Tassara, concerned IEBIS' shares as well as IEBIS' warrant held by each shareholder. The agreement entered into with Carlo Tassara was expressly limited, at his demand, to his IEBIS shares and which represent 20% of the company's share capital.

Several discussions and letter exchanges followed (in November and December 2002) aiming to amend that Put and Call agreement so that it would include Carlo Tassara's IEBIS' warrants, in exchange of a preemptive right granted over his shareholding in Edison. However, the parties were unable to reach an agreement and no changes were

## Financial information concerning the company's assets and liabilities, financial position and profits and losses

made to the September 16, 2002 agreement which remained limited to IEBIS' shares.

On April 20, 2005, Carlo Tassara and the other IEBIS shareholders exercised their put options on IEBIS' shares and the transfer of the shares took place on July 26, 2005.

On April 14, 2006 Carlo Tassara initiated an action before the civil court of Milan against EDF, IEBIS, IEBIS' directors and Transalpina di Energia (TdE) to obtain that EDF complies with its supposed commitment to buy his IEB warrants for an amount of €20.4 million.

In addition to its main claim, Carlo Tassara's subsidiary claims concern the sale by IEBIS to TdE of its controlling share stake in Edison, which Mr. Tassara considers to be contrary to IEBIS' company interest and he consequently requires that the court avoids such sale and awards damages for an amount of approximately €122 million.

The defendants all filed their final pleadings on December 2006. Among others, EDF has contested the competence of the Milan civil court, since Put and Call agreement includes a provision stating that all disputes shall be ruled by an arbitrary court in Geneva. In parallel, EDF has filed an arbitration demand before the Geneva's Chamber of Commerce and Industry on November 7, 2006.

The hearing before the court of Milan should take place at the soonest in November 2007.

### **Arbitration proceedings concerning the sale of Ausimont**

The discovery phase of the arbitration proceedings filed on May 11, 2005 against Edison by Solvay Sa and Solvay Solexis Spa, following several disputes between the parties with respect to the representations and warranties contained in the contract covering Edison's sale of its interest in Agorà Spa (parent company of Ausimont Spa) was closed during the hearing that took place on March 2007. During that same hearing, the arbitration committee gave the parties a deadline to file their briefs.

### **Proceedings initiated by the holders of the saving shares and UBS for damages caused by the merger of Edison into Italenergia**

On August 9, 2002, the representative of holders of the savings shares challenged Edison's extraordinary meeting of June 27, 2002's resolution, which decided on the merger of Edison into Italenergia. He requested that implementation of the resolution be suspended, the resolution be avoided and that Edison's responsibility be recognized for all damages caused by the merger to holders of the savings shares.

On October 9, 2002, the Court of Milan refused the request to suspend the merger.

On April 29, 2003, UBS voluntarily joined the action and asked that Edison be ordered to pay damages for the loss in value of Edison shares and the fixing of a share exchange ratio penalizing the shareholders of Edison and therefore those of UBS.

The Court-appointed expert has filed his report in which he found that while the valuation criteria used were indeed adequate, there were some flaws in the valuation process (lack of control methods) and instances of incorrect application of the criteria that may have caused damage for the savings shareholders.

The proceedings have not been subject to any significant developments since the expert filed his report.

### **Claims brought by employees concerning exposure to asbestos or other harmful chemical substances.**

In recent years, Edison has had to face a significant increase in the number of claims for damages arising from the deaths or illnesses of employees that were allegedly caused by exposure to several forms of asbestos at factories owned by Montedison (having become Edison), or judicial cases taken over by Edison as a result of corporate acquisitions. In addition to provisions established specifically for certain pending disputes currently underway, Edison has decided to set aside a provision of an amount estimated on the basis of the average between the value of the claims for damages that it has received and paid in recent years for similar events and the claims that it has received so far as a result of judicial and extrajudicial proceedings.

Furthermore, Edison is involved in several criminal proceedings filed by former employees of companies belonging to the Edison group or their legal successors, arising from exposure to harmful chemical substances emitted by Montedison's facilities (since transferred to Enimont).

### **Litigation concerning environmental matters**

Edison is involved in several criminal proceedings currently underway concerning damages caused by the operation of Montedison's chemical factories (petrochemical facilities at Porto Marghera, Brindisi, Mantua, Priolo (Syracuse) and Cesano Maderno) belonging to the group prior to their transfer to Enimont. These criminal proceedings also include actions brought by third parties concerning physical injuries linked to the alleged environmental damages.

#### **• EDF Energy**

### **Litigation concerning Powerlink**

EDF holds a 80% stake in the Powerlink consortium which obtained in 1998 a thirty-year concession agreement to preserve and modernize the high tension electricity distribution network of the London underground, London Underground Limited ("LUL").

The agreement provides that LUL may inflict a penalty upon Powerlink in the event of a network default, including the right to issue a warning if a certain amount of penalties is attained within 8 consecutive periods of four weeks.

On September 28, 2005, Powerlink received a first warning issued by LUL following network defaults. On March 15, 2006, LUL issued a second warning following several network breakdowns. As of that date, LUL was entitled to terminate the agreement.

Nevertheless, from the time of the first warning, LUL and Powerlink had started negotiating the amendment of certain sections of the agreement, and therefore, LUL decided, without renouncing to its termination rights, not to exercise them while the negotiation would progress in a satisfactory way.

By the beginning of 2007, the parties had reached an agreement. The signature of the amendment to their previous agreement took place on March 20, 2007, following the authorization of such amendment by the lender.

## Financial information concerning the company's assets and liabilities, financial position and profits and losses

### • Motor Columbus

#### **Appeal filed by AEM Milan against the Swiss Banking Federal Commission's authorization of the exchange offer initiated by Motor Columbus over Atel**

AEM Milan, minority shareholder of Atel, required from the Swiss Tender Offer Commission (COPA) and the Swiss Banking Federal Commission (CFB), that a tender offer be initiated by Motor Columbus ("MC") over the Atel shares held by the public (approximately 9%, including AEM Milan's shareholding).

According to AEM Milan, the exchange offer contemplated by MC, followed by the immediate merger of MC in Atel, would not allow the minority shareholders of Atel to sell their shares, which would be contrary to the spirit of the Swiss tender offer regulations.

Following AEM Milan's appeal, MC amended its exchange offer prospectus on June 1, 2006 especially in order to postpone the final decision concerning the MC and Atel merger at earliest to the end of 2006.

On July 4, 2006, the CFB granted its authorization to the amended exchange offer. In the beginning of September 2006, AEM Milan filed an appeal before the Swiss Federal Court, against that authorization decision and confirmed its request concerning the initiation of a tender offer over Atel's shares held by the public.

In a decision dated February 27, 2007 and published on March 20, 2007, the Swiss Federal Court dismissed AEM Milan's request. Its decision does not concern the subject matter of the conflict but rules that AEM Milan cannot be recognized as a party to this proceeding. The CFB's decision therefore becomes enforceable and the exchange offer is consequently considered to be compliant with the law.

### • BERT and EC ZIELONA GORA S.A.

#### **Appeal against European Commission's ruling with regard to State aids**

On March 3, 2006, BERT, an EDF Group subsidiary, and on May 12, 2006, EC Zielona Gora S.A., a generation subsidiary of ZEW Kogeneracja S.A. (itself controlled by the EDF Group, including EDF I, ECK and EnBW), initiated a judiciary proceeding before the first instance court of Luxembourg by filing an appeal against the opening of an investigation regarding long-term electric energy purchase agreements ("PPA"), decided on November 2005 by the European Commission pursuant to article 88, paragraph 2 of the EC Treaty.

The Commission considers that, following its formal investigation against Poland and Hungary regarding the compliance of the PPAs with European law, PPAs could be:

- new State aids deemed irregular because they were not previously notified by the States before carried out;
- and not compliant with European law, because not meeting the requirements set up by the Commission.

EC Zielona Gora S.A. and BERT contest the Commission's competence to decide the irregularity of the PPA they entered into and therefore ask the first instance court to avoid the Commission's decision.

Should their appeal be repealed, the Commission's decisions regarding the opening of the investigations would be deemed valid and their conclusions, if they appeared to be adverse, could have a material effect on BERT and EC Zielona's results.

## 20.6.3 Legal proceedings initiated after the closing of the fiscal year

### KalibraXE

KalibraXE filed a complaint before the French competition authority (*Conseil de la concurrence*) on January 22, 2007 alleging that some anti-competitive practices had been, according to it, carried out by EDF. In addition to the complaint, that company also filed a request for conservatory measures.

KalibraXE states that the practices carried out by EDF would aim to *"simply eliminate KalibraXE company and in general, any other new competitor in the concerned market"* and *"inhibit the consumer from freely choosing its supplier or to be supplied by several operators"*.

Moreover, KalibraXE considers that such practices have, on the one hand, led it to lose, *"not only the chance of entering into new agreements, but also the possibility of continuing its contractual relations with existing customers, which cause for it not to be able to benefit from its investments"*, and on the other hand, are contrary to consumers' interests, as well as to the interests of the sector and of the economy in general. Therefore, KalibraXE has required conservatory measures, in particular, the interruption of all the exclusivity provisions contained in EDF's agreements.

A hearing date has been settled before the *Conseil de la concurrence* on April 4, 2007 in order to examine the admissibility of the main requests and the request for conservatory measures.

## ➡ 20.7 - SIGNIFICANT CHANGE IN THE COMPANY'S FINANCIAL OR TRADING POSITION

The significant events that took place between the end of the 2006 financial year and the date of the present document are mentioned in note 37 to the consolidated financial statements as to events that

took place before the financial statements were drawn up by the Board of Directors on February 20, 2007, and in Section 9.13 ("Subsequent events") of this *Document de Référence* as to events that took place afterwards.



**21.1 GENERAL INFORMATION REGARDING THE COMPANY'S SHARE CAPITAL**

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**21.2 INCORPORATION DOCUMENTS AND ARTICLES OF ASSOCIATION**

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**➔ 21.1 - GENERAL INFORMATION REGARDING THE COMPANY'S SHARE CAPITAL****21.1.1 Issued share capital amount at the time of the registration of the present document:**

As of the date of this document, the Company's share capital breaks down as follows:

Number of issued shares:	<b>1,822,171,090</b>
Nominal value of the issued shares:	<b>€0.50 per share</b>
Legal status of the issued shares:	<b>Common shares</b>
Total amount of the share capital:	<b>€911,085,545</b>

All share capital issued by the Company has been paid up.

At the time of the registration of the present document, the Company has not issued any preferred shares.

**21.1.2 Ownership of shares and control by the Company**

*Share repurchase program in force as of the date of the registration of this Document de Référence (program authorized by the ordinary shareholders' meeting of June 9, 2006).*

The shareholders' meeting of June 9, 2006, in accordance with the provisions of Article L. 225-209 *et seq.* of the French Commercial Code, authorized under its sixth resolution the implementation by the Board of Directors of a share repurchase program of up to a maximum of 10% of the Company's share capital. That resolution immediately terminated the authorization to repurchase Company shares granted by the first resolution of the Ordinary and Extraordinary shareholders' meeting of October 10, 2005, for the fraction which was not used.

The aims of the share repurchase program are as follows:

- to grant shares in connection with the conversion of securities giving access by any immediate or future means to the share capital of the Company as well as conduct any hedging transactions with respect to EDF's (or one of its subsidiaries) obligations connected with such securities, in accordance with the conditions stipulated by market authorities and at such times that the Board of Directors or the person acting upon delegation of the Board shall determine,
- to maintain shares for future grants in exchange or as payment in the context of external growth operations,
- to ensure the liquidity of EDF's shares through an investment services provider under a liquidity agreement complying with the ethics charter recognized by the French financial market authority (AMF),
- to attribute shares to employees of the EDF Group, including within the framework of (i) profit sharing in the company's profit, or (ii) any stock option or stock grant plans for the benefit of

employees on the terms provided by law and, in particular, by Articles L. 443-1 *et seq.* of the Labor Code, as well as performing any hedging operations related to such operations, on the terms provided by the French financial market authority (AMF) and at such time as determined by the Board of Directors or the person acting by delegation of the Board of Directors,

- to reduce the Company's share capital (under the authorization granted by the shareholders' meeting on October 10, 2005, in its 10th resolution),
- to implement any market practice which may be recognized in the future by law or the French financial market authority (AMF).

Purchases of the Company's shares may concern any number of shares such that:

- the number of shares that the Company purchases during the duration of the repurchase program does not exceed 10% of the shares comprising the Company's share capital as of the date of the present Shareholders' Meeting, and
- the number of shares that the Company holds at any time does not exceed 10% of the shares comprising the Company's share capital.

The acquisition or transfer of these shares may be carried out, on the terms and within the limits, including as to volumes and price, provided by the laws in effect on the date of the relevant operations, by any means, including on the market or by direct sales, including through acquisition or sale of blocks, by recourse to derivative financial instruments or to bonds or securities giving access to Company shares, or by implementing optional strategies, on the terms provided by the financial market authorities and at such time as determined by the Board of Directors or the person acting by delegation of the Board of Directors.

The portion of the repurchase program which may be performed through trading in blocks is unlimited. The maximum amount of funds for carrying out this share repurchase program is €2 billion.

Under this program, the repurchase price must not exceed €66 per share. The Board of Directors may, however, adjust the aforementioned purchase price in the case of incorporating bonuses, reserves or profits, giving rise either to an increase in the shares' par value or to the creation and free distribution of shares, and in the case of a stock split or grouping together of shares, or any other operation involving equity, in order to take into account the effect of these operations on the shares' value.

This authorization is granted for a maximum duration of 18 months as of the shareholders' meeting which took place on June 9, 2006. This authorization may be used during public tender offers, within the limits set by applicable regulations.

The number of shares purchased by the Company for the purposes of holding them or using them as payment or exchanges in connection with a merger, spin-off or capital contribution operations cannot exceed 5% of its share capital.

The Board of Directors will have all powers in order to implement the present authorization, with the possibility of delegating its powers, for the purpose of:

- making any orders on the market or over-the-counter;
- allocating or reallocating the shares purchased for the various objectives pursued under the applicable legal and regulatory conditions;
- concluding any agreements in order, among other things, to keep share purchase and sale registers;
- making any declarations and carrying out any formalities with the French financial market authority (AMF) and with any other organization; and
- carrying out any other formalities and, generally speaking, doing all that is necessary and appropriate.

The Board of Directors must inform the shareholders of each of the operations performed pursuant to the present resolution.

*Summary of the transactions effected by the Company with respect to its shares as part of the program authorized by the ordinary shareholders meeting of June 9, 2006.*

A liquidity agreement was entered into on May 24, 2006 with *Crédit Agricole Cheuvreux* for a period of one year, renewed by tacit agreement. The initial amount of €35,000,000 has been applied to the liquidity item in relation with the implementation of the liquidity agreement, as of its execution, in accordance with the Company's shares repurchase program.

Between May 24, 2006 and December 31, 2006, the Company repurchased 1,796,568 of its own shares on the basis of an average amount of €41.13 per share and sold 1,761,825 shares on the basis of an average amount of €41.89 per share. By December 31, 2006, the Company held 34,743 treasury shares, amounting to 0.0019% of its share capital. Throughout 2006 financial year, the stand-by fee paid by EDF pursuant to the liquidity agreement amounted to €90,000.

As of December 31, 2006 and until March 31, 2007, the Company repurchased 208,646 of its own shares on the basis of a global amount of €11,206,790.70 and an amount per share of €53.71 and sold 145,146 shares on the basis of a global amount of €7,929,471.77 and an amount per share of €54.63.

In addition, as of the date of registration of this *Document de Référence*, the Company holds 874.3 units in the "Energie Multi" fund of the Company's mutual fund "EDF Actions", which correspond to 8,743 Company shares (approximately 0.00048% of the

share capital as of the date of this *Document de Référence*). These shares are due to share purchase orders which were cancelled in the offering reserved to the EDF Group's employees (as described in the prospectus which received the AMF visa number 05-743 on October 27, 2005). By the end of the five-year lock-up period, these 874.3 units will be sold, and the amount received will be paid to the French State.

*Resolution relating to the authorization given to the Board of Directors to perform operations involving the Company's shares, submitted to the ordinary and extraordinary shareholders meeting of May 24, 2007.*

In its February 20, 2007 meeting, the Board of Directors decided to include in the Ordinary and Extraordinary shareholders' meeting of May 24, 2007 agenda, the vote of share repurchase program, similar in certain points to the one authorized by the June 9, 2006 ordinary shareholders' meeting, notably for what concerns the goals of that program and the limited number of shares which can be repurchased. Nevertheless, the new share repurchase program provides that the repurchase price will not exceed €90 per share, against €66 in the current repurchase program.

### 21.1.3 Bonds

In accordance with Article L 228-40 of the French Commercial Code, only the Board of Directors can decide or authorize the issuance of bonds, except if the general shareholders' meeting decides to exercise this power.

On the basis of Article 46 paragraph 2 of the Law of August 9, 2004, the first paragraph of Article L 228-39 of the French Commercial Code which states that "the issuance of bonds by a *"société anonyme"* which has not presented two balance sheets regularly approved by shareholders requires a prior audit of the Company's assets and liabilities as described by Articles L 225-8 and L 225-10 of the French Commercial Code" is not applicable to EDF for the years 2004, 2005 and 2006.

On April 18, 1996 EDF implemented a program for the issuance of debt securities under the Euro Medium Term Notes ("EMTN") program. Since then the program has been renewed every year.

An update of the program for the issuance of debt securities for a maximum amount of €11,000,000,000 was implemented on June 2, 2006 by the Group. The prospectus for that program received the AMF visa number 06-177 on June 2, 2006. A supplemental prospectus to such prospectus received the AMF visa number 06-468 on December 6, 2006.

On December 31, 2006, the outstanding amount of the debt of EDF in the form of bonds (EMTN and other debt securities) was of €9,850 million.



### 21.1.4 Other securities giving access to the share capital

At the time of the registration of the present document, besides ordinary shares, there are no other securities giving access, directly or indirectly, to the share capital of EDF.

### 21.1.5 Authorized but un-issued capital

The table below presents a summary of the delegations granted to the Board of Directors by the ordinary and extraordinary shareholders' meeting of the Company held on October 10, 2005 to increase the share capital:

Delegations to the Board of Directors by the Extraordinary Shareholders' Meeting	Maximum Nominal Amount of Capital Increase (in € millions)	Duration of Delegation <sup>(1)</sup>
1. Delegation of authority to the Board for a share capital increase with maintenance of preferential subscription rights of shareholders	143.5	26 months
2. Delegation of authority to the Board for a share capital increase without maintenance of preferential subscription rights of shareholders and through a public offering	143.5 <sup>(2)</sup>	26 months
3. Delegation of authority to the Board to increase the number of shares to be issued in the event of a share capital increase in the context of issuances pursuant to Items 1 and 2	15% of the initial issuance <sup>(2)</sup>	26 months
4. Delegation of authority to the Board to increase the share capital through incorporation of reserves, profits or share premiums	143.5 <sup>(2)</sup>	26 months
5. Delegation of authority to the Board to increase the share capital in compensation for an exchange offering launched by the Company	143.5 <sup>(2)</sup>	26 months
6. Delegation of powers to the Board to increase the share capital as consideration for contributions in kind made to the Company (Article L 225-147 of the French Commercial Code)	10% of the share capital <sup>(2)(3)</sup>	26 months
7. Delegation of powers to the Board to increase the share capital for the benefit of participants in a savings plan	143.5 <sup>(2)</sup>	26 months
8. Delegation of authority to the Board to proceed with the issuance of subscription warrants reserved for financial institutions comprising the bank syndicate for the offer of shares of the Company at the time of the initial public offering of the Company and the admission of its shares on the Eurolist market of Euronext Paris	15% of the initial issuance	1 year

(1) Beginning from the date of the extraordinary shareholders' meeting of October 10, 2005.

(2) Up to the maximum total limit in Item 1, i.e., €143.5 million.

(3) As of October 10, 2005.

Delegations of authority 2, 3 and 8 hereabove have been implemented at the time of the opening of the Company's share capital in November and December 2005.

## Additional information

The delegations of authority and powers presented in the table hereabove should be replaced by the delegations of authority and powers presented in the table below, provided that the ordinary and extraordinary shareholders' meeting of the Company of May 24, 2007 grants them.

Delegations to the Board of Directors by the Extraordinary Shareholders' Meeting	Maximum Nominal Amount of Capital Increase (in € millions)	Duration of Delegation <sup>(1)</sup>
1. Delegation of authority to the Board for a share capital increase with maintenance of preferential subscription rights of shareholders	45	26 months
2. Delegation of authority to the Board for a share capital increase without maintenance of preferential subscription rights of shareholders	45 <sup>(2)</sup>	26 months
3. Delegation of authority to the Board to increase the number of shares to be issued in the event of a share capital increase in the context of issuances pursuant to Items 1 and 2	15% of the initial issuance <sup>(2)</sup>	26 months
4. Delegation of authority to the Board to increase the share capital through incorporation of reserves, profits, share premiums or other amounts which capitalization would be admitted	1,000	26 months
5. Delegation of authority to the Board to increase the share capital in compensation for an exchange offering initiated by the Company	45 <sup>(2)</sup>	26 months
6. Delegation of powers to the Board to increase the share capital as consideration for contributions in kind made to the Company (Article L 225-147 of the French Commercial Code)	10% of the share capital <sup>(2)</sup>	26 months
7. Delegation of powers to the Board to increase the share capital for the benefit of participants in a savings plan	10	26 months
8. Delegation of authority to the Board to carry-out a free grant of ordinary shares of the Company	0.2% of the Company share capital <sup>(3)</sup>	12 months

(1) Beginning from the date of the ordinary and extraordinary shareholders' meeting of May 24, 2007.

(2) Up to the upper limit set forth in Item 1, i.e., €45 million.

(3) As of the date of the ordinary and extraordinary shareholders' meeting of May 24, 2007.

### 21.1.6 Share capital of Group members, subject to conditional or unconditional agreements

Investment and divestment commitments on the shares of the subsidiaries are described in note 22.5.1 and 22.5.2 to the consolidated financial statements for the year ended December 31, 2006. Apart from the investment and divestment commitments and other commitments described in Chapter 6 of the present *Document de Référence*, EDF has not entered into any offer to sell or purchase whole or part of the share capital of the Company or one of its subsidiaries, as defined in article L. 233-1 of the French Commercial Code.

### 21.1.7 Shareholder Agreements

At the time of the registration of the present document, and to the Company's knowledge, no shareholder agreement has been concluded that concerns the Company's securities.

### 21.1.8 Security interests in the Company's securities

To the Company's knowledge, none of the Company's ordinary shares is the object of any security interest.

### 21.1.9 Evolution of the Company's share capital for the past three years

In order to comply with the Law of August 9, 2004 EDF has become a "*société anonyme*" on November 20, 2004 and its share capital was fixed at €8,129,000,000, divided in 1,625,800,000 shares of a €5 nominal value each.

On August 31, 2005, the EDF general shareholders' meeting gave full authority to the Board of Directors to effect a capital reduction by the maximum amount of €7,316,100,000, by means of the reduction of the shares' nominal value of €5 to a minimum of €0.5. At its meeting of October 27, 2005, the Board of Directors has resolved to reduce the share capital by the amount of €7,316,100,000, by reducing the share nominal value by €4.5, from €5 to €0.5. The share capital was thus reduced to €812,900,000.

At its November 18, 2005 meeting, the Board of Directors, exercising the authority granted to it by the October 10, 2005 shareholders' meeting, has resolved to proceed with the Company's capital increase through the French retail public offering and the institutional institutional placement, in the context of the initial public offering of the Group. The share capital was thus increased to €906,834,514.

On December 20, 2005 Calyon paid to EDF the price due on the exercise of 8,502,062 over-allotment options that EDF Board of Directors had decided to issue for the benefit of Calyon at its November 18, 2005 meeting. The share capital was thus increased to €911,085,545, divided into 1,822,171,090 ordinary shares.

## ➔ 21.2 - INCORPORATION DOCUMENTS AND ARTICLES OF ASSOCIATION

### 21.2.1 Company's purpose

The Company's purpose, both in France and abroad, is to:

- secure generation, transmission, distribution, supply and trading of electrical energy and secure the import and export of this energy,
- carry out the public service missions assigned by laws and regulations, especially by the French law of June 15, 1906 regarding energy distribution, the aforementioned French laws of April 8, 1946 and February 10, 2000 and Article L 2224-31 of the French Code for Local Authorities, as well as by the concession agreements, and in particular, the missions regarding the development and operation of the public electricity networks, the energy supply to non-eligible customers, the supply of emergency energy to producers and customers to compensate unexpected power failures and the supply of energy to eligible customers who cannot find any other supplier, while contributing to the accomplishment of the goals defined by the multi-annual generation investments program implemented by the minister responsible for the energy sector,
- more generally, develop any industrial, commercial or service activity, including research and engineering activities in the energy field, for all customer categories,
- increase the value of all tangible and intangible assets it has or uses;
- create, acquire, rent out or lease management of all property, real estate and businesses, lease, set up and operate all establishments, businesses, plants and workshops relating to any of the aforementioned purposes,
- take, acquire, operate or sell all processes and patents concerning activities which relate to any of the aforementioned purposes,

- take part, directly or indirectly, in any operation connected to one of the aforementioned purposes, by creating new companies or undertakings, by contributing, subscribing or purchasing any securities, by taking part in investments or by merging, associating or any other manner whatsoever,
- more generally, engage in any industrial, commercial, financial, property or real estate operations directly or indirectly connected, in whole or in part, to one of the aforementioned purposes, to any similar or connected purpose or even to any purpose which may favor or develop the Company's business.

### 21.2.2 Company's fiscal year

Each Company's fiscal year lasts 12 months: it starts on January 1 and terminates on December 31 of each year.

### 21.2.3 Management

The Company is managed by a Board of Directors consisting of 18 members in accordance with the provisions of the French law of July 26, 1983 relating to the democratization of the public sector, in particular, Article 6 thereof, and with the provisions of the French Statutory Decree of October 30, 1935 organizing the French State's financial control of companies having requested financial support from the French State.

Within this framework, as of the date of the present document, the Board of Directors included six representatives of the French State, appointed by decree and six representatives of the employees elected in accordance with the provisions of section II of the aforementioned French law of July 26, 1983.

The Board of Directors may include, at most, two members of the French Parliament or holders of a local electoral mandate selected for their knowledge of regional, departmental and local aspects of energy issues.

The Board must appoint a Secretary but is free to choose a person who is not a member of the Board.

The Chairman and Chief Executive Officer must communicate to every member of the Board all documents and information required for the fulfillment of their task.

The duration of the mandate of members of the Board of Directors is five years. In case of a vacancy for any reason whatsoever of the seat of a member of the Board of Directors, his/her replacement will only hold office for the remaining duration of the term until the renewal of the full Board of Directors.

The general shareholders' meeting sets the amount of the directors' fees. Members of the Board of Directors who have not been elected at the general shareholders' meeting are not entitled to a financial remuneration.

Other costs paid by the members of the Board as a part of their mission will be reimbursed by the Company, provided that they present a justification.

Employees' representatives are entitled to a time credit corresponding to half of the legal working period.

Each member of the Board of Directors who has been appointed by the general shareholder's meeting must hold at least one nominative share of the Company's capital. The shareholder's meeting can also decide to dismiss him.

At the Chairman and Chief Executive Officer's request, the Board of Directors can, if it thinks that it is necessary and according to the meeting's agenda, invite Company members or even persons who are external to the Company to attend the Board's meeting without being able to vote.

The Secretary of the Works Committee or an equivalent institution attends the Board of Directors' meetings but without the right to vote.

Any person attending one of the Board of Directors' meetings is subject to the same confidentiality obligations as the member of the Board.

In accordance with the aforementioned law of 1983, the Chairman of the Board of Directors is appointed by decree, from among the directors, following a proposal made by the Board of Directors. The duration of the Chairman's duties may not exceed that of his term of office as a director. His mandate may be renewed under the same conditions as those of his appointment. The Chairman mandate may be revoked by decree. Since the shareholders' meeting of February 14, 2006, which decided to modify EDF's by-laws, the Chairman of the Board of Directors may not be older than 68 years old; otherwise he will automatically be deemed to have resigned.

The management of the Company is assumed by the Chairman of the Board of Directors, who bears the title "Chairman and Chief Executive Officer". He must therefore comply with all the laws and regulations applicable to Chief Executive Officer.

In accordance with Article L 228-40 of the French Commercial Code, the Board of Directors may delegate the necessary authority to the Chief Executive Officer or, if he agrees, to one of his Chief Officers, in order to carry out, within one year, the issuance of bonds and settle its terms and conditions. The Board of Directors will also settle the terms and conditions under which the Chief Executive Officer or his deputies will account to the Board for the exercise of these powers.

### 21.2.4 Rights attached to shares

Each share entitles its holder to a share of the Company's profits and assets which is proportional to the part of the Share capital that it represents.

Moreover, each share confers a voting right and the right to be represented at the general shareholder's meetings in accordance with legislative, regulatory and statutory conditions and restrictions.

On the date of the present document, EDF has issued only one kind of shares.

The ownership of a share automatically entails acceptance of the articles of association and of the decisions of the general shareholders' meeting.

Shareholders shall only bear losses up to the amount of their contributions.

The heirs, creditors, assigns and other representatives of a shareholder cannot request the affixture of seals to the assets and securities of the Company, nor may they demand the partition or sale by auction of property, nor interfere in the Company's management; in order to exercise their rights they must refer to the Company's inventory and to the decisions of the general shareholders' meeting.

Whenever it will be necessary to hold several shares in order to be entitled to exercise a right, in the event of exchange, consolidation and allocation of shares, or due to a capital increase or decrease, a merger or any other corporate operation, the holders of isolated shares or whose number of shares is not enough cannot exercise their right unless they arrange a consolidation or the sale or the purchase of the required number of shares.

The shareholder can decide whether his shares will be in registered or in bearer form, subject to compliance with laws and regulations.

The shares can be registered under the name of an intermediary, subject to the conditions of Article L 228-1 *et seq.* of the French Commercial Code. The intermediary must state his status as an intermediary who is holding shares for someone else, according to laws and regulations.

In accordance with the present laws and regulations, the Company is entitled to claim from the central depository, at any time and provided that it grants a financial compensation, that he reveals the name or the corporate name, the nationality, the date of birth or incorporation and the address of the holders of shares in bearer form which may, at the present time or in the future, award a voting right in its own general shareholders' meetings. The Company is also entitled to know the number of shares held by each of these shareholders and any restrictions these shares can be subject to. In light of the

list provided by the above-mentioned entity, the company can ask the persons mentioned on the list and who can be considered by the company as holding personal account the above-mentioned information relating to the shareholders.

If shares in registered form are concerned, giving immediate or delayed access to the share capital, the intermediary registered pursuant to article L228-1 mentioned above must reveal the identity of the share owners as soon as the company or its mandatory so requires within 10 days from the request, and the request can be made at any time.

### 21.2.5 Sale and transfer of shares

Shares are freely negotiable subject to legislative and statutory provisions. They shall be subject to registration to an account and shall be moved by transfer from account to account. These conditions shall also apply to other securities of any nature issued by the Company.

Apart from the legal obligation to inform the company when certain thresholds of share capital or voting rights are held, any person who, directly or indirectly, acting alone or in concert with others, acquires ownership or control of shares representing 0.5% of the Company's share capital and/or voting rights will be required to notify the Company, by a registered letter, the number of shares it holds within five trading days of the book entry of the shares.

The intermediary registered as shareholder must make the above-mentioned declarations, independently from the obligations of shareowners.

This declaration must be renewed under the above-mentioned conditions each time a new threshold of 0.5% is reached or is crossed, whether on the upswing or in the downswing, and whatever the reason, even above the 5% threshold mentioned in article L233-7 of the French Commercial Code.

If a person does not comply with the above-mentioned provisions, the shareholder(s) concerned will be stripped of voting rights corresponding to the shares exceeding the thresholds, under the conditions provided by law.

### 21.2.6 Shareholders' meetings

#### 21.2.6.1 Meetings, Admission Conditions, Voting Rights

Shareholders' meetings are convened by the Board of Directors or, by default, by the auditors or by any authorized person. They shall be held at the registered head office or any other place indicated in the notice. They may take place by video conference or by means of telecommunication allowing for the identification of the shareholders, the nature and conditions of which are determined by Articles 145-2 to 145-4 of the French Decree of March 23, 1967. In such cases, shareholders attending the meeting by such means are deemed to be present for the calculation of the quorum and majority in accordance with legal requirements.

Shareholders' meetings are comprised of all of the shareholders whose shares are fully paid up and have been registered to an account in their name at least five days before the date of the meeting, in accordance with the following conditions:

- holders of bearer shares or shares in their name registered to an account not held by the Company must, in order to be entitled to attend, to vote by correspondence or to be represented at shareholders' meetings, present, at the place specified in the notice of the meeting, a certificate issued by the intermediary attesting the non-availability of the shares until the date of the shareholders' meeting, at least five days before the date of the meeting; and
- the owners of shares in their name registered to an account held by the Company must, in order to be entitled to attend, to vote by correspondence or to be represented at shareholders' meetings, have their shares registered to their account held by the Company at least five days before the date of the shareholders' meeting.

The Board of Directors may, however, shorten or cancel these five-day time restrictions.

Access to the shareholders' meeting is open to its members upon simple production of documentation confirming their status and identity. The Board of Directors may, should it see fit, produce and distribute to shareholders personal admission cards and require these cards to be presented.

Any shareholder may be represented by his or her spouse or another shareholder at a shareholders' meeting. The owners of shares legitimately registered in the name of an intermediary in accordance with the conditions provided for in Article L. 228-1 of the French Commercial Code may be represented in accordance with the conditions provided for in such Article by a registered intermediary.

A shareholder may also vote by correspondence after having had his or her status as a shareholder attested to at least five days before the shareholders' meeting, by the depositary or by registered certificate(s). As from the date of this attestation, the shareholder will not be able to choose any other method of participation at the shareholders' meeting. The Company must receive the ballot at least three days before the meeting.

Powers of attorney, correspondence voting forms and attestations of immobilization of shares may be prepared in electronic form and duly signed in accordance with the legislative and regulatory conditions applicable in France.

In its February 20, 2007 meeting, the Board of Directors decided to include in the ordinary and extraordinary shareholders' meeting of May 24, 2007 agenda the vote of a resolution in order to amend article 21 of the Company articles of association ("Shareholders' meetings") in order for it to comply with the provisions of decree n° 2006-1566 of December 11, 2006.

#### 21.2.6.2 Double Voting Rights

None.

#### 21.2.6.3 Limitation of Voting Rights

None.

### 21.2.7 Statutory device which would delay a takeover of the Company

According to EDF's by-laws, modifications in its share capital cannot have as a consequence the reduction of the French State's shareholding below the legal threshold of 70%. Apart from this, no other provision in the constituting or organizational documents prevents or delays a takeover of the company by a third party.

### 21.2.8 Obligations relating to changes in share capital

The share capital can be increased, decreased or redeemed under the conditions defined by the law.

## 22 Material contracts

Apart from the public service contract described in Section 6.4.3.4 "Public service", the contracts entered into with AEM Milan relating to the joint takeover of Edison mentioned in Section 6.3.1.3.1.3 "Joint takeover of Edison by EDF and AEM Milan" and the industrial partnership agreement entered into with Exeltium and detailed in Section 6.2.1.2.2.2 ("Prices of sale of electricity to eligible customers"), EDF has not entered into any major contract except for those of its daily business within the last two years preceding this Document. For information relating to the contracts concluded by the Group during the 2005 financial year, see notes 11 and 35 to the consolidated financial statements for the year ended December 31, 2006.

## 23 Third party information and statement by experts and declarations of any interest

None.

## 24 Documents available to the public

### ➔ 24.1 - CONSULTATION OF LEGAL DOCUMENTS

All the legal documents relating to the Company (by-laws, reports, mail and other documents, historic financial information of EDF and its subsidiaries for the two years preceding the registration of this document) which must be made available to the public are available at no charge, during the validity of this document, at EDF head office, 22-30, avenue de Wagram, 75382 Paris Cedex 08.

Annex D of this document summarizes all the information made known to the public by the EDF Group during the last 12 months, in accordance with article 222-7 of the AMF Regulations.

### ➔ 24.2 - PERSON RESPONSIBLE

Daniel Camus  
Chief Financial Officer

David Newhouse  
Investors Relations Director  
Tel: 01.40.42.32.45  
Email: comfi-edf@edf.fr

For information about the companies in which EDF holds an interest that may have a significant effect on assessing its holdings, its financial situation or its financial results, see Chapter 7 ("Organizational structure") and Chapter 6 ("Business overview") as well as note 40 to the consolidated financial statements for the year ended December 31, 2006.



**AIEA**  
(International Atomic Energy Agency)

International Atomic Energy Agency (IAEA), based in Vienna (Austria).

**ANDRA**  
(National Agency  
for the Management of  
Radioactive Waste)

The French law of December 30, 1991 established a public industrial and commercial body, the National Agency for the Management of Nuclear Waste (*Agence Nationale pour la gestion des Déchets Radioactifs*, or “ANDRA”), responsible for the long-term management of radioactive waste. To this end, the Agency, which reports to the Industry, Research and Environment Ministries, brought into service the storage centers based in the Aude region of France for the long-term management of short-lived waste.

**Architect-Assembler**

For EDF, the architect-assembler has control over:

- the conception and operation of power plants;
- the organization of development projects;
- the schedule of the completion and costs of construction;
- relations with the ASN; and
- the integration of feedback from operational experience.

EDF's role as architect-assembler ensures the control over its industrial policy with respect to the design, construction and operation of its fleet of power plants.

**ASN**  
(Nuclear Safety Authority)

The French Nuclear Safety Authority (*Autorité de Sûreté Nucléaire*, or “ASN”) manages, on behalf of the French State, nuclear safety and radioprotection in France to protect workers, patients, the public and the environmental risks associated with the use of nuclear energy. It is notably in charge of the external control of nuclear facilities in France. The ASN is an independent administrative authority with more than 300 staff. The ASN is represented at the national level by the Directorate General for Nuclear Safety and Radioprotection (*Direction Générale de la Sûreté Nucléaire et de la Radioprotection*, or “DGSNR”).

**Balance Responsible Entity**

Entities with which RTE-EDF Transport signs a contract for the financing of shortfalls between forecast and actual consumption and the production of a portfolio of users brought together by the balance responsible entity which plays a role of insurer covering the potential losses arising from the many differences between over-and under-supply.

**Balancing Mechanism**

Created by RTE, or Electricity Transmission Network, on April 1, 2003, the balancing mechanism gives access to available power reserves as soon as an imbalance develops between supply and demand.

**Becquerel (Bq)**

International legal unit for measuring radioactivity. The Becquerel (Bq) is equal to one radioactive disintegration per second. This unit represents such a low level of activity that it is used in multiples: the MBq (*megabecquerel* or *million Becquerels*) and the GBq (*gigabecquerel* or *billion Becquerels*).

**Capacity Auctions**

At the beginning of 2001, the Group agreed to auction a portion of its generation in order to allow European energy groups to compete in the French market just as EDF competes in foreign markets. This agreement, signed with the European Commission, stipulated that EDF would sell 6,000 MW of its electricity ‘capacities’ or 8% of the electricity generated in France.

**Changes in the Group's  
Scope of Consolidation**

The changes in the Group's scope of consolidation in any given year take into account the acquisitions, disposals and changes in the scope of consolidation within the Group.

**Cogeneration**

Generation technique for combined electricity and heat production. The advantage of cogeneration is the ability to capture the heat produced by the fuel whereas in classical electricity generation this heat is lost. This process also allows the same facility to meet the heating (hot water or steam) and electricity needs of both industrial and local authority customers. This system improves the energy efficiency of the generation process and reduces fuel use by an average of 20%.

<b>Combined-Cycle Gas</b>	The most up-to-date technology for generating electricity in a natural gas-fired plant. A combined cycle is made up of one or several combustion turbines and a steam turbine allowing for an improved yield. The combusted syngas is routed to the combustion turbine, which generates electricity and very hot exhaust gases. The heat from the exhaust gases is retrieved by a boiler, thus producing steam. Part of the steam is then retrieved by the steam turbine to generate electricity.
<b>Congestion</b>	Situation in which an interconnection linking the national transmission networks cannot absorb all of the physical flows resulting from the international exchanges required by market operators due to a shortage of capacity in the interconnection and/or the national transmission networks involved.
<b>Conversion/Fluorination</b>	Also called "conversion", fluorination allows for the purification of uranium compounds and their transformation into uranium hexafluoride (UF <sub>6</sub> ), allowing their enrichment using current techniques.
<b>CRE (Energy Regulation Commission)</b>	The Energy Regulation Commission ( <i>Commission de Régulation de l'Énergie</i> , or "CRE") was created on March 30, 2000. Its aim is to monitor the correct functioning of the electricity market. The CRE, an independent body, regulates the process of energy market opening. It ensures that all of the generators and eligible customers have equal access to the network. Within its jurisdiction, this body has powers of supervision and authorization along with the power to settle any disputes and, if required, impose sanctions. For a detailed description of its powers see Section 6.5.2.2, "French legislation".
<b>Distribution Network</b>	Downstream from the transmission network, the distribution networks (low and medium voltage) supply the final customer: residential customers, local authorities, small- and medium-sized enterprises.
<b>Downstream</b>	See "Fuel Cycle" and "Downstream Asset Portfolio".
<b>Downstream Asset Portfolio</b>	Total contractual commitments to sell energy to operators or final customers.
<b>DRIRE (Regional Divisions for Industry, Research and the Environment)</b>	The Regional Divisions for Industry, Research and the Environment ( <i>Directions Régionales de l'Industrie, de la Recherche et de l'Environnement</i> , or "DRIRE") coordinate at a regional level the inspection of facilities specifically registered for the protection of the environment. The DRIRE acts on behalf of the Ministry of the Environment and under the authority of the <i>préfets</i> of each department.
<b>EAR (Earning at Risk)</b>	Financial indicator which gives the statistical measure of the risk of maximum potential loss of a company's profit compared with forecast profit in the event of unfavorable market movements over a given time and a given confidence interval.
<b>EBITDA</b>	Earnings before interest, taxes, depreciation and amortization, corresponds to French " <i>excédent brut d'exploitation</i> ".
<b>Electricity Supply</b>	Electricity demand can be broken down into four types of consumption: <ul style="list-style-type: none"> <li>• "basic" (or "ribbon") supply is the electricity generated and consumed throughout the year,</li> <li>• "semi-basic" supply is the electricity generated and consumed over the winter period,</li> <li>• "peak" supply corresponds to periods of the year when electricity generation or supply is in heavy demand,</li> <li>• "lace" supply is a complement to "ribbon" supply.</li> </ul>
<b>Electricity Value Chain</b>	The electricity value chain includes both deregulated activities (generation and supply) and regulated activities (transmission and distribution).
<b>Energy Gross Margin</b>	The energy gross margin is built from accounting data in the income statement and represents the margin on energy costs, fuels and delivery coming from energy sales (i.e., electricity and gas).
<b>Enriched Uranium</b>	Uranium whose isotope 235 content, the only fissile material, has been increased from its low natural level (0.7%) to approximately 4% for pressurized water reactor fuel.

<b>Enrichment</b>	Procedure by which the fissile content of an element is increased. In its natural state uranium is 0.7% uranium 235 (fissile) and 99.3% uranium 238 (non fissile). To enable its efficient use in a pressurized water reactor, it is enriched in 235 uranium whose proportion is increased to around 4%.
<b>EPR</b>	<i>European Pressurized Reactor.</i> A European reactor belonging to the latest reactor generation (called generation 3) resulting from a Franco-German cooperation, offering advanced safety, environmental and technical performance.
<b>FNCCR</b>	National Federation of Licensors and Local Utilities ( <i>Fédération Nationale des Collectivités Concédantes et Régies</i> , or "FNCCR").
<b>Fuel</b>	See "Fuel/Assembly".
<b>Fuel/Assembly</b>	Nuclear fuel is in the form of an assembly made up of an array of 264 fuel rods, bound together by a rigid structure made of tubes and grids. Each fuel rod consists of a water-tight zirconium tube into which uranium oxide pellets are piled, constituting the fuel. The assemblies are loaded side by side into the reactor vessel — 205 assemblies are required for a 1500 MWe reactor — to make up the core of the reactor. While in operation, the primary coolant runs through these assemblies from bottom to top, warming up in the process, and carries the resulting energy towards the steam generators.
<b>Fuel Cycle</b>	<p>The nuclear fuel cycle encompasses all industrial operations in France and abroad which enable the supply of the fuel to generate energy in a reactor, then to unload and process it. The cycle can be broken down into three stages:</p> <ul style="list-style-type: none"> <li>• upstream: the processing of concentrates from uranium ore, the conversion, enrichment and production of fuel (which takes more than two years),</li> <li>• the core of the cycle corresponding to the use of fuel in the reactor: receipt, loading, operation and discharging (which takes three to five years), and</li> <li>• downstream: pool storage, reprocessing of burnt fuel in reactors of recoverable material, vitrification of high-level waste, then temporary storage of the waste before long-term management.</li> </ul>
<b>Generic Hazard</b>	In the nuclear field, an unpredictable technical incident common to a set of nuclear plants.
<b>Greenhouse Emissions</b>	Gas retaining part of the solar radiation in the atmosphere and where the increase in its emission is due to human activities (anthropic emissions), producing an increase in the world's average temperature and probably playing a significant role in climate change. The Kyoto Protocol and the 2003/87/EC directive of October 13, 2003 address the six main greenhouse gases: carbon dioxide (CO <sub>2</sub> ), methane (CH <sub>4</sub> ), nitrogen monoxide (N <sub>2</sub> O), fluorocarbons (HFC), perfluorocarbons (PFC) and sulfur hexafluoride (SF <sub>6</sub> ). For the period from 2005-2007, only carbon dioxide is the subject in Europe of measures to reduce emissions with the application of national plans for the allocation of greenhouse gas quotas.
<b>Impact of Exchange Rate Variations</b>	The impact of exchange rates entered in the income statement for a financial year, reflects the variations in average exchange rate between the euro and another operational currency in use by the subsidiaries within the Group's scope of consolidation.
<b>Interconnection</b>	Electricity transmission infrastructure, which allows for the exchange of energy between different countries, linking the transmission network of one country with its neighboring states.
<b>Intermediate Storage</b>	Intermediate stage in the process of managing nuclear waste. It involves placing waste packages in a facility to ensure, for a given period of time, their isolation from contact with man and the environment with a view to retrieve them for a further stage in the waste management process. Intermediate storage facilities are designed, built and managed by the producers of such waste (EDF, COGEMA, CEA) and are close to areas where waste is conditioned.

<b>Interruptibility</b>	A customer's voluntary reduction in electric power for compensation.
<b>LDC</b>	Local distribution companies.
<b>LNG (Liquefied Natural Gas)</b>	Natural gas turned into liquid form by reducing its temperature to $-62^{\circ}\text{C}$ allowing for a reduction by 600 in its volume.
<b>Metering</b>	System allowing for the measurement, at a given point of the network connection, of the electricity volumes being transmitted or distributed (power, frequency, active and reactive energy).
<b>Midstream</b>	All assets of the gas business, allowing for its availability, transport and management. These might be infrastructure (gas pipelines, storage facilities, GNL terminals, etc.) or contractual (rights relating to pre-determined capacity, procurement contracts, etc.). The midstream segment includes the trading and negotiating activities.
<b>MOX</b>	"Mixed Oxides". Nuclear fuel based on a mixture of uranium oxides (natural or depleted) and plutonium.
<b>MW/MWh</b>	The MWh is the energy unit generated by a facility and is equal to the facilities' power, expressed in MW, multiplied by the duration of operations in hours. $1 \text{ MW} = 1,000 \text{ kilowatts} = 1 \text{ million W}$ $1 \text{ MWh} = 1 \text{ MW generated in one hour} = 1 \text{ Megawatthour}$ $1 \text{ GW} = 1,000 \text{ MW} = 1 \text{ billion W}$ $1 \text{ TW} = 1,000 \text{ GW}$
<b>NAP (National Allocation Plan)</b>	The National Allocation Plan ( <i>Plan National d'Allocation des Quotas</i> , or "PNAQ") is part of the future European market arrangements for emission allowances aimed at reducing green house emissions produced by industries in the European Union. The NAP aims to cap $\text{CO}_2$ emissions from industrial sites and energy generation plants responsible for the greatest part of pollution for the period 2005-2007.
<b>Non-interconnected Zones</b>	Zones in France which are not connected to metropolitan France (Corsica and overseas departments).
<b>Non-nuclear</b>	As used in "Management's Discussion and Analysis of Financial Condition and Results of Operations for the Six Months Ended June 30, 2005", in "Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Years Ended December 31, 2004, 2003 and 2002", in the Consolidated Financial Statements, the consolidated financial statements and the 2004 IFRS Transition Accounts, this term corresponds to fossil-fired facilities.
<b>Nuclear Generating Unit</b>	Electricity generation unit, composed of a nuclear boiler and a turbogenerator set. A nuclear plant unit is essentially characterized by the type of reactor and the power of the turbogenerator set. Most EDF nuclear power plants are composed of two or four units, and less frequently, six.
<b>Power Plant Availability</b>	Time period during which a plant can generate power. The availability rate is defined as the ratio between real or potential annual generation capacity (actual generation capacity/maximum theoretical generation capacity) with the maximum theoretical generation capacity being equal to installed capacity $\times 8,760$ hours. The availability rate, which does not factor in technical losses, <i>i.e.</i> , planned interruptions, unforeseen unavailabilities and test periods, characterizes the technical performance of a plant. For EDF's nuclear facilities in France, the maximum theoretical generation capacity is of 533 TWh ( $63.1 \text{ GW} \times 8,760 \text{ kh}$ ).
<b>Plutonium (Pu)</b>	Element with the atomic number of 94 (number of neutrons) of which no isotope (elements whose atoms possess the same number of electrons and protons — thus the same chemical properties — but a different number of neutrons) exists in nature. Plutonium 239, a fissile isotope, is produced in nuclear reactors from uranium 238.

<b>Redispatching</b>	Method for managing network congestion consisting of the adjustment of provisional generation programs.
<b>Remote Metering</b>	Remote metering of the quantity of electrical energy injected into or drawn from the network.
<b>Renewable Energies</b>	Energies whose use in generation does not involve the destruction of the initial resource. They are essentially derived from the elements, earth, water, air, fire and the sun. They include hydro, wind, solar and geothermal (energy derived from the heat below the earth's magma) energies as well as tidal and marine wave power and biomass (energy derived from living matter, particularly wood and organic waste). Energy resulting from household or industrial waste incineration is often included.
<b>Reprocessing</b>	Reactor burnt fuel reprocessing aimed at separating materials that can be recycled (uranium and plutonium) from final waste.
<b>RPD</b>	Public distribution network ( <i>Réseaux Publics de Distribution</i> , or "RPD").
<b>RPT</b>	Public transmission network ( <i>Réseaux Publics de Transport</i> , or "RPT").
<b>Series</b>	In the nuclear field, a series of plants means a set of nuclear plants with identical generation capacity. EDF's PWR reactor exists in three series: the 900 MW series (34 units of approximately 900 MW each), the 1,300 MW series (20 units) and the 1,500 MW series (four units).
<b>Storage</b>	Storage consists in placing packages of radioactive waste in a facility, ensuring their long-term management, <i>i.e.</i> , under safe conditions allowing for long-term risk control.
<b>Storage Center</b>	<p>Low- or medium-level short-lived waste, coming from nuclear plants, from The Hague or Centraco facilities, are sent to ANDRA's Soulaïnes storage center in the Aube region, which has been operational since 1992. This center, with a capacity of 1,000,000 cubic meters has already received 150,000 cubic meters of waste and has enough capacity for approximately another 60 years.</p> <p>Very low-level short-lived waste is sent to the ANDRA's Morvilliers storage center (also in the Aube region). This center, brought into service in October 2003, has received 20,000 cubic meters of waste to date and has a further lifespan of approximately 30 years.</p>
<b>Therms (th)</b>	One therm is equivalent to 1,163 kWh or 4,186.10*6 joules.
<b>Transmission Network</b>	Network which allows high and very high voltage electricity transmission from generation sites to distribution networks or industrial sites which have direct access. It includes the national grid, and interconnections (400,000 volts and 225,000 volts) and the regional dispatch networks (225,000 volts, 150,000 volts, 90,000 volts and 63,000 volts).
<b>Tritium (H3)</b>	Hydrogen isotope, which emits beta rays, present in water reactor effluents.
<b>Ultracentrifugation</b>	This process involves very high speed spinning in a vacuum of a cylinder containing uranium hexafluoride (UF <sub>6</sub> ). Through the effect of the centrifugal force, the heavier molecules (( <sup>238</sup> U) aggregate at the periphery while the lighter ones (( <sup>235</sup> U) move towards the center, creating an isotopic separation effect.
<b>UO<sub>2</sub></b>	Natural uranium, fluorinated and then enriched. Uranium oxide, a particularly stable chemical form of uranium used as fissile material in fuel assemblies of pressurized water reactors.
<b>Upstream</b>	See "Fuel Cycle" and "Upstream Asset Portfolio".
<b>Upstream Asset Portfolio</b>	All assets guaranteeing the availability of electrical energy. These may be actual physical assets (such as power plants) or their contractual equivalent: long-term contracts, shareholdings, contracts giving the right to a proportional share of generated energy.

**Uranium (U)**

In its natural state, uranium is a mix containing three main isotopes (elements whose atoms have the same number of electrons and protons, thus the same chemical properties, but a different number of neutrons):

- uranium 238, 99.3% fertile
- uranium 235, 0.7% fissile
- uranium 234

Uranium 235 is the only natural fissile isotope, a quality which justifies its use as an energy source.

**URE (Re-enriched uranium)**

To be used in a reactor, reprocessed uranium (*Uranium de Retraitement*, or "URT"), even if containing more fissile uranium than in its natural state, must be further enriched. It is therefore called re-enriched uranium (*Uranium Ré-enrichi*, or "URE").

**URT (Reprocessed uranium)**

Reprocessed uranium (*Uranium de Retraitement*, or "URT"), uranium derived from burnt fuel reprocessing, differs from natural uranium as it contains slightly more uranium 235 and more uranium isotopes.

It is recyclable and URT fuel assembly refueling is commonly used in reactors.

**VAR (Value at Risk)**

Financial indicator giving the statistical measure of potential maximum risk of loss of economic value (market value or mark to market) to a portfolio of cash flows in the event of unfavorable market movements over a certain period of time and a given confidence interval.

**Varification**

Process of immobilization in a glass structure of concentrated solutions of high-level waste through a mix at high temperature with glass paste.

**Waste**

The nuclear generation of 1 MWh of electricity (equivalent to the monthly consumption of two households) produces around 11 g of total waste across all categories.

Short-lived waste represents more than 90% of the total, but contains only 0.1% of the radioactivity of waste.

According to their level of radioactivity this sort of waste is subdivided into two different categories: very low-level waste and low-level waste.

Long-lived, medium- and high-level waste is only produced in smaller quantities — less than 10% of the total — but it contains most of the radioactivity (99.9%).

# **EDF GROUP**

## **2006 REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS OF EDF ON CORPORATE GOVERNANCE AND INTERNAL CONTROLS**

**FEBRUARY 21, 2007**



## INTRODUCTION

In application of article L 225-37 of the Code of Commerce, this report covers the conditions of governance (preparation and organization of Board of Directors meetings) as well as the internal control procedures implemented at EDF SA, including those that apply to the subsidiaries it controls.

With respect to the section describing internal control (see §2), the structure of this report is based on the COSO<sup>64</sup> reference system and its contents are in line with internal control recommendations from the AMF<sup>65</sup>, the French financial market authority. The description of the organization of internal control thus comprises five chapters which describe the elements relating to the control environment, the risk management policy, the communication and information dissemination, and the management and control activities, divided

into four separate sections which correspond to the four recognized objectives of internal control:

- Internal control procedures relating to the implementation and optimization of operations,
- Internal control procedures relating to the reliability of financial information,
- Internal control procedures relating to compliance with rules and regulations,
- Internal control procedures relating to the implementation of instructions and orientations given by the Group's executive management.

The last section recalls the rapid development of internal controls within the EDF Group, as well as the process implemented to draw up and validate this report.

## CHAPTER 1 CORPORATE GOVERNANCE

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### ➔ 1.1 - PREPARATION AND ORGANIZATION OF BOARD OF DIRECTORS' MEETINGS

#### 1.1.1 Presentation and powers of the Board of Directors

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

The list of mandates exercised by corporate officers figures in section 1.15.7.1 of the EDF management report.

In addition, the following attend Board meetings without the right to vote: representatives from the State Economic and Financial Control Commission<sup>66</sup> and the Secretary of the Works Council.

The Board of Directors determines the orientations of the company's activities and oversees their implementation. It deliberates on all the

strategic, economic, financial or technological orientations concerning the Group as well as matters expressly entrusted to it by law or which it has reserved for itself.

The rules applicable to the holding of concurrent mandates are respected by each of the directors.

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

- Organic or external growth operations or disposals which represent financial exposure for the company in excess of €200 million. This limit is reduced to €50 million for acquisitions which are not in line with the Group's strategic objectives,
- Property transactions exceeding €200 million,
- Financial transactions, subject each year to the Board's exceptional deliberation. Thus, in 2006: long-term loans of more than €2 billion and sureties, endorsements or guarantees exceeding €500 million. Additionally, the Chairman advises the Board of sureties, endorsements or guarantees whose unit value is in excess of €100 million, agreed in the name of the company or by a business controlled by the company.

<sup>64</sup> Committee of Sponsoring Organization of the Treadway Commission.

<sup>65</sup> Published on January 22, 2007.

<sup>66</sup> This mission is in charge of the French State economic and financial control, pursuant to the French decree of May 26, 1955. It can carry out extensive control procedures.

- Contracts or total contracts resulting from the same consultation (excluding nuclear fuel purchases) involving sums, including as necessary subsequent endorsements, equal to or exceeding €100 million; long-term contracts for the purchase or sale of energy, CO<sub>2</sub> emission credits and quotas by the company or by an exclusively controlled subsidiary for annual volumes or amounts in excess of:
  - 10 TWh for electricity,
  - 20 TWh for gas (long-term contracts for the purchase or sale of gas above 5 TWh and below 20 TWh are also subject to detailed reporting to the Board of Directors meeting following their signature),
  - €250 million for coal and carbon dioxide.

In 2006, the Board of Directors thus examined, as well as numerous matters concerning the Group's normal activities, the year's major events and authorized in particular:

- Internationally, the sale of 79.6% of the capital of electricity distributor Light in Brazil
- In the area of renewable energies, the principle of the flotation of EDF Energies Nouvelles, thus giving this company the resources required for its development
- In the nuclear area, the continued implementation of a construction project for a generation unit, based on an EPR-type reactor at the Flamanville site.

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

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

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

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

Following recommendation by the Chairman and Chief Executive Officer and the majority of members present or represented, the Board of Directors may appoint up to five Chief Operating Officers. Their powers and the duration of their term of office are conferred on them by the Board of Directors in agreement with the Chairman and Chief Executive Officer. At the end of 2006, the Chief Operating Officers were:

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

## 1.1.3 Evaluation of the functioning of the Board of Directors

The Board of Directors met 12 times during 2006 and 21 committee meetings were held to prepare for these meetings (see §1.2).

The attendance rate for directors at Board meetings has been relatively stable since 2002 (averaging 84.2%), with a slight fall in 2006 (79.6%) for temporary reasons. Consistent with the guidelines on high standards of corporate governance (for example, the AFEP-MEDEF report of October 2003) which recommend that the functioning of the Board of Directors be evaluated, the Board's internal regulation states that the Ethics Committee "should undertake an annual evaluation of the functioning of the Board of Directors (...) and report back on areas requiring further consideration".

This evaluation was carried out according to the same procedure as in 2005, that is to say via a questionnaire sent to all directors covering all aspects of Board of Directors functioning. This questionnaire was reviewed by the Ethics Committee on October 23, 2006 and approved by the Board of Directors meeting of November 10, 2006. The directors were thus specifically asked to comment on the frequency and duration of meetings of the Board of Directors and its Committees, the agenda items and the quality of documentation submitted.

The results, reviewed by the Ethics Committee on December 7, 2006, show a good level of director satisfaction and were presented to the Board of Directors meeting on January 23, 2007.

# ➔ 1.2 - MISSIONS AND FUNCTIONING OF THE BOARD OF DIRECTORS COMMITTEES

In order to conduct its duties, the Board of Directors is supported by a number of committees, charged with examining and preparing certain matters prior to their submission to the full Board. At the end of 2006, these were: the Audit Committee, the Strategy Committee, the Ethics Committee and the Remuneration Committee. The latter was established by the Board of Directors meeting of May 10, 2006 and met once during 2006. When its internal regulation was updated in January 2007, the Board of Directors broadened the missions of the Remuneration Committee, which has become the Appointments and Remuneration Committee and created the Committee for Monitoring Nuclear Commitments (CSEN).

## 1.2.1 The Audit Committee

The **Audit Committee**, comprised of five members, is chaired by Mr Dangeard, a director appointed by the General Shareholders' Meeting and a respected figure from outside the EDF Group. The other members are Messrs. Bézard and d'Escatha, directors representing the French State, Mrs Daguerre and Mr Chorin, directors elected by employees. Prior to their submission to the Board, the committee reviews and comments on the company's financial situation, its medium term plan and the budget, the draft financial statements established by the Finance Division (EDF parent company and consolidated financial statements), the risk control policy and the audit program. It also reviews reports from the Statutory Auditors, the Executive Management and the Finance Division.

The attendance rate for the Audit Committee averaged 71.5% in 2006 over seven meetings including an ad hoc meeting in the absence of a quorum.

Risk monitoring was, notably, regularly examined by this Committee, with an in-depth half-year review of the Group's consolidated risk mapping, its risk control procedures, the audit program and the main findings and corrective measures implemented following the audits of the previous half-year period.

During 2006, the Audit Committee was informed of the new Internal Control Policy and examined its internal deployment arrangements within the company. It also examined major issues such as the assets dedicated to nuclear decommissioning, the flotation of EDF Energies Nouvelles and the nuclear damage insurance.

### 1.2.2 Committee for Monitoring Nuclear Commitments (CSEN)

The Committee for monitoring nuclear commitments is comprised of six directors, designated by the Board of Directors, including the five members of the Audit Committee and a director with recognized expertise in the nuclear field. Its members are Mr Dangeard, a director appointed by the General Shareholders' Meeting and a respected figure from outside the EDF Group, Messrs. Bézard, d'Escatha and Jacq, directors representing the French State and Mrs Daguerre and Mr Chorin, directors elected by employees.

The Committee's mission is to monitor the development of nuclear provisions, to comment on governance issues relating to the dedicated assets, on the rules for balancing assets and liabilities and on strategic allocation, and to verify management compliance regarding the dedicated assets instituted by EDF. It makes the comments and recommendations it sees necessary to the Board of Directors.

A first meeting of this committee is scheduled for February 2007.

### 1.2.3 The Strategy Committee

The **Strategy Committee**, comprised of seven members, is chaired by Mr Proglia, a director appointed by the General Shareholders' Meeting and a respected figure from outside the EDF Group. The other members are Messrs. Bézard, Faure and Jacq, directors representing the French State, Mrs Hoeffling, Messrs. Grillat and Pesteil, directors elected by employees. The Committee reports to the Board of Directors on the company's major strategic orientations. It thus examined, in 2006, the implementation of the Public Service Agreement, the gas strategy, the research and development policy and the strategy on renewable energy. The Strategy Committee met seven times in 2006 (including one ad-hoc meeting in the absence of the Committee's Chairman) with an average attendance rate of 75.5%.

### 1.2.4 The Ethics Committee

The **Ethics Committee**, comprised of six members, is chaired by Mr Aurengo, director, a respected figure from outside the EDF Group representing the French State. The other members are Messrs. Foundoulis and Moreau, directors appointed by the General Shareholders' Meeting, Messrs. Chorin, Pesteil and Villota, directors elected by employees. The Committee oversaw the consideration of ethical issues in the work of the Board of Directors and in the management of the company. It examined:

- The annual report excluding the financial statements (activity and sustainable development reports)
- The activity reports from the Heads of Ethics and Compliance
- The report from the Mediator and the Inspector General for Nuclear Safety and Radioprotection.

Furthermore, the Ethics Committee conducts an annual evaluation of the functioning of the Board of Directors and the application of its internal regulation and proposes areas for further consideration.

The attendance rate for the Ethics Committee averaged 94.4% in 2006 for six meetings. This committee notably continued its review of the policy on partnership with service suppliers in nuclear operations. It also studied the issue of managing nuclear waste, the policy in health and safety matters as well as the implementation of a code of good conduct for the distributor ensuring that full provision has been made for guaranteeing the absence of discriminatory practice in third-party network access.

### 1.2.5 The Appointments and Remuneration Committee

The **Appointments and Remuneration Committee**, comprised of three members, is chaired by Mr Schweitzer, a director appointed by the General Shareholders' Meeting and a respected figure from outside the EDF Group. The two other members are Mr Dangeard, a director appointed by the General Shareholders' Meeting and also a respected figure from outside the EDF Group and Mr Bézard, a director representing the French State. The Committee transmits proposals to the Board of Directors with a view to the appointment of directors by the General Shareholders' Meeting, comments on the compensation of the Chairman and Chief Executive Officer to the French Ministry of Economy, Finance and Industry and reviews the remuneration of the Chief Operating Officers.

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

Information relating to the remuneration of corporate officers can be found in section 1.15.7.2 of the EDF management report.

## ➔ 1.3 - INFORMATION AND TRAINING FOR DIRECTORS

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

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

In addition, the Secretary to the Board of Directors organizes information meetings on complex matters or those of major strategic importance or on issues requested by directors. Numerous matters

were thus addressed in 2006, including trends in the energy sector, electricity prices, Group cash balances, insider trading, the research and development policy etc. A presentation on the latter was made at the Chatou site. In addition, the members of the Ethics Committee visited the Blayais nuclear plant within the framework of the review into sub-contracting in the nuclear domain.

Finally, in 2006, a 'director's guide' was established to provide directors with guidelines on the execution of their mandate: as well as all the documentation required to keep them informed, it includes information sheets on specific issues such as the right to information, obligations and duties, multiple mandates, remuneration and directors' civil responsibility insurance.

## CHAPTER 2 EDF GROUP INTERNAL CONTROL POLICY

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The aim of this document is not an exhaustive presentation of all the control methods existing within the Group; rather, it focuses on the

control procedures concerning activities and risks deemed to be significant as well as the main procedures in place in 2006.

## ➔ 2.1 - CONTROL ENVIRONMENT

A significant development took place with the approval of the EDF Group's new Internal Control and Audit Policy, signed by the Chairman on March 7, 2006. The main levers implemented within the framework of this policy are outlined below (see §2.1.6.4 and §2.5).

This new policy sets the reference framework to be respected in internal control and audit matters across all EDF Group entities. It aims to make management more responsible for its own internal control, in line with the delegation of management authority and with the main risks identified. Several levels of control have been defined:

- **Self-regulation** and reporting-line control exercised at the level of the activities,
- **The first level of internal control** exercised within the structure of the managerial entity responsible for the activities (at unit or controlled subsidiary level reporting to a Division of the parent company),
- **The second level of internal control** exercised in the structure of the regrouped entity (Branch, Division or controlled subsidiary reporting directly to the Group's executive management),
- **Overall control** ensured by the Group Audit Division: coordination of the internal control department, control of internal control procedures of the entities attached to the Executive Committee (Comex).

Each of these levels of control is established in line with the corresponding level of delegation of management power, and with the procedure for analyzing major risks, each level being accountable for controlling its own activities and for verifying the control procedures

for the activities which it has delegated. Anomalies detected by one management level, as well as the procedures implemented to ensure they are rectified, are reported to the level above.

Each Director of a Group or support functional entity has appointed an 'Internal Control Coordinator', with the coordination of this network ensured by the Audit Division (professionalism of those involved, regular meetings, establishment of control and self-diagnosis control reference frameworks, background documents shared on the intranet etc.).

An internal control guide has been established and is provided for each entity to help it implement its own internal control procedures. This guide, based on the COSO chapters, characterizes the risk areas concerned, identifies the main aims of internal control to explore and proposes best practice to be implemented.

At the end of 2006, each of the 36 regrouped operational entities established its first annual report on internal control involving, particularly, the commitment of the director as to his or her aims and an outline of his or her target procedures at the end of 2007, as well as an account of the procedures existing at the end of 2006, and the measures envisaged to remedy shortfalls with respect to this target. This process will be repeated every year and will also include a self-appraisal by the management of the entity of its own internal control procedures. Every year, the Group's Audit Division will audit the self-appraisal and the corresponding internal control procedures for one third of the entities concerned.

The functional entities are charged with establishing internal control objectives relating to the application of major policies in their area of responsibility. These objectives will be adopted by the operational entities and integrated, from 2007, in their internal control procedures.

In 2006, the Audit Division carried out diagnostics of a portion of these internal control procedures and will conduct preliminary audits in 2007, prior to proceeding to systematic control of control, as of 2008, on all procedures every three years.

Regarding subsidiaries not controlled by the Group, such as the special cases of Edison and EnBW, EDF's Board representatives are encouraged, within the framework of their powers and in cooperation with the other Board Members, to monitor the quality of the internal control procedures in these subsidiaries. The same applies to RTE-EDF Transport.

## 2.1.2 Ethics policy and environmental quality

### 2.1.2.1 Ethics policy

**The ethics policy, adopted in March 2003, formalizes the Group's commitment to respecting the five corporate values: respect for the individual, respect for the environment, performance, solidarity and integrity. These five quality public service and sustainable development values are included in an ethics charter whose Principles of collective action and individual Handbook of Ethics specify the conditions of application.**

The Group's ethics policy is the reference framework for the ethical commitments of subsidiary companies and for codes of conduct and also serves as a reference in fundamental processes such as recruitment (recruitment reference framework), training (employee awareness) and performance appraisals.

In 2006, the main subsidiaries, EDF Energy, EnBW and Edison, continued to adopt their own ethics policies in line with that of the Group, as did other subsidiaries in Poland and the Ivory Coast. For EDF SA, the Sustainable Development Supplier Charter (September 2006), the agreement on socially responsible sub-contracting (October 2006) and the implementation of the 'Diversity' project as of June 1, 2006, have actively promoted the values of solidarity and respect for the individual in the company's employment, working and recruitment conditions and in those of its suppliers.

The ethical alert procedure, in force since 2004, recognizes every employee's right, and that of every external partner, to question the company by consulting the Head of Ethics for every breach of the ethical values. The 45 alerts received in 2006 covered particularly the respect of the individual and required corrective management measures, especially in terms of organization.

The action plan for 2007 aims to:

- Update the EDF ethics policy and raise the awareness of all employees
- Ensure and coordinate, together with the internal control and Group risk management procedures, the procedures for preventing and handling shortfalls in ethics
- Establish a concerted internal appeal process and a procedure for handling these appeals.

### 2.1.2.2 Environmental Quality Process

The EDF Group has had ISO 14001 certification since April 9, 2002. This certificate was renewed for the first time in 2005 by DNV<sup>67</sup>, the certification body chosen by the EDF Group. This confirms the quality of the Environmental Management System based on the commitments of the new policy signed in June 2005.

In addition to all the internal audits, the procedures established within the framework of this certification by an external body contribute to strengthening control of the EDF Group's environmental risks.

### 2.1.3 Delegation of powers and technical authorizations

EDF's Board of Directors has granted its Chairman and Chief Executive Officer and his or her Chief Operating Officers a delegation of authority and they, in turn, delegate part of their powers to their immediate associates. Such delegation of power provides the basis for further delegation to the main operational managers. Since June 2003, delegation of power has allowed greater control to be exercised over procurement contracts, with only the Head of Purchasing able to sign off on purchasing contracts, subject to the powers of the Board of Directors in this area (see §1.1.1).

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

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

### 2.1.4 The Human Resource Management Policy (HR)

The adaptation of job specifications and the skills necessary to the success of the Industrial Plan and the growth of the businesses was a priority development area for the Group's HR department in 2006 and led to the pursuit of and/or implementation of the following measures, some of which may continue beyond the 2006 financial year:

- Initiation of a 'business outlook' process enabling arbitration between job specifications (recruitment, training and externalization),
- Establishment of a real mobility momentum with a view to full internal employment through developments in HR management policy (support for declining areas of activity and gearing up of key business lines),
- Signature of the EDF Training agreement by the 5 union bodies, aimed at opening up and supporting the career paths needed to meet EDF's forthcoming business challenges,
- Bringing in young people for on-the-job training at all levels of qualification,
- Implementation of a systematic approach to identify and evaluate talented young people,
- Development of training for existing directors aimed at building the international dimension of their role,
- Refocusing of the mobility policy internationally in line with the objectives of the Industrial Plan,

<sup>67</sup> DNV: Det Norske Veritas

- Adaptation of the recruitment policy to the Group's development, taking into account both changes in the external job market and the expectations of young qualified individuals.

Also, in line with the Group's Internal Control policy, HR and Communications defined the internal control objectives to be implemented by the operational divisions based on the transverse and business processes seen as "critical" with regard to their financial or reputational impact.

## 2.1.5 Organization and Management of Information Systems (IS)

The client role for information systems is fulfilled by each of the divisions for the scope within its remit: operational divisions in France (generation, customers, and distribution), Group functional divisions (finance, HR, purchasing, etc.) and management of subsidiaries.

Project manager responsibilities are divided between these divisions; they take direct responsibility, supported by dedicated operators and a specific entity which is common with Gaz de France and plays a role as transverse operator for the Group as a whole.

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

- Strategic decisions and arbitrages are submitted, depending on their nature and the scope concerned, to one of the Group's decision-making Committees (see §2.1.6.1)
- Other important decisions are taken, on a monthly basis, by a committee of information system directors representing the divisions and coordinated by the Group Information System Division. These decisions concern priorities and major developments within the department, and the implementation of synergies (purchasing, technical resources, standards, etc.).

In addition, an Information and Freedom (*Informatique et Libertés*) associate was appointed for EDF at the end of 2006.

## 2.1.6 Internal Control Functional Actors

### Internal Group Control Bodies

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

As of April 1, 2006, the TOP 4, which comprises the Chairman and Chief Executive Officer and the three Chief Operating Officers, is the Group's senior decision-making body. The Executive Committee (Comex), a body for strategic discussion and consultation on all transverse matters within the Group, comprises the members of the TOP 4, the operational and functional Senior Executive Vice Presidents and the Chairman of the main subsidiaries, EDF Energy, EnBW and Edison. Its composition reflects the need to give equal treatment to the Group's strategic priorities.

A limited number of specific decision-making committees support the work of the Executive Committee: the France Coordination Committee, the Committee for Commitments and Shareholdings, the Senior Executive Development Committee, the Nuclear Safety Board and the C+P+T<sup>68</sup> Committee. In addition, ad hoc committees or boards are assembled to handle strategic issues of a transitional nature.

### 2.1.6.1 The Finance Division (DF)

**The Finance Division ensures the tracking and control of financial risk. It monitors market trends and financial techniques and analyzes the financial risk involved in projects. The Chief Financial Officer chairs the Commitments and Shareholdings Committee (see §2.3.1.2.1)**

Within the Group Control Division:

- **The Financial Control Division** is responsible for:
  - Steering the forecasting processes of the Group's management cycle (budgets and medium Term plans arising from the Industrial Plan), summarizing the main results and arbitrating between conflicting claims at Branch and Group level, by notifying the parties concerned, prior to decision-making, of the financial consequences of the planned projects or the performance levels proposed and providing analytical advice,
  - Helping operational management to keep track of performance: the monitoring of budget execution (involving forecast revision four times a year) and operational results is effected through regular broad-based performance appraisals across all Divisions and Subsidiaries,
  - Acting as Group financial controller, notably by participating in investment monitoring and analysis to ensure economic and financial optimization.

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

- **The Accounts Department** is responsible for :
  - Specifying the Group's accounting rules and methods which guarantee the standardization of accounting treatment and the correct input from the upstream processes,
  - Defining once a year, for EDF SA, control benchmarks to be deployed by process,
  - Organizing feedback on implementation by the entities of the control procedures stipulated in the accounting and financial area (see § 2.3.2.2.2).

Within the Corporate Finance and Treasury Department (DCFT), the **Financial Risk Control Department** is responsible for managing interest rate, currency, cash flow and counterparty risk across the Group (see §2.3.1.1.2). Furthermore, within the framework of the Internal Control policy, the Financial Risk Control Department participates in managing the operational risks of Corporate Finance and Treasury Department activities.

### 2.1.6.2 Corporate Risk Management Division (DCRG)

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

Faced with an evolving context, the Group decided, as of 2003, to implement a global process for managing and controlling its risks, strengthening the existing provisions, notably by creating the Corporate Risk Management Division. The Corporate Risk Management Division is responsible for:

<sup>68</sup> C+P+T Committee: Supply ("Commercialisation") – Generation ("Production") – Trading.



- Alerting the Chairman and the TOP 4 as to emerging risks or those which have not been adequately identified,
- Building and updating the Group's consolidated risk mapping (see §2.2),
- Consolidating and updating the Group's risk control policy (see §2.2) in, notably, ensuring the exhaustiveness and the consistency of the various sector risk control policies (see §2.3.1.1),
- Ensuring the deployment of the Group's energy market risk policy and, more generally, ensuring the control of these energy market risks at Group level (see §2.3.1.1.1),
- Managing the comprehensiveness and the relevance of risk analysis carried out on projects involving investment and long-term commitment and presented to Executive Committee level bodies for decision-making,
- Updating the policy and coordinating the Group's organization in crisis management (see §2.2),
- Ensuring the control of all suppliers and sensitive contracts in liaison with the Purchasing Division and the business line divisions concerned.

### 2.1.6.3 Group Audit Function

The Group's audit function is made up of all the internal control resources involved in internal audit, at Group, parent company and affiliate<sup>69</sup> level. It is organized around "business line" teams deployed within the structures of the main regrouped entities (generation and engineering, customers, and distribution), a corporate audit division responsible for controlling internal control procedures as well as transverse audits or those of 'corporate' importance. Supervision of this function is the Chairman's responsibility; he delegates this task to the Head of Audit. Pursuant to the SPEEGEE<sup>70</sup> law of August 9, 2004, the EDF distributor has created its own internal audit function. A decision taken by the Chairman on September 10, 2004 defines the rules of its functioning within the Group's own Audit framework. This decision monitors the respect of the confidentiality rules with regard to sensitive information and the overall optimization of resources dedicated to the control function.

The Group's Audit Division, which intervenes in all the activities included in the Group<sup>71</sup> scope, applies the international standards defined by "The Institute of Internal Auditors":

#### • Qualification standards:

- The duties, powers and responsibilities of the auditors are defined in a charter which was updated within the framework of the Internal Control policy of March 7, 2006. This charter reiterates the independence of the audit function and its direct reporting line into the Chairman and Chief Executive Officer, the missions and commitments of internal audit, the duties and the powers of the auditors and of the entities audited,
- The Head of Audit reports directly to the Chairman and Chief Executive Officer,

- All the auditors are trained to use the same methodology, consistent with international standards. They are recruited from the Group's various businesses and from external audit offices. Auditors are evaluated at the end of each mission and a transfer to audit is considered as a positive career move. A protocol agreement has been signed to this effect between the Audit Division and the Senior Executive Development Division,
- The number of auditors is in line with the industry average: 0.5 auditors per 1,000 employees<sup>72</sup>,
- The key processes essential to the proper functioning of the Audit Division over the chain of activities (from the drawing up of the audit program until the monitoring of the implementation of recommendations) take the form of quality plans which will be the subject of regular reviews as of 2007. An independent evaluation was conducted at the beginning of 2005 and the process should be repeated in 2008.

#### • Standards of functioning:

- The half-year audit program is decided by the Chairman and presented to the Audit Committee. It is largely based on the Group risk map and also includes regular audits of internal control procedures implemented by the operational divisions and corporate functions (see Internal Control policy), as well as project audits (acquisitions, disposals, investments) and audits linked to follow-up on major decisions taken by the Chairman. So-called "flash" audits are also conducted outside the main program on request by TOP 4 or Executive Committee members (thirteen in 2006),
- All audits lead to recommendations which, after ratification by the entities audited and their management, form the basis for action plans on their part. During the year following an audit, the Audit Division monitors the progress on the implementation of these rectification plans, the audit considered to have reached a satisfactory conclusion only when these measures have been fully implemented. An unsatisfactory conclusion to an audit or one where reservations are expressed triggers a management alert,
- The audits are presented in three ways to facilitate their appropriation: a detailed report for the audited entity, a summary report for the management of the audited entity, commentary from the Audit Division for the attention of Executive Committee members
- A half-yearly summary report is produced by the Audit Division. It sums up the main audit findings and the corresponding corrective management action, as well as the results of audit exercises concluded during the period. It also identifies possible recurring or generic problems appearing over the course of several audits conducted during the period which are worthy of the particular attention of the TOP 4. This report is presented first to the Chairman and then to the Audit Committee.

Along with strengthening the internal control procedures within the framework of the new policy, the Audit Division is gradually refocusing on its new core function:

- The "control of internal control" within the Group's operational entities, supporting the internal control of activities for which the executive management is responsible and coordinating internal control resources
- The undertaking of cross-divisional audits and/or those relating to risk at Group level (so-called "corporate" audits), so-called "flash" audits on request from a TOP 4 or Executive Committee member and so-called "project" audits (conducted at different key stages of a major project).

<sup>69</sup> According to agreements on a case to case basis entered into by subsidiaries which are not under the control of EDF. In addition, the Electricity Transmission Networks Manager (RTE – EDF Transport), in accordance with the law of February 10, 2000 which grants it a certain management independence, has developed its own control methods: Audit and Accounting and Financial Review Mission.

<sup>70</sup> Electricity and Gas Public Service and Electricity and Gas Companies (*Service Public de l'Electricité et du Gaz et Entreprises Electriques et Gazières*).

<sup>71</sup> See Note 6.

<sup>72</sup> IFACI Source : result of an enquiry on internal control practice in France in 2005.



## 2.1.6.4 The Legal Affairs Division (DJ)

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

## 2.1.7 External controls

Like all listed companies, EDF is subject to the scrutiny of the French financial market regulator (*Autorité des Marchés Financiers* – AMF). In that it is majority-controlled by the French State, EDF is also subject to control by the French public accounting institution (*Cour des Comptes*), the State controllers, the Inspectorate of Public Finances,

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

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

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

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

## ➔ 2.2 - RISK MANAGEMENT AND CONTROL POLICY

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

- Align the company with the most up-to-date standards in matters of corporate governance for risk control, notably by anticipating regulatory changes in this area,
- Secure the Group's strategic and financial trajectory,
- Ensure that management and employee bodies within the Group have an aggregated and regularly-updated picture of the Group's major risks and their level of control.

The risk control scope at Group level includes the activities of EDF SA and its subsidiaries both inside and outside France (excluding RTE-EDF Transport which has its own organizational structure).

Risk management applies to the same scope, with the exception of the subsidiaries over which EDF does not have exclusive operational control (specifically EnBW, Edison and Dalkia).

The operational and functional divisions are responsible for managing the risks which fall within their scope of activity. Risk control is ensured by a department which is entirely independent of the risk management functions. According to this principle, every half year, consistent with the reporting schedule for the Group's half-yearly financial statements, the Group updates and consolidates the risk map of its major risks, based on mapping exercises established by each operational or functional division deploying a Group methodology (typology,

identification and evaluation principles, risk control measures etc.). Each risk identified must be the subject of a clear action plan. Responsibility for the Group's major risks is assigned to an executive appointed by the TOP 4.

The consolidated risk map is subject, each half-year, to approval by the TOP 4 and a presentation to the Audit Committee. It is also regularly presented to the senior management of the main contributing divisions and to members of the risk control department.

The overall risk mapping procedures form the basis of a number of other procedures across the Group: audit program, insurance policy, control of commitments and shareholdings, financial documentation (notably the "Risk Factors" chapter of the AMF reference document).

In addition, the Group deploys a crisis management policy, the latest version of which was signed off by the Chairman in June 2005. In particular, it ensures the existence of appropriate crisis management procedures with regard to the risks encountered in each division involved in managing the crisis and verifies the overall consistency. A program of crisis management exercises enables the effectiveness of these procedures to be tested and for the Group to capitalize on the experience gained. Finally, the Group's crisis management organization is regularly readjusted to reflect any significant change in the Group's organization or in the external environment as well as in the light of feedback on any major crisis having affected the Group.

## ➔ 2.3 - GROUP CONTROL ACTIVITIES

### 2.3.1 Internal control procedures relating to the implementation and optimization of operations

#### 2.3.1.1 Sector policy on risk control

##### 2.3.1.1.1 Control of Energy Market Risk

The Chairman's decision of December 9, 2005 formalized the policy on energy market risk which standardizes the management of these risks across the Group and stipulates the necessary procedures for its

implementation and the monitoring of its application. This policy applies to the entities and subsidiaries over which the Group has operational control. For the other subsidiaries, the energy market risk policy and the control procedure are reviewed within the framework of the governance of these companies (Board of Directors, Audit Committee). This policy document specifically outlines:

- The governance and assessment procedures, clearly separating the responsibilities with regard to the management and control of risks and enabling the tracking of Group exposure

- The risk control procedures involving Group management whenever risk limits are exceeded. Note that particularly rigorous risk control procedures are in operation at EDF Trading, given the specificity of the business activities and the fast reaction time required
- The independence of the department responsible for controlling energy market risk, with a two-tier organizational structure, the entities ensuring operational control and the Group Energy Market Risk Department of the Corporate Risk Management Division ensuring a second level of control at Group level.

The TOP 4 approves the mandates for risk management in the entities annually when they are presented to it with the budget. In addition, the Audit Committee reports on the Group's energy market risk policy.

### 2.3.1.1.2 Financial Risk Control

The Group's development has led to the implementation of a dedicated entity, the Financial Risk Control Department, responsible for managing interest rate, foreign exchange, cash flow and counterparty risk at Group level. This control is exercised through:

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

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

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

## 2.3.1.2 Specific controls

### 2.3.1.2.1 Procedure for approving commitments

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

### 2.3.1.2.2 Control of Information Systems (IS)

#### Organization of the internal control of the IS department :

The internal control procedure of the IS department is an integral part of the new internal control policy (proposed control objectives to be deployed by the operational entities) and covers the implementation of business line policies. These policies address, in particular, the security of information systems, the management of IS projects, the management of IS risk as well as the optimization and gearing up of key competences.

- Organization and work in progress to prepare future information system :

in 2006 the main priorities were to prepare for market opening in 2007. In addition, the establishment of an "EDF IS 2010" Strategic Plan was initiated, under the direct responsibility of the executive management, structured around several significant strategic challenges for the Group. An internal audit on IS departmental governance provided valuable input for the diagnostic used in drafting this Strategic Plan.

- Measures in the area of IS security :

numerous deployment measures were conducted with regard to the EDF Group's Information System Security Policy and EDF SA's new IS security reference framework. In addition, action was taken to strengthen risk cover linked to a major disaster at one of the main computer centers and the applications most critical to the company's functioning.

### 2.3.1.2.3 Administration and supervision of subsidiaries / affiliates

Each subsidiary or affiliate has a director, a member of the Executive Committee, or his or her delegated representative. He or she assumes responsibility for managing the corporate strategy for their company as well as that of the directors he or she designates and to whom a letter is addressed outlining their remit and objectives. These reporting lines were updated and approved by the Senior Executive Development Committee on November 30, 2006.

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

- The updating of the mapping of company reporting lines, in light of decisions taken by the TOP 4
- The tracking of "target composition profiles" which anticipate the assembly of the necessary collective skills, as well as the profiles necessary to represent EDF effectively on the Boards of subsidiaries and affiliates, in light of the strategy defined by the EDF Board Directors to whom they are attached
- Compliance with the process for the designation of Board Directors, requiring prior management nomination (conformity with the target profile, control of the number of mandates, reporting line approval of the proposed director etc.)
- The professionalism of new directors (initial training by the Corporate University, information via the internet site for the director community, on-going professional training via seminars and directors' workshops).

### 2.3.1.3 Other control policies

EDF has also defined :

- A health and safety policy, signed by the Chairman in October 2003,
- A Group environmental policy, signed by the Chairman on June 10, 2005,
- An insurance policy presented to the Board of Directors on July 1, 2004, further to a report submitted to the directors on October 23, 2003, relating to "storm" risk cover for the distribution network. The Board took note of the report on the EDF Group's situation with regard to identified insurable risks and on the cover in place. It approved an action program intended to improve awareness of the Group's insurable risks, to develop the Group's insurance dimension, to improve and optimize existing cover and to institute new cover. With respect to the latter, on February 22, 2006, the Board approved (following comments from the Audit Committee on February 17) the implementation of a new "nuclear damage"<sup>73</sup> program, intended to cover significant accidental damage which could impact EDF's nuclear fleet. A progress report on the implementation of the work program of July 1, 2004 was presented to the Audit Committee on May 5, 2006, which approved the future development lines. The Committee also noted the updated picture of the Group's insurable risks and cover. Furthermore, the Audit Committee, which is regularly informed of developments in this area, received a document on August 28, 2006, on the conclusion of negotiations relating to the "Nuclear damage" program and on the implementation of "Full site cover" insurance for the EPR pilot at Flamanville.

## 2.3.2 Control procedures relating to the reliability of financial information

### 2.3.2.1. EDF Group financial statements

#### 2.3.2.1.1. Group accounting standards and principles

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

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

#### 2.3.2.1.2 Procedure for establishing and controlling consolidated financial statements

The annual financial statements are presented to the Audit Committee, then closed by the Board of Directors and approved in the General Shareholders' Meeting. The half-yearly consolidated financial statements are presented to the Audit Committee and the Board of Directors.

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

The closure of every half-year and annual period gives rise to the establishment of a detailed plan of all the deliverables expected from each player involved in the publication of the accounts, the notes and the analysis associated with the latter or required to figure in the management report or the reference document. Indicators are tracked to measure the respect of deadlines and the quality of information assembled. A retrospective analysis of the difficulties encountered during the production phase enables a steady improvement in the effectiveness of the production process and the analysis of the consolidated financial statements.

The harmonisation of the financial terminology between Accounting and Management Control contributes to the consistency of the Group's management. It is one of the ways of ensuring continuity between:

- Historic (actual) and future data (forecasting phases)
- External financial communication and internal management.

This standardization of terminology promotes dialogue and cooperation between these two functions at all levels of the organization, and contributes to securing the exchange of information between the players and the quality of the information produced.

Performance management and the management dialogue is based on data produced under Group accounting standards, such as those deployed in the reporting of the consolidated financial statement.

### 2.3.2.2. EDF SA parent company financial statements

#### 2.3.2.2.1. Principles and accounting standards

The EDF SA parent company financial statements are established in compliance with French regulations. Accounting options compatible with international rules (IFRS) are prioritized where possible.

The accounting translation of the Group's new activities as well as the impact of the transposition of the new accounting standards are ensured by a network of associates within the operational divisions.

#### 2.3.2.2.2. Procedure for drawing up and controlling financial statements

The quality of Divisional accounting is guaranteed by a contractual relationship with the Accounting Consolidation Division. This contractual relationship involves, at each management level, annual certification at the close of the financial year, and highlighting improvements to be made in the subsequent year. In addition, several audit missions entering into the scope of the accounting function are included in the Group's audit program (thus, in 2006, "Quality Targets in the Financial Area", "cut-off sales", "disposals" or the "contractualization process").

In addition to the parent company financial statements, in compliance with French law<sup>74</sup>, EDF presents to the energy regulatory body (CRE), after review by the Statutory Auditors, unbundled accounts for each business line: generation, electricity transmission and other activities. These financial statements are established in compliance with the principles regarding unbundled accounts and with recommendations made by the CRE.

<sup>73</sup> Implemented as of April 1, 2006.

<sup>74</sup> French law n° 2000-108 of February 10, 2000 as amended by Law n° 2004-803 of August 9, 2004.

### 2.3.2.3. Internal control on the quality of the parent company's accounting

The Accounting Consolidation Division defines the reference framework for the control of accounting quality applicable to the parent company. This reference framework is deployed by large transverse processes: sales, purchasing, personnel costs, fixed assets, stocks, treasury, taxation and accounts production. It notably specifies the criteria to test, the stipulated sampling methods and the reports to be provided.

The procedures for controlling accounts generation are aimed at verifying that the accounts are exact and exhaustive, that the separation principle for financial years is respected, that records satisfy legal requirements, that procedures are secure, that physical inventories are undertaken, that the accounts are regularly guaranteed, that provisions made are a fair reflection of the depreciation in asset values and the company's obligations and that the centralization operations are exact and exhaustive.

Accounting and finance, which historically had internal control procedures, is now an integral part of the new internal control policy defined at Group level in March 2006. During 2006, no changes were made in reporting to the Accounting Consolidation Division. Over the course of 2007, new procedures will be defined in order to improve the formalization of this integration in the Group's global policy on internal control.

#### 2.3.2.3.1. Internal control measures undertaken in 2006

Within the context of the stock market listing, internal control of the accounting and financial area was focused on the on-going quality of information destined for publication.

Furthermore, in order to prepare for full market opening on July 1, 2007, action was taken to:

- Strengthen the internal reference framework in the sales area in order to achieve better management of revenues and customer accounts
- Organize and secure the movement of customers between information systems.

In addition, the process of integrating financial information systems continued, particularly at EDF SA: the SAP program was deployed in the Island Energy Systems in 2006 and work on this began within EDF Gaz de France Distribution. Within these areas, work was conducted to take into account internal control needs.

Finally, following research conducted by the market advisory group set up by the AMF to define a detailed reference framework for internal financial and accounting procedures, an examination was carried out using a provisional version of this reference framework.

#### 2.3.2.3.2. 2007 action plan

As part of the on-going process to prepare for full market opening on July 1, 2007, measures to secure customer accounts will be maintained in 2007.

After the asset inventory realized in 2002/2003 and in order to prepare for the subsidiarization of the distributor, action to ensure the reliability of flows concerning fixed assets was stepped up. The full benefits will be seen in 2007.

With the increase in industrial investment relating to the electricity generation fleet and in support of changes in standards and organization between 2007 and 2012, action to strengthen the reliability of the investment process and the access to financial fixed assets was implemented within the generation sector. The full results of this work will be seen in the years to come.

Access to the revised financial security reference framework integrating the change in the company's legal status and the roll-out of the SAP tool will be effective in 2007.

In addition, the Accounting Consolidation Division, in association with the internal Audit Division, which is responsible for coordinating the Group's internal control, will continue its efforts aimed at improving internal control in the financial and accounting area by:

- Better integration of the accounting and financial area in the internal control approach developed within the operational units
- Improved analysis of risks and strategic challenges in order to target control procedures more effectively and improve their productivity
- Continued work on the implementation of the AMF reference framework
- Improved monitoring of action plans to rectify any identified malfunctioning
- Coordination of the function (sharing of best practice etc).

### 2.3.3 Control procedures relating to compliance with laws and regulations

The Legal Affairs Division has responsibility for keeping track and raising awareness of legislative and regulatory changes within the operational divisions. The control objectives included in the internal control plans take these issues into account.

#### 2.3.3.1. Regulation relating to industrial operations

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

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

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

#### 2.3.3.2. Other regulations

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

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

## 2.3.4 Control procedures for the application of instructions and orientations from the Group's executive management

Within the framework of the new Internal Control policy, a diagnostic of internal control by the Group's executive management was

conducted by the Audit Division. In particular, the proper application of decisions taken by the Group's executive management over an 18-month period was checked. A definitive organizational structure will be outlined in early 2007; the Audit Division has started monitoring the decisions taken following the half-year summaries of audits already completed.

## → 2.4 - COMMUNICATION AND INFORMATION DISSEMINATION

The key points are as follows:

- Financial communication: since it was listed for trading in 2005, EDF has prepared procedures to prevent stock market transgressions. A procedure has been defined to organize the respective roles within the company with regard to the establishment, approval and dissemination of financial communication. In particular, a financial information committee has been created whose main missions are to ensure the validation and the consistency of EDF's different financial communication sources as well as to examine and validate the contents of all financial communication vectors. This committee includes representatives from the Finance, Communication and Legal Affairs Divisions and is chaired by the Chief Financial Officer. In addition, a financial market compliance charter has been drafted with the aim of reiterating the insider trading rules and to foresee periods during which directors and employees party to insider information may not trade in the company's shares,
- The code of conduct and the management of commercially sensitive information: in order to respond to European Directives and the French law of February 10, 2000, the Distributor established, early in the year, a code of conduct (law of August 9, 2004), communicated to the CRE which, in turn, produced, at the year end, an implementation report. Specifically, within this framework, each department is responsible for creating a "target project" to protect the confidentiality of commercially sensitive information and an action plan outlining all the measures to be taken, whether these be managerial, practical or relating to the communication of commercially sensitive information.
- Executive awareness: an intranet manager is available to all executives of the Group and its subsidiaries, enabling the sharing of all information useful to them (TOP 4 decisions, Group reference framework, files, question-answer, current issues, press articles etc.). Similarly, regular seminars are organized for all executives in order to familiarize them with important matters and developments within the Group (e.g. in 2006 on the risks associated with market developments, governance modes, risk management, internal control procedures etc.).

## → 2.5 - ACTIVITIES RELATING TO THE MANAGEMENT OF GROUP INTERNAL CONTROL

Around one third of Audit Division resources (50 individuals in total) are mobilized for control of control operations and two thirds for other audits. In addition, there are audit teams embedded within and dedicated to certain operational entities to conduct business line audits, a reference framework defining the roles and responsibilities of these operational players for the establishment of audit programs, and the professional standards for the conduct of audit missions. More specifically, the Audit Division is responsible for:

- Audits of the control of control procedures and the different categories of corporate audits (see §2.1.6.4) which take into account risk, potential significant shortfalls or external recommendations (see §2.1.7),
- Monitoring the implementation of recommendations arising from these audits through a formalized audit conclusion process, involving the management reporting lines and internal control coordinators of each entity concerned (see §2.1.6.4), the latter being responsible for ensuring the management of control procedures inside each of the entities within their scope,
- Taking into account feedback, through:
  - half-year summaries from the Audit division which highlight the salient points but also, as need be, the categories of shortfalls recurring in several audits conducted during the period,
  - annual reviews conducted between the Audit Division and each management executive during which an analysis of internal control procedures is shared but which also provide progress reports on action plans initiated following previous audits as well as for future audit programs, allowing for the link between audit, risk and internal control procedures to be reinforced,
  - regular, bi-monthly meetings of the Group's internal control coordination network (around 45 individuals), facilitating, in particular, benchmarking and the sharing of best practice.

## CHAPTER 3 THE DYNAMICS OF CHANGE

For several years now, various changes in the organization and modes of functioning of the Group have allowed it to clarify and strengthen the effectiveness of internal control procedures. Thus, the implementation of a management and risk control process, the affirmation of the ethical approach, the drive to standardize and accelerate the establishment of consolidated financial statements, the implementation of a new Internal Control policy in anticipation of the AMF recommendations and, more recently, the implementation of a new Group organization are all part of the momentum of continuous improvement.

*This report, based on those published since 2003, has been produced by a working group, coordinated by the Audit Division, with contributions from experts in the Legal Affairs, Corporate Risk Management, Corporate Finance, Treasury and Accounting Divisions and from the offices of the General Secretary to the Board of Directors and the CEO. Contributions were also sought from the Ethics and Compliance teams, the Information Systems Division, the Human Resources Division, the Board Director and Companies team, the Environmental and Sustainable Development Division and the Investor Relations Division.*

*This report has been reviewed by, successively, the Chief Operating Officers, the Audit Committee (February 16, 2007) and the Board of Directors (February 20, 2007).*

**Paris, February 2007**

**Chairman of EDF SA**

**Pierre GADONNEIX**

# **ÉLECTRICITÉ DE FRANCE S.A.**

**STATUTORY AUDITOR'S REPORT PREPARED IN  
ACCORDANCE WITH ARTICLE L.225-235 OF THE  
COMMERCIAL CODE, ON THE REPORT PREPARED  
BY THE PRESIDENT OF THE BOARD OF DIRECTORS  
OF ELECTRICITÉ DE FRANCE S.A., ON THE INTERNAL  
CONTROL PROCEDURES RELATING TO THE  
PREPARATION AND PROCESSING OF FINANCIAL  
AND ACCOUNTING INFORMATION**

**YEAR ENDED DECEMBER 31, 2006**

**ÉLECTRICITÉ DE FRANCE S.A.**

**22-30, AVENUE DE WAGRAM – 75008 PARIS**



Electricité de France S.A.

Registered office: 22-30, avenue de Wagram – 75008 Paris

**Statutory auditor's report prepared in accordance with article L.225-235 of the Commercial Code, on the report prepared by the President of the Board of Directors of Electricité de France S.A., on the internal control procedures relating to the preparation and processing of financial and accounting information.**

Year ended December 31, 2006

To the shareholders,

In our capacity as statutory auditors of Electricité de France S.A., and in accordance with article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the President of the Board of Directors of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2006.

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

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

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

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

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

Paris La Défense and Neuilly-sur-Seine, February 20, 2007

The Statutory Auditors

**KPMG Audit**  
**Department of KPMG S.A.**

**Deloitte & Associés**

Jean-Luc Decornoy

Michel Piette

Amadou Raimi

Tristan Guerlain

## MANDATES EXERCISED BY THE DIRECTORS AND THE CHIEF OFFICERS DURING THE LAST FIVE YEARS (OUTSIDE EDF)

Name	Current Positions		Previous Positions Within the Past Five Years	
	Company/Organization	Position	Company/Organization	Position
<b>Pierre Gadonneix</b>	Transalpina di Energia	Chairman of the Board of Directors	Gaz de France	Chairman
	Edison	Director	Fondation Gaz de France	Chairman
	World Energy Council	Vice-Chairman	Gaz de France International	Chairman
		Europe – Appointed Chairman from the end of 2007 to the end of 2010 period	Petrofigaz (that became Solfea)	Director
	Electra Association	Chairman of the Board of Directors	MEGAL GmbH	Vice-Chairman member of the Supervisory Board
	Economic and Social Council	Member	NOVERCO Inc. Dalkia	Director
	National Foundation of Political Science	Member of the Board of Directors		Member of the Supervisory Board
	Atomic Energy Committee	Member of the Board of Directors	C3 SAS	Chairman
	<i>Banque de France</i>	Member of the Advisory Council		
<b>André Aurengo</b>	Nuclear medicine department at the Pitié-Salpêtrière Hospital	Head	—	—
	Medicine Academy	Member		
	French Society of Radiation Protection (SFRP)	Chairman		
	High Council for Public Health	Member		
<b>Bruno Bézard</b>	<i>Agence des Participations de l'Etat - (APE)</i>	Chief Executive Officer	Renault	Director
	France Télévisions	Director	France Télévisions	Director
	Areva	Member of the Supervisory Board	France Telecom	Director
	SNCF	Director		
	La Poste	Director		
	Air-France – KLM	Director		
	France Telecom	Director		
<b>Philippe Faure</b>	Ministry of Foreign Affairs	General Secretary	—	—
	Atomic Energy Committee	Member of the Board of Directors		
	Areva	Member of the Supervisory Board (Representing the French State)		
	ENA	Representing the Minister of Foreign Affairs in the Board of Directors		
	GIP/France International cooperation	Member of the Board of Directors (Representing the Minister of Foreign Affairs)		
	AFAA (Association Française d'Actions Artistiques)	Member of the Board of Directors (Representing the Minister of Foreign Affairs)		

Name	Current Positions		Previous Positions Within the Past Five Years	
	Company/Organization	Position	Company/Organization	Position
Yannick d'Escatha	Centre National d'Etudes Spaciales (CNES)	Chairman of the Board of Directors	France Telecom	Director
	Ecole Polytechnique	Chairman of the Board of Directors	SNET	Director
	Arianespace SA	Permanent representative of the CNES	EnBW	Member of the Supervisory Board
	Arianespace Participation	Permanent representative of the CNES		
	STARSEM	Censor in the Board of Directors		
	RATP	Director		
	Department of Energy Markets and Demand ( <i>Direction de la Demande et des Marchés Energétiques</i> ) (DIDEME)	Director	—	—
François Jacq	National Agency of Research (ANR)	Director		
	ADEME	Director		
	Ministry of Economy, Finance and Industry	Director of the National Budget	<i>Défense Conseil International</i>	Director
	Air France-KLM	Director	<i>Société Nationale Immobilière</i>	Director
Philippe Josse	SNCF	Director		
	Thomson	Chairman and Chief Executive Officer	Thomson	Director, then non-executive Chairman
	Orange	Director	Equant	Director
	CALYON (Credit Agricole Group)	Director	Eutelsat	Director
Frank E. Dangeard	Symantec	Director		
	National Consumer Council and the European Consumer Consultative Group in Brussels	Member, representing France	—	—
	National Council of the Secular Family Associations (CNAFAL)	General Secretary		
	Inter-Ministry Commission for clean and energy saving vehicles	Chairman	—	—
Claude Moreau	SCI Maison de l'Industrie	Manager		
Henri Proglío	Veolia Environnement	Chairman and Chief Executive Officer	Vivendi Environnement	President of the Executive Board
	Veolia Transport	Chairman of the Board of Directors	B 1998 SL CEO	Director
	Veolia Eau	Manager		Member of the Supervisory Board
	Veolia Propreté	Chairman of the Board of Directors	CFSP	Member of the Supervisory Board
	Dalkia	Member of the A and B Supervisory Boards	Comgen Australia	Director
	Dalkia France	Chairman of the Supervisory Board	Connex	Chairman and Chief Executive Officer
	Dalkia International	Director	Connex Asia Holdings	Director
	Eaux de Marseille	Director	Connex Leasing	Director
	Sarp Industries	Director	Connex Transport AB	Director
	Veolia Water	Chairman of the Board of Directors	Connex Transport UK	Director
			Coteba Management	Director
			Eaux de Melun	Member of the Supervisory Board
	Veolia ES Australia	Director		
	Veolia Transport Australia	Director	Esterra	Director

Name	Current Positions		Previous Positions Within the Past Five Years	
	Company/Organization	Position	Company/Organization	Position
	VES	Director	FCC Espagne	Director
	Siram	Director	Grucysa	Director
	Veolia ES Asia	Director	Montenay	Director
	VT Northern Europe	Director	International	
	Veolia ES North America	Director	ONYX	Chairman and Chief Executive Officer
	Casino Guichard	Director	ONYX UK Holdings	Director
	Perrachon		OWS	Director
	CNP Assurances	Member of the Supervisory Board	SAFISE	Director
	Elior	Member of the Supervisory Board	SEURECA	Director
	Lagardère	Member of the Supervisory Board	Veolia UK	Director
	Natixis	Member of the Supervisory Board	Veolia Water	Chief Executive Officer
			CNES	Director
			Wasco	Director
			Vinci	Director
			Sarp	Director
			Thalès	Director
<b>Louis Schweitzer</b>	<i>Haute Autorité de Lutte contre les Discriminations et pour l'Égalité (HALDE)</i>	Chairman	Compagnie Financière Renault	Director
	Renault	Chairman of the Board of Directors	Pechiney	Director
	BNP-Paribas	Director	Renault Crédit	Director
	L'Oréal	Director	International Banque Renault-Nissan BV	Chairman of the Executive Board
	Veolia	Director		
	Environnement			
	AB Volvo	Director		
	Astra Zeneca	Chairman of the Board of Directors		
	Allianz	Member of the Consultative Committee		
	Philips	Vice-Chairman of the Supervisory Board		
	<i>Banque de France</i>	Member of the Consultative Committee		
<b>Laurence Drouhin-Hoeffling</b>	—	—	—	—
<b>Catherine Nedelec</b>	—	—	—	—
<b>Marie-Catherine Daguerre</b>	—	—	—	—
<b>Jacky Chorin</b>	—	—	Gaz de France	Director
<b>Alexandre Grillat</b>	—	—	—	—
<b>Philippe Pesteil</b>	—	—	—	—
<b>Daniel Camus</b>	Dalkia	Member of the Supervisory Board	Aventis Pharma	Member of the Supervisory Board
	EnBW	Member of the Supervisory Board	France	Member of the Executive Board
	EDF Energy	Chairman of the Board of Directors	Roussel	Director
	EDF International	Chairman of the Supervisory Board	Aventis Pharma Inc.	
	Edison	Director	Bridgewater	
	Transalpina di Energia	Director	Aventis Pharma GmbH	Chairman of the Board of Directors
	Morphosys	Member of the Supervisory Board	Aventis Pharma AG	Member of the Executive Board
	Valeo	Director	EDF Trading	Chairman of the Board of Directors
<b>Yann Laroche</b>	EDF Energy	Member of the Board of Directors	RAC Électricité	Member of the Supervisory Board

Name	Current Positions		Previous Positions Within the Past Five Years	
	Company/Organization	Position	Company/Organization	Position
Jean-Louis Mathias	EDF Trading	Chairman of the Board of Directors	Gaz de France	Management
	EDF Développement Environnement	Chairman of the Board of Directors	Fondation Gaz de France	Director
	Dalkia	Member of the Supervisory Board	Gaz de France International	Censor
			Compagnie Française des Méthanes	Director
			Compagnie Française des Méthanes Holding	Director
			COFATHEC	Director
			COGAC	Director
			Gaz du Sud Ouest	Director
			Petrofigaz	Director, permanent representative of Gaz de France
			Gaselys	Member of the Committee of Directors
			Association Française du Gaz	Director

## INFORMATION MADE AVAILABLE TO THE PUBLIC BY THE EDF GROUP DURING THE LAST 12 MONTHS (ANNUAL DOCUMENT PREPARED PURSUANT TO ARTICLE 222-7 OF THE AMF GENERAL REGULATIONS)

### Annual Document Established Pursuant to Article 222-7 of the AMF General Regulations

Pursuant to Article 222-7 of the AMF General Regulations, the following table lists all the informations which EDF made public since January 1, 2006 in order to satisfy the legal and regulatory obligations relating to financial instruments, financial instruments issuers and financial instruments markets.

**Information published by EDF and available on the website of the French Financial Markets Authority (« AMF ») ([www.amf-france.org](http://www.amf-france.org)) and/or on the website of EDF ([www.edf.fr](http://www.edf.fr))**

INFORMATION	DATE
The CNR is operating its Rhone plants again since January 1, 2006	01/11/2006
Cold wave: EDF helps its customers to diminish their energy consumption	01/25/2006
EDF enters into an agreement for the supply of green electricity with Transmontagne, ski resorts operator	01/30/2006
Corsica and Sardaigne electrical networks are now interconnected	02/02/2006
Declaration from the managers about their operations on the shares	02/06/2006
EDF invests €185 million on the Cordemais thermal plant	02/10/2006
130,000 employees became shareholders of EDF for a total amount of €1,2 billion	02/13/2006
Strong revenue growth in 2005 Revenues	02/14/2006
First shareholders meeting of EDF shareholders	02/14/2006
Consolidated net income: €3.2 billion double that of 2004 and all Group financial indicators significantly up in 2005	02/22/2006
EDF confirms the sale of two thermal plants and their operating company in Egypt to the Malaysian group Tanjong Plc	03/03/2006
Construction of the Nam Theun 2 dam in Laos, a major project for Southeast Asia, marks an important crossroads	03/06/2006
EDF confirms the sale of its Austrian subsidiary A.S.A., an industrial and household waste management company, to the Spanish group FCC	03/08/2006
Pierre Gadonneix, Chairman and CEO of EDF, strengthens his management team and his focus on internationalisation	03/20/2006
Atel, EOS form new leading Swiss energy group in association with EDF	03/24/2006
EDF agreement on EDF's sale of 80% of Light's capital	03/28/2006
EDF strengthens its thermal means of production for peak periods	03/29/2006
EDF increases its policy towards disabled employees	03/30/2006
EDF to continue optimizing its resources by developing a trading activity in France	04/10/2006
Safety and performance of the nuclear fleet to serve EDF's industrial project	04/14/2006
EDF launches an EPR unit at Flamanville	05/04/2006
EDF to continue its partnership with the Nicolas Hulot foundation	05/04/2006
In the 1st quarter of 2006, revenues rose at an organic growth rate of 13%, driven by international activities	05/10/2006
EDF launches a project of combined gas cycles in Provence-Alpes Côte d'Azur	05/11/2006
EDF enters into a liquidity agreement	05/24/2006
EDF to cooperate with the US Constellation Energy for the development of EPR-type nuclear power plants in the US	06/01/2006
Ordinary general meeting of EDF of June 9, 2006	06/09/2006
EDF strengthens its commitment concerning social harmony	06/13/2006
EDF purchases Fahrenheit, French specialist of the maintenance of natural gas boilers	06/23/2006
Storms: nearly all households were again supplied with energy in the evening	07/05/2006
EDF Energies Nouvelles opens the largest windpower farm in Languedoc-Roussillon	07/07/2006
A new social agenda for 2006-2008 to reinforce social dialogue within EDF	07/10/2006
EDF Energy welcomes UK Energy Review announcement	07/11/2006
Half-year liquidity report	07/12/2006
Important heat waves: EDF is forced to buy electricity abroad	07/18/2006

INFORMATION	DATE
EDF signed a joint development agreement with the Dutch company Delta for a natural gas-fired power plant project in Netherlands	07/19/2006
Important heat waves: supplemental and preventive measures contemplated to assure the safety of electricity supply in France	07/22/2006
World energy prices force EDF Energy to raise its tariffs	07/24/2006
Exceptional heat waves in Europe: EDF remains very attentive	07/25/2006
Pierre Gadonneix, the Chairman and the Chief Executive Officer of EDF, is strongly opposed to any plan that would undermine EDF's status as a fully integrated Group	07/28/2006
EDF invites its customers to control their energy consumption during the Summer period	08/01/2006
First half 2006: sales of 30.4 billion, driven by international activities	08/04/2006
A slight rise in electricity tariffs on August 15 <sup>th</sup> 2006 in France	08/10/2006
EDF sells its 79,4% stake in its Brazilian subsidiary Light	08/11/2006
EDF launches a public tender offer on the minority shareholders of its subsidiary Demasz in Hungary	08/28/2006
First half 2006: 40% growth in net income, driven by international activities	08/31/2006
Two important contracts awarded for the construction of EDF's future EPR	09/01/2006
Pierre Gadonneix, EDF Chairman and CEO elected Chairman of the World Energy Council for the period 2008 - 2010	09/06/2006
EDF's "Together, let's save energy" tour is waiting for you	09/14/2006
EDF welcomes 3,000 young apprentices	09/26/2006
Violent winds in the south west of France: EDF's teams strongly mobilized to reestablish energy supply	10/03/2006
Violent winds in France: EDF takes exceptional measures to assure that electricity supply is reestablished.	10/03/2006
Storms: 310,000 customers are again supplied with electricity	10/04/2006
Storms: almost all customers are again supplied with electricity	10/04/2006
EDF and ALTAFINANCE begin negotiations to acquire SUPRA	10/06/2006
EDF expands its natural gas supply and transport capacities in Europe	10/09/2006
Nuclear Energy and the EPR Project (European Pressurized Water Reactor) at Flamanville 3	10/10/2006
Further refocusing: EDF to sell its private equity business	10/16/2006
EDF extends its industrial cooperation with China	10/26/2006
Continued organic growth in EDF Group sales: +12,9% at September 30, 2006	11/10/2006
Power breakdowns in France and in Europe following an incident in Germany	11/05/2006
Jean-Pierre Bel is appointed Chief Distribution Officer for EDF Gaz de France	11/10/2006
EDF Energies Nouvelles launches its Initial Public Offering	11/14/2006
EDF successfully completes public purchase offer for Demasz	11/15/2006
EDF signs three cooperation agreement in Laos	11/16/2006
EDF confirms the sale of its private equity business	11/24/2006
Strong winds have crossed France from east to west: EDF's teams mobilized to reestablish electricity supply	11/25/2006
Success of EDF Energies Nouvelles' Initial Public Offering	11/28/2006
Renewable Energies: Total and EDF Inaugurate a New Solar Panel Plant in Toulouse, France	12/01/2006
Edison's 2007-2012 Industrial plan approved	12/06/2006
Violent winds in France : EDF's teams strongly mobilized to reestablish electricity supply	12/08/2006
Violent winds in France: EDF's teams continue to be mobilized	12/08/2006
Violent winds in France: a large number of customers are again supplied with electricity thanks to EDF's teams mobilization	12/08/2006
Violent winds in France: almost all households are again supplied with electricity	12/09/2006
First investment in electricity generation in France for more than 10 years	12/12/2006
Fossil-fired energy: a major asset in EDF's production facilities for a real-time response to peak electricity consumption	12/12/2006
The EDF Group creates a Carbon Fund to optimize its sourcing of CO <sub>2</sub> emission allowances	12/13/2006
EDF Group and industrial consortium EXELTIUM sign industrial and commercial partnership agreement	01/16/2007
EDF orders from AREVA the nuclear steam generator for the future EPR power station in Flamanville	01/24/2007
Edison and DEPA: a major step forward in the IGI project to build an Italy-Greece natural gas pipeline	01/31/2007
Edison is awarded five new hydrocarbon explorations licenses in Norway	02/12/2007
EDF Group 2006 sales: €58.9 billion, up 15.4%	02/14/2007
2006 revenues: €334.8 million	02/14/2007
Edison net profit jumps to 654 million euros (+30%)	02/19/2007



INFORMATION	DATE
EnBW presents consolidated financial statements for fiscal year 2006 – Group net profit in excess of one billion euros for the first time	02/20/2007
2006 results in line with targets:	
– acceleration of operating investments in France;	
– dynamic international activities.	02/21/2007
2006 full-year results presentation	02/21/2007
Edison and Petrobas form an alliance for a hydrocarbon exploration project in Senegal	02/27/2007
EDF Energies Nouvelles has launched the construction of a 52 MW wind farm in France	02/28/2007
New generation capacity auction	03/07/2007
EDF Energies Nouvelles moves into bifuels: Signature of preliminary agreement with Europe's leader ethanol distributor	03/12/2007
Strong earnings growth in 2006	
– EBITDA: up 47.3%	
– Net income: up 31.9%	
– Operational and financial objectives reiterated	03/12/2007
Commissioning of a 72 MW wind farm in Italy	03/19/2007
Gas liquefaction train 5 was inaugurated in Qatar. Output will be dedicated to the Rovigo LNG terminal	03/20/2007
EDF and the French mayors' association sign a partnership agreement	03/28/2007
EDF and Dutch energy company Delta announce the joint building and operation of a gas-fired combined-cycle power plant in the Netherlands	03/29/2007
EDF Strengthens its Position in Renewable Energies by Acquiring 66.5% of SUPRA	03/29/2007
Edison: The shareholders' meeting approves the 2006 Annual Report	04/05/2004
EDF sets the wheels in motion to sell its remaining stake in the Argentinian electricity distributor Edenor	04/10/2007

## Information registered by EDF with the *Greffe* of the Paris Commercial Court (date of registration)

INFORMATION	DATE
Appointment of directors and modifications of the by-laws	03/16/2006
Registration of financial statements	07/05/2006
Registration of an amendment to the Asset Transfer Agreement	01/24/2007

**Information published by EDF in the Bulletin des Annonces Légales Obligatoires ("BALO")  
and available on the BALO website ([www.balo.journal-officiel.gouv.fr](http://www.balo.journal-officiel.gouv.fr))**

INFORMATION	DATE
2005 consolidated annual sales of the Group	02/15/2006
Total number of voting rights	02/22/2006
Correction of the 2005 annual consolidated sales	02/22/2006
Convocation to the June 9, 2006 ordinary shareholders meeting	04/28/2006
Annual separated and consolidated financial statements 2005	05/05/2006
Consolidated sales for the first quarter 2006	05/15/2006
Total number of voting rights	06/23/2006
Approval of the annual financial statements by the ordinary shareholders' meeting of June 9, 2006	07/03/2006
Sales for the first half of 2006	08/11/2006
Financial statements for the first half of 2006	10/16/2006
Consolidated sales for the third quarter of 2006	11/13/2006
Amendment to the announcement published on the BALO dated July 22, 2005 concerning the notice of an Asset Transfer Agreement	02/14/2007
2006 consolidated annual sales of the Group	02/16/2007
Convocation to the May 24, 2007 ordinary and extraordinary shareholders' meeting	03/12/2007
Annual separated and consolidated financial statements 2006	04/11/2007

**Information published by EDF abroad**

INFORMATION	PUBLICATION	DATE
Consolidated annual results 2005	International daily press	03/02/2006
Consolidated annual results 2006	International daily press	02/26/2007

**Financial publications**

INFORMATION	PUBLICATION	DATE
Consolidated annual results 2005	EDF Group website ( <a href="http://www.edf.fr">www.edf.fr</a> )	02/23/2006
	Press release on the AMF website ( <a href="http://www.amf-france.org">www.amf-france.org</a> )	
	Press conference	
	Presentation to analysts	
	National daily press	
Consolidated financial statements as of December 31, 2005	Financial websites	02/24/2006
	EDF Group website ( <a href="http://www.edf.fr">www.edf.fr</a> )	
2006 Half-year consolidated results	EDF Group website ( <a href="http://www.edf.fr">www.edf.fr</a> )	08/31/2006
	Press release on the AMF website ( <a href="http://www.amf-france.org">www.amf-france.org</a> )	
	Press conference	
	Presentation to analysts	
	National daily press	
Consolidated annual results 2006	Financial websites	08/31/2006
	EDF Group website ( <a href="http://www.edf.fr">www.edf.fr</a> )	
Consolidated financial statements as of December 31, 2005	EDF Group website ( <a href="http://www.edf.fr">www.edf.fr</a> )	02/21/2007
	Press release on the AMF website ( <a href="http://www.amf-france.org">www.amf-france.org</a> )	
	Press conference	
	Presentation to analysts	
	National daily press	
Consolidated annual results 2006	Financial websites	02/21/2007
	EDF Group website ( <a href="http://www.edf.fr">www.edf.fr</a> )	
Consolidated financial statements as of December 31, 2006	EDF Group website ( <a href="http://www.edf.fr">www.edf.fr</a> )	03/01/2007

## Information available to EDF shareholders as part of the shareholders meetings

INFORMATION	DATE
Publication of the 2005 Annual Report	05/16/2006
Publication of the 2005 Sustainable Development Report	05/16/2006
Shareholders guide for the shareholders meeting of June 9, 2006	3 weeks prior to the June 9, 2006 shareholders meeting

Documents published as part of the initial public offering and available on the website of the French Financial Markets Authority (AMF) ([www.amf-france.org](http://www.amf-france.org))

INFORMATION	DATE
2005 <i>Document de Référence</i>	05/18/2006
Documents relating to the issuance of debt securities for a total amount of €11,000,000,000 made available to the public	06/02/2006
Prospectus supplement to the <i>Prospectus de base</i>	12/06/2006







22-30, avenue de Wagram  
75382 Paris Cedex 08

[edf.com](http://edf.com)

SA capital stock €911,085,545 – 552 081 317 RCS Paris