

EDF GROUP 2006 REPORT

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

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Introduction

In application of article L 225-37 of the Code of Commerce, this report covers the conditions of governance (preparation and organization of Board of Directors meetings) 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 COSO¹ reference system and its contents are in line with internal control recommendations from the AMF², the French financial markets 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.

1. Committee of Sponsoring Organizations of the Treadway Commission.

2. Published January 22, 2007.

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Corporate governance

➔ 1.1 - PREPARATION AND ORGANIZATION OF BOARD OF DIRECTORS' MEETINGS

1.1.1 Presentation and powers of the Board of Directors

As of the 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 Commission¹ 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
- Contracts or total contracts resulting from the same consultation (excluding nuclear fuel purchases) involving sums, including as necessary subsequent endorsements, equal to or exceeding €100 million; long-term contracts for the purchase or sale of energy, CO₂ emission credits and quotas by the company or by an exclusively controlled subsidiary for annual volumes or amounts in excess of:
 - 10 TWh for electricity,
 - 20 TWh for gas (long-term contracts for the purchase or sale of gas above 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.

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

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 con-

solidated 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 Proglgio, 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.

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

2.1.1 Internal control policy

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 DNV¹, 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.

1. Det Norske Veritas.

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 employ-

ment 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,
- 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 Functionnal Actors

2.1.6.1 Internal Group Control Bodies

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

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+T¹ Committee. In addition, ad hoc committees or boards are assembled to handle strategic issues of a transitional nature.

2.1.6.2 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

1. Commercialisation, Production, Trading.

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.

2.1.6.3 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:

- 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.

2.1.6.4 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 affiliate¹ 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 SPEGEEG² 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 Group³ 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 frame-

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

2. Public Electricity and Gas Service and Electricity and Gas Companies.

3. See note 1 above.

work 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 employees¹
- 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).

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

2.1.6.5 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 Sûreté 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 particu-

lar, 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 systems: 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'¹ 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

1. Implemented April 1, 2006

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 law¹, 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.

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

1. French law 2000-108 of February 10, 2000, modified by law 2004-803 of August 9, 2004.

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.

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 20, 2007
Chairman of EDF SA
Pierre GADONNEIX

4

Statutory auditors' report

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.

Jean-Luc Decornoy
Michel Piette

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Corporate and Commercial division. Audit division.

The EDF Group is ISO 14001 certified.

April 2007



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