EDF TRADING MOVED 30 MILLION TONNES OF PHYSICAL COAL IN 2006
EDF TRADING CONTROLS A FLEET OF 30 CAPESIZE AND PANAMAX DRY-BULK VESSELS AND IS A LEADING GLOBAL FREIGHT TRADER
OPTIMISATION

In 2006 over 165 TWh of electricity was traded in the wholesale markets to maximise the value of EDF's generation plants and supply contracts.
384 MILLION THERMS OF GAS PASSED THROUGH EDF TRADING'S STORAGE FACILITY AT HOLE HOUSE IN 2006
“THIS YEAR’S ANNUAL REVIEW ILLUSTRATES THE NETWORK OF PHYSICAL ASSETS THAT ARE ESSENTIAL TO EDF TRADING’S BUSINESS.

OUR ABILITY TO SOURCE AND SUPPLY PHYSICAL PRODUCT, TRANSPORT, STORE, BLEND AND CONVERT COMMODITIES AS WELL AS TRADE AND HEDGE IN THE FINANCIAL MARKETS IS THE FOUNDATION OF OUR BUSINESS.

THIS COMBINED WITH OUR ENTREPRENEURIAL CULTURE, STRONG BUSINESS PLATFORM AND THE STRENGTH OF OUR PEOPLE HAS CREATED A POWERFUL BUSINESS MODEL THAT HAS DRIVEN EDF TRADING TO A LEADING POSITION IN THE WHOLESALE ENERGY MARKETS.”

JOHN RITTENHOUSE
MANAGING DIRECTOR

WITH A DISTINCTIVE MULTI-COMMODITY, PHYSICAL AND FINANCIAL TRADING BUSINESS MODEL, EDF TRADING IS A LEADER IN THE EUROPEAN AND INTERNATIONAL WHOLESALE ENERGY MARKETS, ACTIVELY TRADING ACROSS ALL THE ENERGY COMMODITIES INCLUDING POWER, EMISSIONS, GAS, COAL, FREIGHT AND OIL.

EDF TRADING’S IMPORTANT POSITION IN THE EUROPEAN AND INTERNATIONAL ENERGY MARKETS IS WIDE RANGING. ITS COAL AND FREIGHT BUSINESS MOVES OVER 30 MILLION TONNES OF COAL A YEAR, CONTROLS A FLEET OF DRY-BULK VESSELS AND IS ONE OF EUROPE’S LARGEST TRADERS OF FREIGHT DERIVATIVES.

EDF TRADING IS ALSO ONE OF THE LARGEST ELECTRICITY TRADERS IN EUROPE, A LEADING EUROPEAN GAS TRADER AND ONE OF THE FIRST TRADERS TO MOVE INTO THE GLOBAL LIQUEFIED NATURAL GAS MARKET.
2006 WAS ANOTHER EXTRAORDINARY YEAR FOR EDF TRADING – THE RESULT OF ITS SUSTAINABLE BUSINESS MODEL THAT IS BASED ON CAPABILITIES AND RESOURCES IN SOURCING, TRANSPORTING AND SUPPLY OF WHOLESALE ENERGY PRODUCTS AND OPTIMISING THE ASSETS OF THE EDF GROUP.

At the heart of EDF Trading’s business is its role within the EDF Group. As the interface to the wholesale energy markets, EDF Trading uses the forward markets to maximise the value of EDF’s electricity generation assets and supply contracts for the Group’s benefit.

EDF Trading’s Paris office, which opened in April 2006, facilitates a closer working relationship with EDF that has resulted in further asset optimisation and trading opportunities.

EDF Trading’s role is to help identify synergies and implement cross-function initiatives within EDF and its subsidiaries. In December 2006, EDF Trading led the launch of a carbon fund of nearly €300 million that will be used to diversify the Group’s sourcing of CO2 allowances and enable it to meet its environmental commitments under optimum economic conditions.

EDF Trading has its own portfolio of midstream assets that support the Group’s and third-party customer requirements. In gas, it has long-term North Sea gas purchase contracts, long-term capacity in the UK Interconnector pipeline to Belgium and owns gas storage caverns at the Hatfield facility in the UK. In freight, EDF Trading controls a large fleet of dry-bulk vessels and in 2006 secured two long-term time charters on capesize bulk carriers with Japanese ship owners. It also has a number of assets that enable the company to store, blend and deliver coal, including an exclusive arrangement with an ARA stockyard, barges and railways.

EDF Trading’s ability to source, transport, store and blend the physical product as well as trade and hedge in the financial markets means it can provide management of the whole supply chain, a credential that really sets it apart from other market participants. With this scope, scale and technical capability, EDF Trading can offer competitive pricing and manage complex market risks effectively.

Rigorous management of risk, including market, credit, regulatory and operational risk underpins the way the business is managed.

The energy trading markets demand a high level of creditworthiness from participants and EDF Trading has maintained a strong financial profile. The company has been consistently profitable and has an independent credit rating of A3 (Moody’s) which is unique for a European trading business.

In 2006 wholesale market participants nominated EDF Trading as one of their top three principal counterparts in nine categories in Energy Risk magazine’s annual commodity rankings.

ADING REPORTED PRE-TAX PROFITS OF €580 MILLION FOR 2006. THIS PROFIT HISTORY DEMONSTRATES THE UNDERLYING STRENGTH OF THE BUSINESS AND EDF TRADING’S SUSTAINABLE ASSET-BACKED BUSINESS MODEL.

THE ENERGY TRADING MARKETS DEMAND A HIGH LEVEL OF CREDITWORTHINESS FROM PARTICIPANTS. EDF TRADING HAS AN INDEPENDENT CREDIT RATING OF A3 (MOODY’S).

IN 2006 WHOLESALE MARKET PARTICIPANTS NOMINATED EDF TRADING AS ONE OF THEIR TOP THREE PRINCIPAL COUNTERPARTS IN NINE CATEGORIES IN ENERGY RISK MAGAZINE’S ANNUAL COMMODITY RANKINGS.
IN 2006, THE EDF GROUP GENERATED CONSOLIDATED SALES IN EXCESS OF €58 BILLION, OF WHICH MORE THAN 42% WERE IN EUROPE AND OUTSIDE FRANCE.

EDF CONTRIBUTES TO THE SUPPLY OF ENERGY AND SERVICES TO NEARLY 38 MILLION CUSTOMERS ACROSS THE WORLD.

THE EDF GROUP IS A LEADER IN THE EUROPEAN ENERGY INDUSTRY AND ACTIVE IN ALL AREAS OF THE ENERGY VALUE CHAIN INCLUDING GENERATION, TRANSMISSION, DISTRIBUTION, SUPPLY AND TRADING.

The EDF Group is an integrated energy operator present in all sectors of the electricity industry and is expanding its offering to include natural gas and energy services. It is a major player in the French electricity market with a significant presence in the UK, Germany and Italy.

As Europe’s largest electricity producer, the Group’s power generating capacity in France consists mainly of nuclear and hydro power plants generating electricity that is 95% CO₂ emission-free. EDF manages 1,255,000 km of overhead and underground medium and lower voltage power lines and approximately 100,000 km of high and extra high voltage lines.

EDF contributes to the supply of energy and services to nearly 38 million customers across the world, with more than 28 million of them in France.

In 2006, the Group generated consolidated sales in excess of €58 billion, of which more than 42% were in Europe and outside France. EDF, listed on the Paris Stock Exchange, is a member of the CAC 40 index.

As the wholesale market interface for the EDF Group, EDF Trading is a core business. Its contribution to the Group includes:

• managing energy price risk exposure
• optimising the electricity generation and supply assets
• developing a presence in new markets – e.g. LNG
• acting as market interface for EDF Group companies in gas, power and CO₂
• supplying coal and fuel to EDF French and UK generation assets
• assisting with carbon emission compliance requirements through the management of an internal carbon fund
The trading desks have a global presence in the wholesale energy sector with a focus on Europe and provide a wide range of cross-commodity and cross-region relative value trading. EDF Trading is a recognised leader in the major electricity and gas markets in Europe and in the global coal, freight and emissions markets. The desks, organised by commodity and region, provide liquidity to the liberalised energy markets and pricing support to the origination team. EDF Trading’s support functions enable the company to process a large number of purchase and sale transactions on a daily basis with a wide variety of counterparts in many different commodities. The support functions include:

- bespoke IT development and support
- trade capture, contract administration and settlements
- market risk and daily profitability measurement
- accounting, treasury and credit
- legal and compliance
- transmission and regulation
- human resources

Within moments of a transaction being executed by a trader, the deal is electronically confirmed with the counterpart and the trader’s position is refreshed. By the next day, credit and market risk have been updated, profitability has been measured, positions have been reconciled with third parties, electricity and gas grids have been notified and margin calls made. This efficiency and straight through processing is the result of substantial investments in IT and the professionalism of EDF Trading’s support staff. EDF Trading’s in-house development team and fully bespoke systems allow the business to enter new markets and trade new products quickly, while maintaining the integrity of its risk control procedures.

EDF Trading’s people have been instrumental in driving business growth and profitability. Maintaining the entrepreneurial culture has been important as the company has expanded, and challenging traditional ideas and anticipating market change is encouraged.

**Asset optimisation** is the essential role that EDF Trading carries out for the whole of the EDF Group. Asset optimisation enables the Group to maximise the value of its assets such as electricity generation plants and supply contracts, resulting in additional economic benefits. EDF Trading optimises the assets by using both financial and physical wholesale markets and through its activity across all the energy commodities.

EDF Trading is part of EDF’s Division Optimisation Amont-Aval et Trading (DOAAT), the division responsible for optimising the Group’s upstream and downstream activities including generation and supply of electricity. EDF Trading plays a central role in identifying opportunities for optimisation including, for example, certain tariff pricing, hydro power and coal power spread optimisation. In April 2006 EDF Trading opened a trading floor in Paris, located alongside the DOAAT team, which enables further opportunities for asset optimisation.

The **origination** team works with wholesale market counterparties such as utilities, transportation companies and other large commodity consumers and producers. It leverages EDF Trading’s midstream assets and capabilities in the physical and financial wholesale energy markets to develop more complex, structured transactions. These may involve a number of commodities and have both a physical and derivative component. EDF Trading can offer counterparties very competitive, floating or fixed-price contracts outside the liquidity horizon of the traded markets. The origination team also acquires physical and contractual assets that enhance the company’s capabilities.

The origination team specialises by product and region and works closely with the trading desks to optimise the positions of the long-term transactions it creates. The origination team also works closely with the DOAAT and EDF Trading’s operations in Paris to identify and structure asset optimisation transactions within the EDF Group.

**EDF TRADING’S BUSINESS STRATEGY IS EXECUTED BY THREE CORE COMMERCIAL ACTIVITIES – ASSET OPTIMISATION, ORIGINATION AND TRADING. THESE COMMERCIAL FUNCTIONS ARE UNDERPINNED BY A PLATFORM OF SUPPORT FUNCTIONS. THE CLOSE INTERACTION OF ALL OF THESE PARTS OF THE BUSINESS IS CRUCIAL TO EDF TRADING’S SUCCESS.**
CLOSE COOPERATION WITH EDF IS CENTRAL TO EDF TRADING’S ASSET-BACKED TRADING MODEL. EDF’S BUSINESS ACROSS EUROPE OFFERS A UNIQUE SET OF ASSET AND CONTRACTUAL POSITIONS INCLUDING ITS FRENCH ELECTRICITY GENERATION ASSETS, COAL SUPPLY TO EDF’S FRENCH AND UK GENERATION ASSETS AND EDF’S LONG-TERM ELECTRICITY SUPPLY CONTRACTS.

THE PARIS OFFICE’S CLOSE GEOGRAPHICAL PROXIMITY TO THE HEART OF THE EDF GROUP HAS ENABLED EDF TRADING TO SHARE ITS MARKET CULTURE, TO ENHANCE THE RELATIONSHIPS BETWEEN THE OPTIMISATION AND TRADING TEAMS AND TO JOINTLY DEVELOP SOLUTIONS IN THE BEST INTERESTS OF THE GROUP.

The Paris office is responsible for obtaining the best economics from the company’s short-term trading activity in the French and German power markets, helping to hedge EDF’s market risk and looking for new commercial opportunities in the French wholesale markets.

Close cooperation with EDF is central to EDF Trading’s asset-backed trading model. EDF’s business across Europe offers a unique set of asset and contractual positions including its French electricity generation assets, coal supply to EDF’s French and UK generation assets and EDF’s long-term electricity supply contracts.

The Paris office’s close geographical proximity to the heart of the EDF Group has enabled EDF Trading to share its market culture, to enhance the relationships between the optimisation and trading teams and to jointly develop solutions in the best interests of the Group.

In 2006 EDF Trading and the DOAAT (EDF’s asset optimisation division) worked together to help maximise the value of the Group’s power generation facilities by using the forward market. Several projects have been successfully developed that will form the basis of an expanded generation optimisation scheme.

The heat wave in the summer of 2006 put stress on the electricity systems in Europe, and the close cooperation between EDF Trading in London and Paris and the DOAAT greatly helped EDF efficiently manage its price exposure and fulfil its power supply commitments.

EDF TRADING OPERATES A TRADING FLOOR IN EDF’S OFFICES IN PARIS THAT CREATES A CLOSER WORKING RELATIONSHIP WITH THE EDF GROUP AND FACILITATES THE JOINT DEVELOPMENT OF NEW COMMERCIAL AND ASSET OPTIMISATION SOLUTIONS.

The Paris trading floor covers day-ahead electricity trading in France, Germany, Switzerland and Austria and intra-day electricity trading for all European markets. With most aspects of trade support run in London, trading operations between Paris and London including scheduling, contracts and settlements, are seamless.
EDF Trading is one of the largest players in the global coal market. It trades in the physical and financial markets and has a fully integrated coal and freight business.

With a range of sources of coal supply worldwide and the capability to ship, store, blend and deliver coal, EDF Trading is able to offer the EDF Group and other wholesale coal consumers comprehensive management of the entire coal supply chain from load port to plant gate.

EDF Trading purchases 30 million tonnes of coal annually from producers in South Africa, Columbia, Indonesia, Australia, Russia and the US and imports the majority of coal into Europe. EDF Trading is the exclusive supplier of coal to EDF in France and has long-term agreements with EDF Energy in the UK. Alongside demand from the Group, EDF Trading has a number of long-term supply contracts with major European utilities.

Through EDF Trading’s freight desk, the company controls a fleet of dry-bulk capesize and panamax vessels and uses its fleet to manage coal transportation requirements for EDF and other customers.

EDF Trading Logistics, based in Paris, is responsible for all inland logistics required to unload ocean vessels and transport coal and fuel oil to EDF and third parties’ coal and oil-fired power stations. These activities include inspections, port services, storage of coal and inland transportation by barge and railcar.

The company has an exclusive long-term arrangement with the Afrikahaven terminal in Amsterdam allowing it to handle unloading of capesize vessels and to blend and store coal in the ARA market.

EDF Trading is a leading player in the coal derivatives market offering long-term pricing arrangements to producers and consumers that enable them to lock in production or generation margins.

Coal traded volumes (million tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>Physical</th>
<th>Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>180</td>
<td>115</td>
</tr>
<tr>
<td>2005</td>
<td>190</td>
<td>115</td>
</tr>
<tr>
<td>2004</td>
<td>147</td>
<td>145</td>
</tr>
</tbody>
</table>

EDF Trading is one of the largest players in the global coal market. It trades in the physical and financial markets and has a fully integrated coal and freight business.
FREIGHT HAS BEEN A STRATEGIC FOCUS FOR EDF TRADING IN 2006. OVER THE YEAR THE COMPANY HAS DEVELOPED A SUBSTANTIAL TRADING AND OPERATIONAL BUSINESS WHICH SUPPORTS THE SUPPLY OF COAL TO EDF’S POWER PLANTS IN FRANCE AND THE UK AS WELL AS THIRD PARTY BUSINESS.

EDF Trading is a major physical player in the dry-bulk freight market controlling a fleet of 30 capesize and panamax carriers. It has one of the most modern fleets in the market with plans to expand the number of vessels through 2007.

With a focus on long-term time charters, EDF Trading concluded several deals in 2006 with Japanese ship owners. In October the company took delivery of a new 177,000 dwt capesize vessel, the ‘Ocean Cygnus’, which completed its maiden voyage transporting coal for EDF from Australia to Dunkirk in France in December. In November EDF Trading agreed on a long-term time charter of a new capesize vessel to be delivered in the first quarter of 2009.

During 2006 EDF Trading developed a number of key relationships with large market participants to provide freight services, including steel producers and providers of agricultural products. EDF Trading is also one of Europe’s largest traders in freight derivatives, helping counterparties to lock in margins and manage their freight exposures. In 2006, it traded over 70 million tonnes in freight derivatives.

AS THE WHOLESALE ENERGY MARKET INTERFACE FOR THE EDF GROUP, EDF TRADING USES ITS FREIGHT CAPACITY TO TRANSPORT THE COAL IT SUPPLIES TO EDF IN FRANCE AND EDF ENERGY IN THE UK. THE COMPANY OFFERS COMPREHENSIVE MANAGEMENT OF THE ENTIRE SUPPLY CHAIN FROM SOURCING AND STORAGE TO TRANSPORTATION AND RISK MANAGEMENT. THIS GIVES EDF TRADING THE ABILITY TO OPTIMISE THE GROUP’S COAL ACQUISITION AND LOGISTICS REQUIREMENTS.

<table>
<thead>
<tr>
<th>Freight traded volumes (million tonnes)</th>
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</thead>
<tbody>
<tr>
<td>2004</td>
</tr>
<tr>
<td>111</td>
</tr>
<tr>
<td>71</td>
</tr>
<tr>
<td>41</td>
</tr>
<tr>
<td>44</td>
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<tr>
<td>40</td>
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<tr>
<td>40</td>
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<tr>
<td>25</td>
</tr>
<tr>
<td>70</td>
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<td>0</td>
</tr>
</tbody>
</table>

Physical | Derivatives
EDF TRADING IS ONE OF THE LARGEST PHYSICAL NATURAL GAS TRADERS IN NORTH WEST EUROPE WITH A FOCUS ON MIDSTREAM ACTIVITIES INCLUDING THE PURCHASE OF OFFSHORE PRODUCTION, TRANSPORTATION, STORAGE AND WHOLESALE TRADING.

The company trades on all of Europe’s active trading hubs – the principal ones in Belgium, France, Holland and the UK. It is also active in the developing hubs in Germany, Switzerland, Italy and Austria. In addition, EDF Trading trades natural gas in the US financial markets.

As gas markets continue to liberalise and as supply and demand fundamentals change, EDF Trading has been active in developing liquidity in new markets. As regions such as Eastern Europe develop, EDF Trading is committed to supporting those markets.

Its volume of trades is impressive, reflecting EDF Trading’s leadership in the gas market and its asset-backed trading approach. In 2006, it traded 68 billion therms of gas, up from 54 billion in 2005.

EDF Trading’s own portfolio of assets supports its gas trading business and the EDF Group’s requirements. In 2002 the company acquired a rapid cycle gas storage facility at Hole House in the UK – and has gained significant experience in developing, operating and trading fast cycle salt cavity storage. In 2007 Hole House will increase its capacity by 50%, with a further expansion planned for 2009.

EDF Trading also has long-term capacity rights to the UK Interconnector pipeline to Belgium as well as a large portfolio of long-term natural gas purchase and sale agreements with EDF and other market counterparties.

The EDF Group is developing its activities in the gas market in both long-term procurement and end-user supply including consolidating supplies so that it can better meet the needs of the different markets it serves. In 2006 EDF Trading completed a number of transactions to support this development including a five-year gas storage agreement with EDF Energy and numerous supply agreements to EDF Energy on the UK wholesale markets.

In November 2006 the company received its first cargo delivery of LNG into the Montoir terminal following the purchase of regasification capacity for 2007 and 2008. This capacity complements preliminary agreements by the EDF Group for the purchase of 10% capital of an LNG terminal project in Rotterdam and transit capacities in Benelux as well as the consideration of a new LNG terminal development in Dunkerque.

Also in 2006 EDF Trading announced a joint agreement with Mitsui and Co. UK, the UK subsidiary of the Japanese trading and investment firm, to provide access to the European pipeline market through its Montoir LNG regasification capacity and to trade in the Pacific Basin.

EDF Trading is using its presence in the LNG market to help secure long-term gas supply for the EDF Group. Weather Derivatives

With most energy markets highly weather correlated, weather derivatives are a natural extension of EDF Trading’s existing business and a market it has become more active in as liquidity has increased. EDF Trading is using weather derivatives as a tool to help mitigate temperature-related risk inherent in the EDF Group as well as hedging weather risk for market counterparties.  

LNG

EDF Trading was one of the first traders in the liquefied natural gas (LNG) market and it made significant progress with its LNG business in 2006.

EDF Trading is well placed for significant growth in this market because of its presence in the wholesale pipeline markets in North West Europe and its financial trading activity in the US, the growing end-user demand in the French market through EDF and its multi-commodity, physical and financial trading business model.

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Weather Derivatives

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The company trades on all of Europe’s active trading hubs – the principal ones in Belgium, France, Holland and the UK. It is also active in the developing hubs in Germany, Switzerland, Italy and Austria. In addition, EDF Trading trades natural gas in the US financial markets.
Throughout 2006 EDF Trading continued to build its market position in physical and financial electricity trading. It traded 1019 TWh of electricity and provided liquidity across the European markets including France, Germany, Benelux, Southern Europe, Scandinavia, Switzerland, Austria, the UK and Central and Eastern Europe.

Building up a trading presence in the Central and Eastern Europe electricity markets was a strategic priority for EDF Trading in 2006. The focus has primarily been on supporting the EDF Group investments in the region including the Rybnik power station in Poland and the distribution companies in Slovakia (SEE) and Hungary (D-Energia). This cooperation with the local EDF investments involved cross-border trading, hedging their retail electricity positions and emissions trading.

The electricity desk trades with a wide range of counterparties including investment banks, other utilities, large commodity consumers, trading houses and oil companies. EDF Trading also continues to do an increasing amount of work with EDF subsidiaries in addition to those in France and Central and Eastern Europe including EDF Energy in the UK, Hispaelec Energia in Spain, and EDF Belgium. The large number of trades transacted by the desk is supported by a strong middle and back office function that enables EDF Trading to process a large volume of trades on a daily basis.

The company’s Paris trading floor integrates EDF Trading within the EDF Group, enabling it to get closer to the physical assets it optimises and gain a greater technical understanding of the constraints and costs involved in electricity generation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Physical</th>
<th>Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>600</td>
<td>150</td>
</tr>
<tr>
<td>2005</td>
<td>1300</td>
<td>250</td>
</tr>
<tr>
<td>2006</td>
<td>1019</td>
<td>300</td>
</tr>
</tbody>
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The company’s Paris trading floor integrates EDF Trading within the EDF Group, enabling it to get closer to the physical assets it optimises and gain a greater technical understanding of the constraints and costs involved in electricity generation.
The EDF Group has one of the most carbon-friendly production mixes in Europe and therefore further improvement of emissions through re-dispatch and change of production mix is limited. Supporting Clean Development Mechanism (CDM) emission reduction projects is a cost-effective solution to offset the carbon impact of power production.

EDF Trading is one of the leading trading houses in the European emissions market. It also has a number of years experience in the CDM market and has obtained a broad portfolio of carbon credits working with a variety of project developers across the globe. As of the end of 2006, the company had a 30 million tonnes portfolio of carbon credits with agreements in various stages of development. It has been involved in around 40 CDM projects across 12 countries including carbon-free power production, capture of methane in coal mines and the reduction of industrial gases.

With this wide-ranging experience, EDF Trading helped the EDF Group to set up a carbon fund of almost €300 million in December 2006 to diversify its sourcing of CO₂ allowances and enable it to meet its environmental commitments under optimum economic conditions. The fund, managed by EDF Trading, supports greenhouse gas reduction projects in emerging countries within the framework of CDMs defined by the Kyoto Protocol. The fund involves EDF SA and its main European affiliates including EDF Energy, Edison and EnBW which will all benefit from the emission allowances acquired.

As CDM projects can be long-term, an experienced and creditworthy partner is an essential requirement. Along with its market experience, EDF Trading has a credit rating of A3 from Moody’s and is backed by the financial strength of the EDF Group.

With thermal generation in France, the UK, Germany, Poland and Italy, obtaining emission allowances economically and meeting its environmental commitments are at the heart of EDF’s day-to-day power production decisions.

UNDER THE EU EMISSIONS TRADING SCHEME, THE EDF GROUP HAS A SIGNIFICANT COMPLIANCE OBLIGATION WITH AROUND 100 MILLION TONNES OF ANNUAL CARBON EMISSION ALLOWANCES TO MANAGE.
The structured derivatives and pricing group is made up of a team of quantitative analysts and traders and is responsible for:

- development and trading of derivative products across the energy markets
- pricing support to the origination team for transactions with complex optionality
- developing mathematical tools to value contractual commitments such as take-or-pay provisions, swing options and various other types of complex optionality
- using derivatives technology to value assets with flexibility and optionality such as gas storage facilities
- managing exposures to optionality created by structured commercial transactions

The group uses proprietary information and the tools of statistical arbitrage such as classical time series techniques, statistical pattern recognition techniques, extreme value theory and statistical decision theory.

In order to evaluate trading opportunities, EDF Trading uses technology-enabled trading and computerised trading strategies. The derivatives team pursues trading opportunities identified by EDF Trading’s technical models in a wide variety of markets to produce consistent and diversified revenue streams.

The group develops derivatives infrastructure to value EDF and EDF Trading’s assets such as hydro plants, combined heat and power plants and gas storage facilities. These assets may contain take-or-pay provisions and various other types of complex options. It also uses derivatives technology to dynamically manage the risk of these assets against market price movement by trading in the spot, forward and options markets. This involves a constant upgrading of EDF Trading’s market information and risk assessment of the portfolio’s exposure across a variety of markets.

EDF TRADING ACTIVELY TRADES DERIVATIVES IN ELECTRICITY, GAS, COAL AND OIL AND HAS A LEADING ROLE IN THE EUROPEAN ELECTRICITY AND GAS OPTIONS MARKETS.
EDF Trading’s legal team is involved in every significant transaction. They provide advice and guidance to senior management on all business issues and ensure that EDF Trading’s business is conducted in a manner that complies with all legal and regulatory requirements.

EDF Trading assesses the level of operational risk in its various business processes and has implemented a series of controls and backup systems based on the risk assessment. Its procedures are designed to prevent the occurrence of operational errors and, should an error occur, quickly detect its occurrence in order to minimise impact. Performance indicators are used to monitor the effectiveness of key operational processes and to provide assurance that the process continues to function effectively. The performance indicators are reported to the Managing Director and Chief Financial Officer on a regular basis.

Any failure in business process results in a revised risk assessment and review of relevant procedures. Operational risk is considered by the Risk Committee when approving new activities and business ventures.

EDF Trading has a comprehensive disaster recovery plan including a disaster recovery site. Tests of the disaster recovery plan are performed regularly.

**RISK MANAGEMENT**

Effective risk management is critical to the success of EDF Trading. Specific policies for credit, legal and operational risk have been established and are the direct responsibility of the chief executive. Senior management is responsible for risk management through risk and credit committees.

The Risk Committee oversees all aspects of market and operational risk management, sets the trading risk limits, analyses the risk arising from complex transactions and new business ventures, and reviews the overall risk in the business.

The Risk Committee determines whether EDF Trading is prepared to accept the risk associated with new transactions and activities and determines the new risk parameters. The Credit Committee oversees all aspects of credit risk management, establishes credit policies and approves limits for every counterparty.

The risk management department is responsible for reviewing and approving pricing and risk management models, and for reporting market and credit risk exposures. All risk taking activity is biblied and recorded in the name of EDF Trading Limited so there is a single set of risk-centred procedures that provide full transparency in relation to its business.

The primary market risk within the business are the expectations to energy price and foreign exchange rates. Value-at-Risk (VaR) is EDF Trading’s primary mechanism for market risk measurement.

EDF Trading’s daily VaR measure is the potential profit or loss that might arise if current positions were unchanged over one business day at a 95% confidence level.

At 31 December 2006, EDF Trading had an overall VaR limit for its trading books of €21.3 million (2005: €13.7 million).

As VaR does not always provide a direct indicator of the potential size of losses, additional techniques are employed to monitor market risk including sensitivity and stress testing. Additional capital resources are set aside for those non-standard risks.

All new structured transactions require the approval of the Risk Committee. The Risk Committee considers the risk parameters and assesses the balance of risk and returns and its portfolio impact. The Committee also considers and quantifies the capital requirements of new structured transactions.

EDF Trading’s business is concentrated in the European energy sector so its trade receivables and market exposure are predominantly with European energy companies, utilities, financial institutions and other trading companies. EDF Trading has implemented robust credit risk management policies overseen by the Credit Committee and to date it has not suffered any significant credit loss.

The company trades under standard industry agreements such as GTMA for UK power, EFET for continental power and ISDA for cash settled transactions, and NBP97 and ZBT for gas. Whilst these industry agreements and terms normally include netting and default provisions, EDF Trading establishes cross-commodity netting terms for its major counterparties. This provides netting benefits and also standardises material adverse change and default provisions. The company also obtains collateral against exposures where appropriate.

EDF Trading’s legal team is involved in every significant transaction. They provide advice and guidelines to senior management on all business issues and ensure that EDF Trading’s business is conducted in a manner that complies with all legal and regulatory requirements.

EDF Trading assesses the level of operational risk in its various business processes and has implemented a series of controls and backup systems based on the risk assessment. Its procedures are designed to prevent the occurrence of operational errors and, should an error occur, quickly detect its occurrence in order to minimise impact. Performance indicators are used to monitor the effectiveness of key operational processes and to provide assurance that the process continues to function effectively. The performance indicators are reported to the Managing Director and Chief Financial Officer on a regular basis.

Any failure in business process results in a revised risk assessment and review of relevant procedures. Operational risk is considered by the Risk Committee when approving new activities and business ventures.

EDF Trading has a comprehensive disaster recovery plan including a disaster recovery site. Tests of the disaster recovery plan are performed regularly.
Accounting Policies
EDF Trading uses mark-to-market accounting for positions where there is an observable traded market, in accordance with IAS 39. Liquid risk is independently assessed by the risk management department based on criteria approved by the Risk Committee at EDF Trading. These criteria include the publication of two-way pieces by recognised industry publications and the availability of firm bids and offers from brokers and exchanges. The market prices used take account of the cost of closing out EDF Trading’s net position.

Capital Management
EDF Trading has established procedures for the allocation of capital to its business activities. The methodology is broadly based on the Basel II Accord which includes the assessment of market, credit and operational risk capital. Capital is allocated to trading activities based on a multiple of 15 times the VaR approved by the Risk Committee. Further capital is allocated to structured transactions based on a stress testing analysis.

Liquidity Risk Management
Liquidity management within EDF Trading ensures that sufficient cash is available to meet contractual commitments as they fall due and that EDF Trading has sufficient funding to withstand stressed market conditions or an extreme event. EDF Trading’s net position in the market. The overall valuation of the trading portfolio includes an allowance for credit and operational risks.

As at 31 December 2006, EDF Trading had total available liquidity of €975.2 million (2005: €797.7 million) including €215.2 million (2005: €223.2 million) of liquid resources, €560 million unsecured committed multi-currency credit facility provided by EDF, which matures in March 2012 and £550 million uncommitted other facilities provided by EDF. This facility provides back-up liquidity and is currently undrawn.

Liquidity Trading’s liquid resources include amounts placed under cash pooling arrangements with EDF. It pools euro, sterling and US dollar cash balances each day. The cash pooled balances are classified as intercompany receivables, are interest bearing and are callable by EDF Trading on demand.

Foreign currency exchange rate risk
The euro is the functional currency of the company with the majority of transactions euro denominated. EDF Trading also transacts in other currencies – pounds sterling for UK natural gas and electricity and US dollars for coal, freight and oil. When currency exposure arises as a result of purchase and sale commitments in non-euro currencies, forward foreign exchange transactions hedge the exposure.

Transmission and Regulation
The regulatory landscape of the European energy market is rapidly changing with market opening and integration. Such liberalisation presents both opportunities and challenges while also creating additional regulatory scrutiny and reporting requirements. EDF Trading is well positioned to handle these issues through its dedicated Transmission and Regulation team that manages the relationship with the European Commission, 20 of Europe’s national regulators and 52 gas and power transmission companies.

The Transmission and Regulation team closely monitors the regulatory changes throughout Europe’s gas and power markets to ensure that the organisation complies with the rules and is ready to trade in new products and new markets as opportunities arise.

EDF Trading actively promotes European market integration and is actively shaping key European energy market policies at EU level. EDF Trading is a key contributor to the work of the European Federation of Energy Traders (EFET) where CEO Philippe Torrion is a board member. The team also actively assesses and advises on the impact and strategic challenges that market liberalisation has for the wider EDF Group.

The Transmission and Regulation group supports EDF Trading’s origination and trading teams by actively monitoring available capacity and market arrangements throughout Europe. In 2006 EDF Trading participated in 48 annual auctions for cross border electricity capacity and purchased more than 25 TWh of capacity in annual and monthly auctions.

**EFFECTIVE RISK MANAGEMENT IS CRITICAL TO THE SUCCESS OF EDF TRADING. SPECIFIC POLICIES FOR CREDIT, LEGAL AND OPERATIONAL RISK HAVE BEEN ESTABLISHED AND ARE THE DIRECT RESPONSIBILITY OF THE CHIEF EXECUTIVE. SENIOR MANAGEMENT IS RESPONSIBLE FOR RISK MANAGEMENT THROUGH RISK AND CREDIT COMMITTEES.**
I described 2005 as an extraordinary year. I am most pleased to announce that EDF Trading has delivered another exceptional performance in 2006.

EDF Trading has continued to provide an extremely valuable contribution over the past 12 months as the EDF Group focuses on retaining its position among the leading energy groups in Europe and on building a more integrated and pan-European business.

EDF Trading contributes much more to the Group than a strong set of financial results. It brings leadership in the physical and financial wholesale markets, access to a network of midstream assets, comprehensive market analytics, an innovative culture that enables the Group to quickly grasp market opportunities and a team of highly skilled professionals with a wealth of experience across the energy markets.

EDF Trading’s role within the Group is wide ranging. It has been instrumental in developing our presence in new markets such as LNG and bringing together the Group’s Central and Eastern European positions through wholesale market trading. Its contribution to the optimisation of the Group’s electricity generation fleet has been significant and will continue to grow. EDF Trading also contributes to the supply of coal, fuel oil, gas and CO2 emission allowances for various Group affiliated companies and helps to manage the market risks inherent in our business.

Our decision to establish an EDF Trading presence in Paris in 2006 has taken EDF Trading to the centre of the Group and has enabled it to work more closely with EDF’s supply and demand optimisation teams and apply its skills and experience more widely across the Group.

With EDF Trading’s expertise in the fast developing clean development mechanism market, the EDF Group was able to launch a carbon fund in 2006 to diversify its sourcing of carbon emission allowances and to meet its environmental commitments. EDF Trading will continue to drive the implementation of initiatives that span the diverse companies of the EDF Group.

I give thanks to the executive team at EDF Trading. I am confident that they will lead the company to continue its successful growth within the Group and deliver on another year of ambitious targets.

Jean-Louis Mathias
Chairman
EBDF TRADING’S BOARD OF DIRECTORS PROVIDES SUPPORT AND STRATEGIC GUIDANCE TO EDF TRADING’S SENIOR EXECUTIVE MANAGEMENT. THIS HAS ENABLED EDF TRADING TO BECOME ONE OF THE STRONGEST FORCES FOR MARKET LIBERALISATION WITHIN EUROPE. THE COMBINATION OF EXPERIENCE AND TALENT DRIVES THE COMPANY’S SUCCESS.

Jean-Louis Mathias
Jean-Louis Mathias joined EDF-GEF Services in 1973 and has worked in a number of senior management positions across the EDF and GDF groups. In 1990 he became the Director of Human Resources for EDF-GEF. In 1998 he became Executive Vice President of GDF Commercial Division and in 2002 Mr Mathias was appointed Senior Executive Vice President of GDF. In 2004, he rejoined EDF, as Chief Operating Officer responsible for the integration of the Group and deregulated activities in France. Mr Mathias graduated from the Polytechnic School and the School of National Statistics and Economics.

Philippe Torrion
Philippe Torrion was appointed Chief Executive after 10 years with the Louis Dreyfus group. He has an MBA from Fordham University and is a Certified Public Accountant. His last held the job of General Manager in charge of Global Oil Supply for Shell Trading. His MBA was awarded in 2003. Mr Torrion was seconded to EDF Trading in 1998 to supervise the start-up of the business after 10 years with the Louis Dreyfus group. He has an MBA from Fordham University and is a Certified Public Accountant.

Jean-Henri Rittenhouse
Jean-Henri Rittenhouse is the Managing Director of EDF Trading and, together with Philippe Torrion, is responsible for the development and implementation of EDF Trading's strategy.

Vincent de Rivaz
Vincent de Rivaz joined EDF in 1977 in the External Engineering Centre. Between 1985 and 1992 he managed the Far East Division. From 1992 to 1994 he was responsible for the EDF National Centre of Hydraulics Supply. In 1995 he became Deputy Head of the International Division, then was appointed Projects Director in 1996. In 1999 he joined the financial management team and in 2000, became Director of Financial, Strategy and Operations. Mr de Rivaz’s current role is Chief Executive of EDF Energy. He graduated from the National School of Hydraulics in Grenoble.

Bruno Lescoeur
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This combined with our entrepreneurial culture, strong business platform and the strength of our people has created a powerful business model that has driven EDF Trading to a leading market position in the wholesale energy markets.

Our coal business is a great example of how we use our network of assets to provide an end to end, flexible service to our customers. EDF Trading has long-term purchase contracts with producers from all the major coal producing regions of the world, a fleet of dry bulker-cars, long-term terminal capacity in the ARA, storage, blending and inland railcar and barge capacity. These assets allow us the flexibility to offer a wide variety of coal specifications, storage, blending options and delivery terms. Our expertise in the financial markets also gives us the ability to offer long-term fixed price contracts to producers and consumers.

Over the past year we have made several investments in our power, emissions, gas, coal and freight businesses that will expand our wholesale market capabilities. For example, we have developed our LNG business in 2006 with the acquisition of regasification capacity at the Montoir terminal. We've also significantly increased our fleet of dry-bulk vessels to support the transportation requirements of our coal business. And in the power market, we’ve significantly enhanced our ability to service the Central and Eastern European market by increasing our expertise and establishing long-term positions in that region.

As EDF’s interface to the wholesale markets, we have been an important contributor to the EDF Group in 2006. With our extensive experience in the carbon emissions market, we were able to lead the launch of the EDF carbon fund and provide ongoing management of the fund. EDF Trading in Paris has worked closely with EDF over the year to identify asset optimisation opportunities, and we have provided risk management services to EDF Energy. EDF Trading will continue to have a central role to play in identifying synergies present within the Group and achieving additional value for all parties.

Our profits make a significant contribution to the EDF Group’s results and our performance in 2006 has been very strong. Net trading income increased to €735 million, up from €445 million in 2005. Profit before tax rose to €580 million, up from €450 million in 2005, and we achieved an 48% return on capital for our shareholders.

What are our prospects for 2007?

In 2007 we’ll continue to build on our asset-backed trading model. That will mean further investments in assets, contracts and people in the wholesale energy markets in Europe and beyond. We see excellent opportunities to further strengthen our position in the seaborne coal markets by investing in niche midstream assets. Other areas that have attractive potential for development in 2007 are the clean development mechanism, LNG, North American natural gas and biomass markets.

Inside the EDF Group, we will continue to work closely with the Central and Eastern European affiliates to develop a more unified approach to the developing wholesale markets, as well as further strengthen our links with EDF Energy in the UK and EDF in France.

EDF Trading’s growth in 2007 will be supported by an ongoing investment in our IT systems, enabling us to enter new markets and trade new products quickly, and a continued focus on a rigorous approach to risk management that will protect the company in a variety of market conditions.

Our people will be the most important part of our continued success in 2007. Our aim is to attract and retain the best professionals in the business through competitive conditions of employment, an encouraging and challenging working environment, a clear and focused business strategy, and a programme that motivates and rewards outstanding performance.

Philippe Torrion
John Rittenhouse

THIS YEAR’S ANNUAL REVIEW ILLUSTRATES THE NETWORK OF PHYSICAL ASSETS THAT ARE ESSENTIAL TO EDF TRADING’S BUSINESS. OUR ABILITY TO SOURCE AND SUPPLY PHYSICAL PRODUCT, TRANSPORT, STORE, BLEND AND CONVERT COMMODITIES AS WELL AS TRADE AND HEDGE IN THE FINANCIAL MARKETS IS THE FOUNDATION OF OUR BUSINESS.
Namesh Hansjee  
Namesh Hansjee (above left) is the Head of Trading. He joined EDF Trading in April 1999 as Senior Electricity Trader. In 2001 he was appointed Head of Electricity Trading and became Head of Trading in July 2003. Previously he worked for JP Morgan and Shell as an oil trader. Mr Hansjee has a first class BA Honours in Chemistry.

Justin Rowland  
Justin Rowland (above second from left) is the Chief Financial Officer for EDF Trading. He joined in May 2001 as Head of Risk Management and succeeded John Rittenhouse as CFO in April 2005. Mr Rowland previously worked for JP Morgan and Shell as an oil trader. Mr Hansjee has a first class BA Honours in Chemistry.

Jonathan Whitehead  
Jonathan Whitehead (above second from right) is EDF Trading’s Executive Vice President for Origination and Corporate Development. He joined EDF Trading in April 2003. Previously he worked for Dynegy Europe and Enron in both trading and origination functions. Mr Whitehead has an MBA from IMD and a MEng with Honours in Chemical Engineering.

Richard Carr  
Richard Carr (above right) joined EDF Trading in August 2005 as Director of People and Organisation. His early career included 11 years at British Airways followed by HR Director roles at Eagle Star, Del Monte and Reebok. He then held a number of senior positions in major groups as an interim manager including France Telecom, Novartis, BA, Kingfisher, BT and Cable & Wireless. Mr Carr studied Industrial Relations and Personnel Management at the LSE and graduated from the University of Wales.

Philippe Torrion  
Philippe Torrion was appointed Chief Executive of EDF Trading in 2005. He joined EDF in 1979 and has held a number of roles including Director of EDF GDF Services Centre in 1992 and Head of Economics and Systems Development in the Production Transport Division in 1997. In 1998 he was appointed Head of Corporate Strategy Division where he was responsible for developing the EDF Change Programme aimed at preparing the EDF Group for the new liberalised market environment. In 2001 Mr Torrion was appointed EDF Regional Representative in Provence Alpes Cote d’Azur, supervising the activities of 21 EDF regional representatives.
SUMMARY FINANCIAL INFORMATION 2006

EDF TRADING GROUP PROFIT AND LOSS SUMMARY
For the year ended 31 December 2006

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Turnover</td>
<td>46,766,945</td>
<td>21,095,569</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(46,391,042)</td>
<td>(20,850,653)</td>
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<tr>
<td>Net trading income</td>
<td>750,903</td>
<td>443,086</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(151,046)</td>
<td>(103,766)</td>
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<tr>
<td>Operating profit</td>
<td>583,863</td>
<td>341,176</td>
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<tr>
<td>Net interest (payable) / receivable</td>
<td>(3,900)</td>
<td>7,886</td>
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<tr>
<td>Profit on ordinary activities before taxation</td>
<td>580,063</td>
<td>349,062</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>(175,770)</td>
<td>(135,224)</td>
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<tr>
<td>Profit on ordinary activities after taxation</td>
<td>404,293</td>
<td>243,840</td>
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<tr>
<td>Dividend</td>
<td>(125,000)</td>
<td>(70,000)</td>
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<tr>
<td>Retained profit carried forward</td>
<td>279,293</td>
<td>173,840</td>
</tr>
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</table>

EDF TRADING GROUP CASH FLOW SUMMARY
For the year ended 31 December 2006

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>175,399</td>
<td>228,166</td>
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<tr>
<td>Returns on investments and servicing of finance</td>
<td>(10,529)</td>
<td>6,063</td>
</tr>
<tr>
<td>Taxation</td>
<td>(100,062)</td>
<td>(96,398)</td>
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<tr>
<td>Capital expenditure and financial investment</td>
<td>(6,086)</td>
<td>(8,256)</td>
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<tr>
<td>Equity dividend paid</td>
<td>(125,000)</td>
<td>(70,000)</td>
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<tr>
<td>Cash (outflow) / inflow before use of liquid resources and financing</td>
<td>(97,600)</td>
<td>56,575</td>
</tr>
<tr>
<td>Management of liquid resources</td>
<td>10,818</td>
<td>(36,352)</td>
</tr>
<tr>
<td>Financing</td>
<td>86,157</td>
<td>(5,063)</td>
</tr>
<tr>
<td>(Decrease) / increase in cash</td>
<td>(625)</td>
<td>14,293</td>
</tr>
</tbody>
</table>

EDF TRADING GROUP NET FUNDS ANALYSIS
As at 31 December 2006

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>39,181</td>
<td>39,806</td>
</tr>
<tr>
<td>Group cash pooling activities</td>
<td>197,034</td>
<td>195,452</td>
</tr>
<tr>
<td>Current asset investments</td>
<td>(98,372)</td>
<td>(12,215)</td>
</tr>
<tr>
<td>Debt due within one year</td>
<td>137,843</td>
<td>235,443</td>
</tr>
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</table>

Statutory accounts
Financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 ('the Act'). The statutory accounts for the year ended 31 December 2006 will be filed with the Registrar of Companies. The auditors have reported on these accounts; their report was unqualified and did not contain a statement under section 237(2) or 237(3) of the Act.
EDF Trading Limited
Principal in all commodity trading activities for the EDF Trading Group

EDF Trading Markets Limited
Arranger for EDF Trading, authorised by the FSA

EDF Trading Gas Storage Limited
Natural gas storage connected to the NBP in the UK

EDF Trading Singapore Pte. Limited
Agent for EDF Trading in the Indonesian coal markets

EDF Trading Logistics S.A.
Port and inland freight logistics in Continental Europe

EDF Trading (Switzerland) AG
Wholesale power activities in Switzerland

All subsidiaries are 100% owned by EDF Trading

EDF Trading Carbon
A division of EDF Trading Limited