

# 2014 MANAGEMENT REPORT

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## GROUP RESULTS

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## 1. KEY FIGURES

Pursuant to European regulation 1606/2002 of 19 July 2002 on the adoption of international accounting standards, the EDF group's consolidated financial statements for the year ended 31 December 2014 are prepared under the international accounting standards published by the IASB and approved by the European Union for application at 31 December 2014. These international standards are IAS (International Accounting Standards), IFRS (International Financial Reporting Standards), and interpretations issued by the SIC and IFRIC.

The Group's accounting policies are presented in note 1 to the consolidated financial statements at 31 December 2014.

The figures presented in this document are taken from the EDF group's consolidated financial statements at 31 December 2014.

The comparative figures for 2013 presented in the notes to the consolidated financial statements have been restated following the change in accounting method resulting from retrospective application of IFRS 10 and IFRS 11.

The Group's key figures for 2014 are shown in the following tables. Variations in value and percentage are calculated by reference to the restated 2013 figures.

### Extract from the consolidated income statements

	2014	2013 restated	Variation	Variation (%)	Organic growth (%)
<i>(in millions of Euros)</i>					
Sales	72,874	71,916	958	+1.3	-1.4
Operating profit before depreciation and amortisation (EBITDA)	17,279	16,099	1,180	+7.3	+6.5
Operating profit (EBIT)	7,984	8,334	(350)	-4.2	-4.3
Income before taxes of consolidated companies	5,433	5,392	41	+0.8	+0.9
EDF net income	3,701	3,517	184	+5.2	+6.2
Net income excluding non-recurring items <sup>(1)</sup>	4,852	4,117	735	+17.9	+18.7

<sup>(1)</sup> Net income excluding non-recurring items is not defined by IFRS, and is not directly visible in the consolidated income statements. It corresponds to the net income excluding non-recurring items and the net change in fair value on Energy and Commodity derivatives, excluding trading activities, net of tax (see section 3.9).

### Extract from the consolidated balance sheets

<i>(In millions of Euros)</i>	31 December 2014	31 December 2013 restated
Non-current assets	146,078	137,748
Inventories and trade receivables	37,923	36,096
Other assets	65,609	57,589
Cash and cash equivalents, other liquid assets, loans to RTE and joint ventures	18,361	18,332
Assets held for sale	18	1,154
<b>Total assets</b>	<b>267,989</b>	<b>250,919</b>
Equity (EDF share)	35,191	34,207
Equity (non-controlling interests)	5,419	4,998
Special concession assets	44,346	43,454
Provisions	73,850	66,304
Loans and other financial liabilities	52,569	51,765
Other liabilities	56,614	50,191
Liabilities related to assets classified as held for sale	-	-
<b>Total equity and liabilities</b>	<b>267,989</b>	<b>250,919</b>

### Cash flow after dividends

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)
Cash flow after dividends <sup>(1)</sup>	(4,007)	(314)	(3,693)	n.a.

<sup>(1)</sup> Cash flow after dividends is not an aggregate defined by IFRS as a measure of financial performance, and is not comparable with indicators of the same name reported by other companies. It is equivalent to the operating cash flow after the changes in working capital and net investments as defined in section 4, allocations and withdrawals from dedicated assets, and dividends.

### Details of net indebtedness

<i>(In millions of Euros)</i>	31 December 2014	31 December 2013	Variation	Variation (%)
Loans and other financial liabilities	55,652	51,637	4,015	+7.8
Derivatives used to hedge liabilities	(3,083)	128	(3,211)	n.a.
Cash and cash equivalents	(4,701)	(5,096)	395	-7.8
Available-for-sale financial assets – Liquid assets	(12,990)	(12,566)	(424)	3.4
Loan to RTE	(670)	(670)	-	-
<b>Net indebtedness<sup>(1)</sup></b>	<b>34,208</b>	<b>33,433</b>	<b>775</b>	<b>2.3</b>

<sup>(1)</sup> Net indebtedness is not defined in the accounting standards and is not directly visible in the Group's consolidated balance sheets. It comprises total loans and financial liabilities, less cash and cash equivalents and liquid assets. Liquid assets are financial assets consisting of funds or securities with initial maturity of over three months that are readily convertible into cash and are managed according to a liquidity-oriented policy. It also includes the Group's loan to RTE.

## 2. ECONOMIC ENVIRONMENT AND SIGNIFICANT EVENTS OF 2014

### 2.1 ECONOMIC ENVIRONMENT

#### 2.1.1 TRENDS IN MARKET PRICES FOR ELECTRICITY AND THE PRINCIPAL ENERGY SOURCES

In an increasingly interconnected European market, analysis of market prices in France and in the rest of Europe, particularly countries where the Group has operating, distribution, optimisation and trading activities, provides vital context. Energy prices in Europe were lower in 2014 than in 2013, due to low demand as a result of especially mild temperatures and retreating fuel prices.

##### 2.1.1.1 Spot electricity prices in Europe<sup>1</sup>

	France	United Kingdom	Italy	Germany	Belgium
Average baseload price for 2014 (€/MWh)	34.6	51.2	52.1	32.8	47.4
Variation in average baseload prices, 2014/2013	-19.9%	-13.4%	-17.3%	-13.3%	-0.2%
Average peakload price for 2014 (€/MWh)	43.8	57.7	58.7	41.0	54.9
Variation in average peakload prices, 2014/2013	-20.4%	-14.7%	-16.5%	-15.8%	-5.9%

The comments below concern baseload prices.

In **France**, spot electricity prices stood at an average €34.6/MWh in 2014, €8.6/MWh lower than in 2013. The principal explanation for the fall in prices was the particularly mild temperatures over the year, leading to lower demand than the year before. 2014 was also marked by substantial renewable energy output, while the decline in spot prices for coal and gas added further downward pressure on spot electricity prices.

The combined effect of all these bearish factors in 2014 took the average spot price to its lowest level since 2004.

In the **United Kingdom**, spot electricity prices decreased by 13.4% compared to the same period in 2013. The mild temperatures kept the electricity supply/demand balance relaxed, but also limited demand for gas, resulting in a gradual decline in spot gas prices. However, the decrease in UK electricity prices was less pronounced than in the rest of Europe due to the rise in the UK's carbon tax as of 1 April 2014.

In **Italy**, spot electricity prices were down year-on-year by 17.3% as a result of the lower gas prices and mild temperatures throughout the year.

In **Germany**, spot electricity prices were an average €5.0/MWh lower than in 2013, largely due to mild temperatures and substantial output of renewable energies. The 2014 average spot price was the lowest since 2005.

In **Belgium**, spot prices remained stable on average compared to 2013, in contrast to the rest of Europe. Despite a significant decrease of around €18.0/MWh in the first quarter of 2014, the market tightened up over the rest of the year following the temporary outage of two nuclear reactors in Belgium in March 2014 (Tihange 2 and Doel 3). A further reactor (Doel 4) was also out of action from 4 August to 19 December 2014 (see section 1.2.2.4.2), putting even more pressure on the supply/demand balance. Average spot prices over the final three quarters were thus €5.8/MWh higher than for the same period of 2013.

<sup>1</sup> France and Germany: Average previous day EPEXSPOT price for same-day delivery;  
Belgium: Average previous day Belpex price for same-day delivery ;  
United Kingdom: Average previous day EDF Trading OTC price for same-day delivery;  
Italy: Average previous day GME price for same-day delivery.

### 2.1.1.2 Forward electricity prices in Europe<sup>2</sup>

	France	United Kingdom	Italy	Germany	Belgium
Average forward baseload price in 2014 under the 2015 annual contract (€/MWh)	42.4	63.1	53.8	35.1	46.9
Variation in average forward baseload price under the annual contracts, 2014/2013	-2.0%	+2.8%	-14.3 %	-10.2%	+7.7 %
Forward baseload price under the 2015 annual contract at 23 December 2014 (€/MWh)	40.3	61.7	50.1	34.2	44.2
Average forward peakload price in 2014 under the 2015 annual contract (€/MWh)	53.1	71.3	60.0	44.4	57.2
Variation in average forward peakload price under the annual contracts, 2014/2013	-6.2%	+1.0%	-14.1%	-10.6%	+1.5 %
Forward peakload price under the 2015 annual contract at 23 December 2014 (€/MWh)	50.5	68.8	57.2	42.9	54.2

In **France**, the annual contract baseload price ended the year at €40.3/MWh, having been on average 2.0% lower than in 2013. This decline over 2014 is mainly explained by the lower coal and gas prices, although it was mitigated by the rise in CO<sub>2</sub> emission rights prices. During the period from April to mid-July, forward prices stabilised at around €42/MWh, in keeping with the ARENH price at which electricity suppliers can purchase power.

After an upturn during the summer in line with gas prices, forward electricity prices stabilised in September at around €43/MWh. The rise in coal and CO<sub>2</sub> prices was offset by several announcements that tightened the supply/demand balance in certain neighbouring countries. The final quarter of the year was marked by a more relaxed supply/demand balance resulting from mild temperatures and high nuclear availability, which brought down electricity prices for the early months of 2015, and therefore the annual contract price. In addition to these factors, a decline in December in gas, coal and Brent oil prices contributed to the fall in the annual contract late in that month: it was down to €40.0/MWh at 22 December, its lowest level for more than 5 years.

In the **United Kingdom**, the April Ahead baseload contract price for 1 April Y+1 to 31 March Y+2 ended the year at €61.7/MWh, down by €1.5/MWh from the start of the year, in line with British gas prices. But on average, the contract traded at higher prices than in 2013 due to the rise in the UK carbon tax on electricity generation. This tax will be raised by close to £9.0/t from 1 April 2015 to £18/t, and will then remain at that level until 2020.

In **Italy**, the baseload price under the annual contract ended the year at €50.1/MWh, having been €8.9/MWh lower than in 2013 on average. This substantial decrease was driven by the lower prices for gas, which is an important component of the Italian energy mix, and the rise of renewable energies.

In **Germany**, annual contract baseload prices declined by an average €4.0/MWh from 2013, ending the year at €34.2/MWh. As well as the fall in fuel prices, which had a significant impact on Germany's highly coal-dependent electricity system, this substantial downturn in electricity prices is explained by the expansion of German wind farms and photovoltaic solar plants.

In **Belgium**, the annual contract baseload price was €3.4/MWh higher than in 2013 on average. Prices rose strongly after two nuclear reactors were shut down temporarily at the end of March 2014, with no confirmed date as yet for resumption of operation. The outage of a third nuclear reactor (Doel 4) between 4 August and 19 December 2014 also contributed to the rise in the average price under this contract, which ended the year at €44.2/MWh although it only stood at €41.7/MWh at the beginning of January 2014.

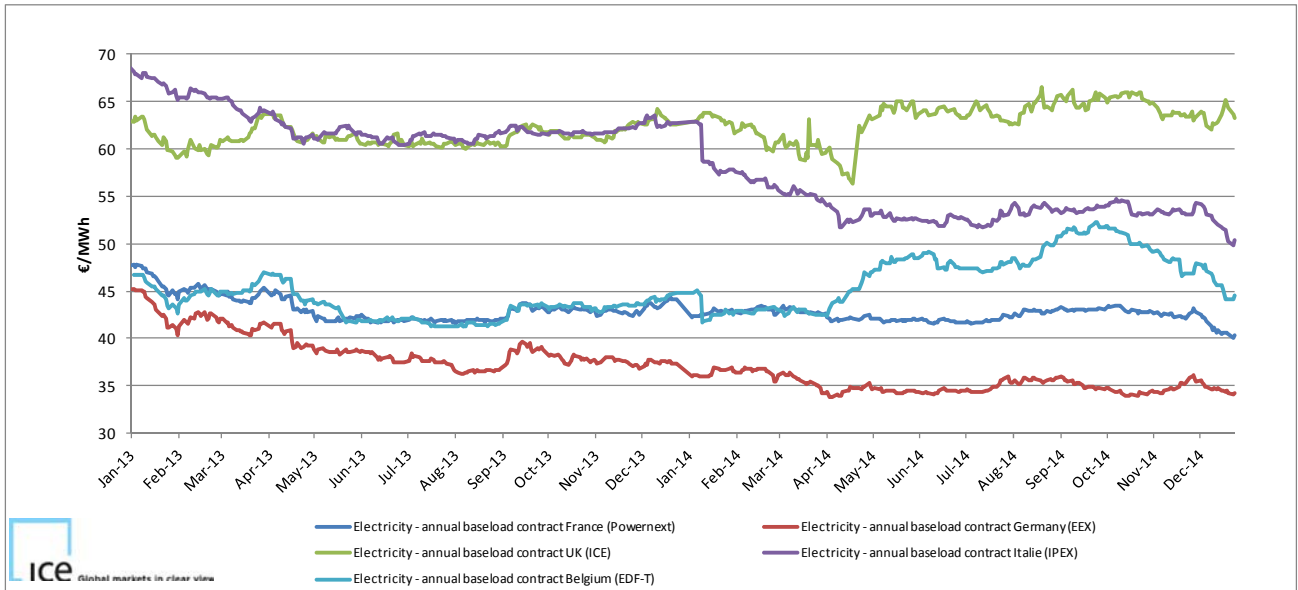
<sup>2</sup> **France and Germany:** Average year-ahead EEX price;

**Belgium:** average year-ahead EDF Trading price;

**Italy:** average year-ahead EDF Trading price;

**United Kingdom:** Average ICE annual contract prices, April 2014 then April 2015 (in the UK, annual contract deliveries take place from 1 April to 31 March).

### Principal forward electricity prices in Europe (baseload)



#### 2.1.1.3 CO<sub>2</sub> emission rights prices <sup>3</sup>

CO<sub>2</sub> prices increased in 2014 to €6.9/t by the end of the year, €1.9/t higher than at the start of January. The year 2014 was punctuated by announcements concerning “backloading” and the Market Stability Reserve (MSR), drawing reactions from market actors. As the market for trading CO<sub>2</sub> emission rights was overallocated at European level, the European Commission set up a “backloading” plan to reduce supply temporarily. After several years of negotiations, this measure was finally implemented in early 2014: 900 million tonnes of emission rights are to be withdrawn from auction between 2014 and 2016 (400 million for 2014 alone), but this volume will be put back on the market in 2019 and 2020. The MSR mechanism should complement this plan and reduce the number of emission rights in circulation, placing the surplus amounts in a reserve.

### CO<sub>2</sub> emission rights prices



<sup>3</sup> Average ICE prices for the annual contract, Phase III (2013-2020).

#### 2.1.1.4 Fossil fuel prices <sup>4</sup>

	Coal (\$/t)	Oil (\$/bbl)	Natural gas (€/MWhg)
Average price for 2014	78.3	99.5	24.7
Average price variation, 2014/2013	-11.9 %	-8.5%	-8.3%
Highest price in 2014	86.6	115.1	27.0
Lowest price in 2014	65.9	57.3	21.8
Closing price, 2013	82.3	110.8	27.2
Closing price, 2014	65.9	57.3	21.8

Forward prices for **coal** delivered in Europe continued their decline from 2013 levels, in keeping with a very relaxed supply/demand balance worldwide resulting from plentiful coal supplies in Russia, the US and Colombia at low prices, and lower-than-anticipated demand in Asia. Also, the mild temperatures across all of Europe in 2014 led to low coal consumption, and as a result stocks remained high. Coal prices decreased significantly right at the end of the year, as the rouble lost value in the Russian economic crisis. The price of coal thus dropped from \$86.6/t at the start of January to \$65.9/t on 31 December 2014, its lowest level since 2006.

At 31 December 2014, the crude **oil** price stood at \$57.3/bbl, a year-on-year drop of \$53.5/bbl. Brent prices were stable until the end of June at around \$110/bbl; a downward price trend then began in July, initially because the market's fears over conflicts in Ukraine and Iraq subsided, and subsequently due to plentiful supply and rising Libyan exports. Forecast demand in Europe and Asia has fallen, and there is surplus supply due to unchanged production levels by OPEC countries, mainly Saudi Arabia, and higher shale oil output in the US, which led to a very significant decrease in the month of December alone.

In 2014 the Gas Year Ahead contract for **natural gas** on the French PEG Nord hub, which runs from 1 October Y+1 to 30 September Y+2, traded at an average €24.7/MWh, €2.2/MWh lower than in 2013. It ended the year at €21.8/MWh, its lowest level since November 2010.

The high temperatures of the first quarter of 2014 made the short-term supply-demand balance very relaxed, such that there was little need to use long-term stocks, and it was even possible to replenish those stocks quickly, reassuring market actors for the following winter.

Movements in the gas contract price then reflected the conflict between Ukraine and Russia. The agreement signed between the two countries provisionally ended this crisis, guaranteeing deliveries of Russian gas to Ukraine during the winter of 2014-15.

Gas prices fell by €2.3/MWh during December 2014 in the wake of the Brent barrel price.

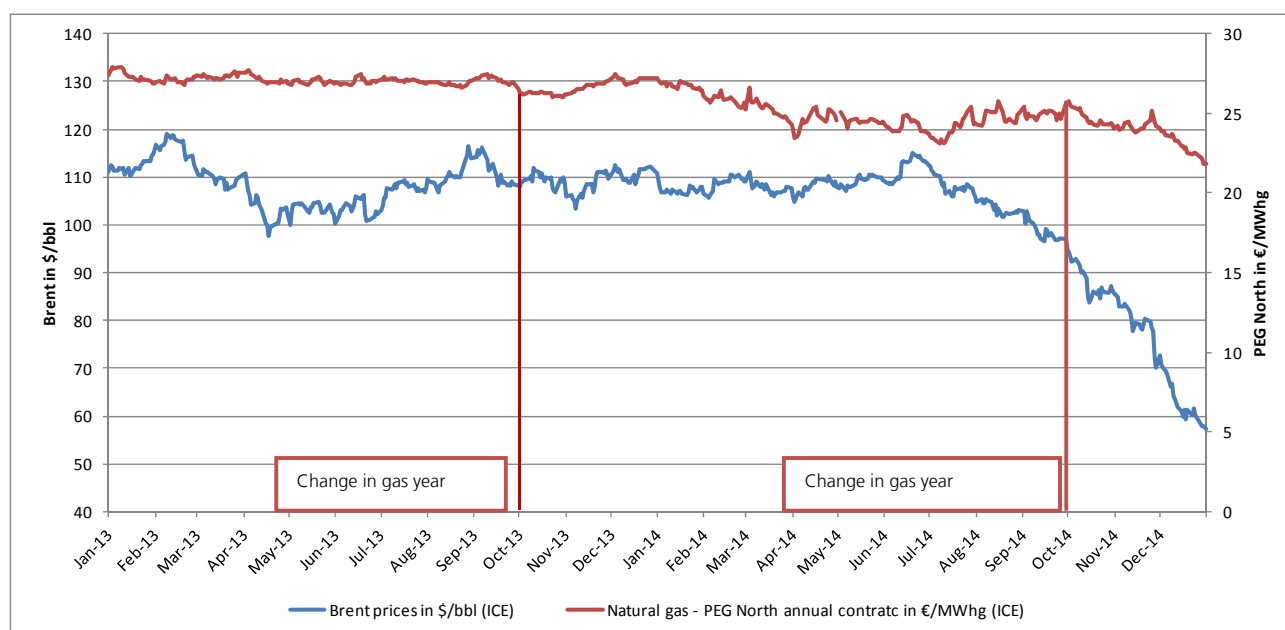
<sup>4</sup> **Coal**: Average ICE prices for delivery in Europe (CIF ARA) for the next calendar year (\$/t);

**Oil**: Brent first reference crude oil barrel, IPE index (front month) (\$/barrel);

**Natural gas**: Average Powernext prices for delivery starting from October of year Y+1 to September of year Y+2 in France (PEG Nord) (€/MWhg).



## Natural gas and oil prices



### 2.1.2 ELECTRICITY<sup>5</sup> AND GAS<sup>6</sup> CONSUMPTION

Overall electricity consumption in **France** in 2014 was 6% lower than in 2013. This decrease is mainly explained by the mild weather conditions: 2014 was the warmest year since the beginning of the 20<sup>th</sup> century, especially in the winter months.

After correction for weather effects, consumption in France was down by 0.4%. Consumption by small businesses and residential customers was also down by 0.5%, while consumption by large industrial customers was stable.

In the **United Kingdom**, estimated electricity consumption, which is not highly sensitive to temperatures, was 3.7% lower in 2014 than 2013 due to a decline in demand from residential customers and the mild temperatures. In **Italy**, domestic electricity consumption contracted by 3% from 2013.

Natural gas consumption in **France** decreased by 16.5% between 2013 and 2014 due to the exceptionally mild weather.

Estimated domestic natural gas consumption in the **United Kingdom** was down by 14.1% compared to 2013, again as a result of the mild weather. In **Italy**, domestic natural gas consumption was also down by 11.6% mainly as a result of unusually mild temperatures, growing contribution from renewable sources, especially hydroelectric and lower demand for electric power.

<sup>5</sup> Sources: France: unadjusted data and data adjusted for weather effects provided by RTE.

United Kingdom: Department of Energy and Climate Change for the first 3 quarters, local subsidiary estimation for the final quarter. Italy: data provided by Terna, the Italian national grid operator and adjusted by Edison.

<sup>6</sup> Sources: France: unadjusted data provided by Smart GRTgaz.

United Kingdom: Department of Energy and Climate Change for the first 3 quarters, local subsidiary estimation for the final quarter.

Italy: Ministry of Economic Development, data from Snam Rete Gas adjusted by Edison: base 1 bcm = 10.76 TWh.

### 2.1.3 ELECTRICITY AND NATURAL GAS TARIFFS

Details of recent developments concerning tariffs in France are provided in sections 2.2.6.1.4 and 2.2.6.1.5.

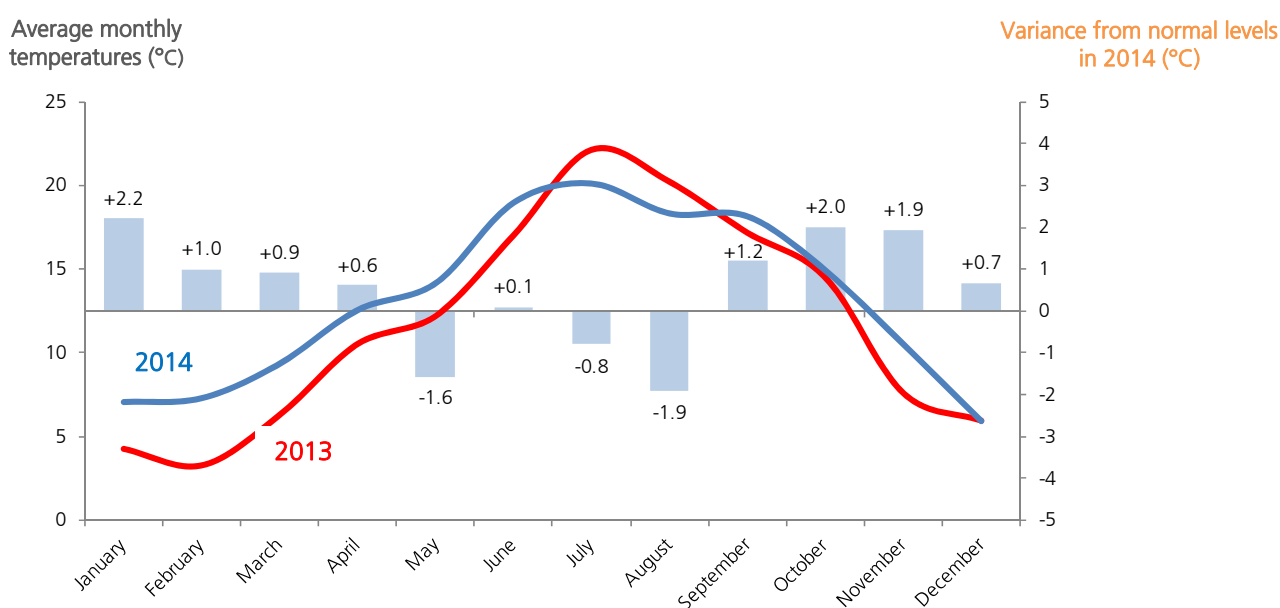
In the United Kingdom, EDF Energy raised its gas and electricity tariffs by 3.9% as of 3 January 2014. This was less than half the increase applied by its main competitors in the final quarter of 2013. EDF Energy was thus acting in anticipation of the downward adjustment to energy efficiency programme costs announced by the British government in December 2013. On 27 January 2015, EDF Energy announced a 1.3% reduction in its gas tariffs that will take effect from 11 February 2015 in response to the recent falls in wholesale gas costs. The vast majority of energy purchases to supply customers were made well in advance, at previously higher prices. This effect and the low prices already offered by EDF Energy limited the reduction in tariffs.

### 2.1.4 WEATHER CONDITIONS: TEMPERATURES AND RAINFALL

2014 was exceptionally warm: average temperatures in France<sup>7</sup> were 0.5°C above normal, making 2014 one of the warmest years since 1900, ahead of 2011 and 2003. Widely contrasting temperatures were recorded during the year:

- They were higher than normal in the first four months and final quarter of the year especially,
- They were particularly cool in the late spring and early summer (May, July, August).

#### Temperatures<sup>7</sup> in France in 2014 and 2013

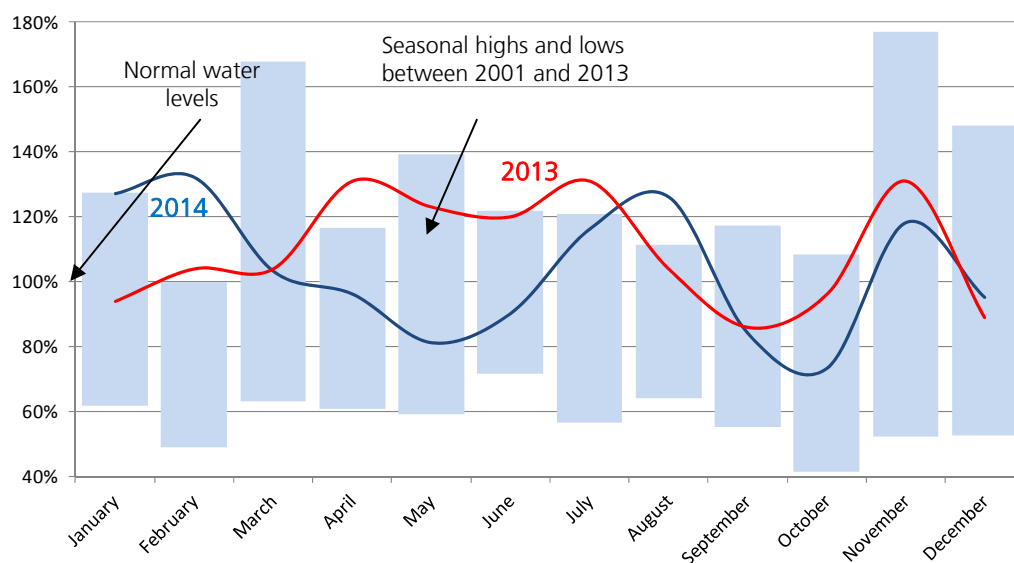


2014 saw abundant rainfall, registering above-normal levels around a large portion of the Mediterranean coast (including the Balkans) and to a lesser extent the Atlantic coast (Portugal, western France, the United Kingdom and south Scandinavia).

In contrast, there was a shortfall in precipitation in the southern tip of Spain, north Scandinavia and regions further east.

<sup>7</sup> Average temperatures recorded in 32 cities weighted by electricity consumption

### Water levels in France in 2014 and 2013<sup>8</sup>



In France, after a very wet, mild winter building up substantial snow levels in the southern Alps and the Pyrenees, a significant shortfall in precipitation developed from early March (except in the Pyrenees) to late June. There was particularly high rainfall in the summer, especially in July, and the ensuing autumn was marked by several storms in the Mediterranean and Cévennes region that provided heavy rainfall in the south-east quarter of the country. As a consequence of these unusual weather patterns, the cumulative hydropower capacity in France was above normal until February, then gradually fell back in the spring, before regaining excess levels during the summer and late autumn. Overall across the year, hydropower capacity was slightly above normal (but well below its 2013 level).

<sup>8</sup> Source: weekly OSGE energy observatory monitoring of French reservoir levels (Miréor project) as far as the coast.

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## 2.2 SIGNIFICANT EVENTS<sup>9</sup>

### 2.2.1 STRATEGIC DEVELOPMENTS

#### 2.2.1.1 Hinkley Point C nuclear power plant project

On 8 October 2014, the European Commission approved the main terms of the agreements between the EDF Group and the UK Government to build a new power station at Hinkley Point C in Somerset. This decision resulted from an extensive and detailed review of the agreements conducted over a 12-month period by the European Commission, in accordance with EU rules on government aid mechanisms. Obtaining the green light from the European Commission is a major step forward for the Hinkley Point C project after the issuance of building permit and licences concerning the nuclear site, the approval of the EPR reactor's design by the UK regulator, and the agreement reached in October 2013 on the project's key commercial terms, particularly the Contract for Difference (CfD)<sup>10</sup> strike price over a duration of 35 years from the plant's date of commissioning, and confirmation of the project's eligibility for the UK Government's infrastructure funding guarantee programme ("Infrastructure UK").

The remaining steps prior to the final investment decision include in particular: the signing of agreements with strategic and financial partners for the project, approval by the European Commission and the UK government of the provisions governing the waste transfer contract, implementation of the funding guarantee in line with the Infrastructure UK programme, and the finalisation of the CfD as well as the agreements with the main suppliers.

#### 2.2.1.2 Finalisation of the agreement between EDF and Veolia Environnement concerning Dalkia

On 25 March 2014 EDF and Veolia Environnement announced that they had finalised the discussions begun in October 2013 and signed an agreement regarding their joint subsidiary Dalkia. Under the terms of this agreement, the EDF group has taken over all the Dalkia group's activities in France (including Citelum), while Dalkia International's activities have been taken over by Veolia Environnement. Veolia Environnement paid the EDF group an amount of €661 million in compensation for the difference in value between the stakes owned by the two shareholders in the various Dalkia entities. This payment, initially valued at €550 million, was adjusted based on the final scope of the transaction with no significant financial impact compared to the original plan.

Following European Commission approval and fulfilment of the other conditions, the Group finalised the operation with Veolia Environnement on 25 July 2014, on the terms laid down in the agreement of 25 March 2014.

This operation enables the Group to develop its involvement in energy services.

### 2.2.2 INVESTMENTS AND PARTNERSHIPS

#### 2.2.2.1 Extension of a series of existing agreements with EDF's Chinese partners

During a visit to France by the President of the People's Republic of China in March 2014, EDF signed a series of agreements with its Chinese partners.

In nuclear power, EDF reinforced its agreements with its partners: with CNNC on closer cooperation, particularly in engineering, operation and maintenance; and with China General Nuclear Power Group (CGN) on their "global partnership agreement".

On 29 January 2015, EDF signed a further agreement with CGN to share their experiences of plant operation and engineering for existing nuclear fleets, with the aim of preserving the highest safety levels and maintaining consistency between French and Chinese procedures and standards. EDF also signed an agreement with Huadian, a leading Chinese electric utility, paving the way for future cooperation on joint projects in China and at international level. There is a particular focus on three key areas: combined-cycle gas-turbine power plants, hydropower plants and renewable energies.

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<sup>9</sup> All press releases are available from the EDF website: [www.edf.com](http://www.edf.com).

<sup>10</sup> The CfD means that Hinkley Point C will offer stable, predictable prices. If the benchmark wholesale electricity prices rise above the CfD strike price, consumers will have no surplus to pay and the producer will have to reimburse the difference. If market prices fall below that price, the generator will receive a top-up payment. Customers will pay nothing until the power station is operational.

On 18 April 2014 EDF and the electricity operator China Datang Corporation (CDT) signed an agreement for EDF to take a 49% stake in Jiangxi Datang International Fuzhou Power Generation Company Ltd (FPC), which is included in the consolidation under the equity method. This joint venture will build and operate an ultra-supercritical coal-fired power plant consisting of two 1,000 MW units. Construction work has begun on the Fuzhou site in South-Eastern China's Jiangxi province. The new plant is scheduled for commissioning in 2016, and will be the first ultra-supercritical coal-fired power plant to be operated by EDF. The technology used guarantees high output efficiency combined with a lower environmental impact. This agreement enhances EDF's engineering and thermal plant operating expertise, and establishes new industrial synergies with world leaders in fossil-fired power.

#### **2.2.2.2 Final agreement with Exelon concerning CENG**

After receiving the approval of the US Nuclear Regulatory Commission (NRC), on 1 April 2014 EDF finalised the agreement signed with Exelon on 29 July 2013 concerning Constellation Energy Nuclear Group (CENG). Under the terms of this agreement, EDF delegated operational management of the five nuclear reactors owned by CENG (located in three sites in the United States, with total power of 4.2 GW) to Exelon, the United States' leading nuclear operator.

CENG also paid the Group an exceptional dividend of US\$400 million (€290 million), funded by a loan to CENG from Exelon. CENG has given a commitment that once this loan is fully repaid, it will pay Exelon a dividend of present value equivalent to US\$400 million. EDF has also been granted an option to sell its holding in CENG to Exelon at fair value, which can be exercised between January 2016 and June 2022.

Following this operation, CENG is still owned 49.99% by EDF and 50.01% by Exelon, and its Board of Directors has equal numbers of directors designated by Exelon and EDF. In application of the analysis criteria defined by the new accounting standards IFRS 10 and IFRS 11, CENG is accounted for under the equity method.

#### **2.2.2.3 Signature of a LNG import agreement with the Cheniere Group**

On 17 July 2014, EDF and Corpus Christi Liquefaction LLC, a subsidiary of the Cheniere group, signed a liquefied natural gas (LNG SPA) supply agreement for a 20-year term (with an option for extension by a further 10 years). The LNG will be produced and delivered at the Corpus Christi liquefaction facility in Texas, in volumes of approximately 0.5 Gm<sup>3</sup> per year after the start-up of the second train and 1 Gm<sup>3</sup> per year after the start-up of the third train. Execution of the contract is subject to certain conditions, including the investment decision relating to completion of the third liquefaction train.

#### **2.2.2.4 Agreement between EDF and Exeltium**

On 27 October 2014, the Exeltium consortium and EDF made an agreement to adjust Exeltium's electricity supply contract and restore competitiveness to the electro-intensive companies concerned, following the significant unexpected drop in market prices. Under this agreement, the price paid for electricity supplies will be decreased initially, before a subsequent adjustment based on changes in the market price for electricity. The whole mechanism thus makes the contract more flexible while retaining its overall economic balance. The other contractual parameters (delivery volumes, opt-out options and industrial risk sharing) are unchanged. The contract's philosophy, approved at the outset by the European Commission, remains the same: offering long-term visibility to the companies belonging to the consortium and ensuring competitive prices over the whole period, while allowing EDF to share part of its generation costs in the long run.

#### **2.2.2.5 Conclusion of the arbitration between Edison and Promgas on the review of the long-term gas supply contract**

On 29 August 2014, the Arbitration Institute of the Stockholm Chamber of Commerce announced its ruling on the reduction of the price under the long-term contract between Edison and Promgas for gas supplies from Russia. The price reduction granted to Edison will have a positive impact of €80 million on the Group's EBITDA for 2014.

#### **2.2.2.6 Finalisation of the agreement between Edison, EDF Energies Nouvelles and F2i**

On 6 November 2014, Edison, EDF Energies Nouvelles and F2i announced that they had finalised the share exchange process creating the third-largest Italian operator in the renewable energy sector with installed capacity of approximately 600MW. This new player in renewable energy will draw on Edison's skills in management and optimisation of electricity generation, and EDF Energies Nouvelles' skills in operation and maintenance. Its capacity and financial skills will be strengthened by the involvement of a strategic partner like F2i, a long-term investor with longstanding experience in the energy sector.

The shareholders of the newly-formed company are F2i, with a 70% interest, and a holding company owned by Edison and EDF Energies Nouvelles with the remaining 30%. In application of the accounting principles in effect at 1 January 2014, the defined governance system and related contractual arrangements allow Edison to fully consolidate the new company.

#### **2.2.2.7 EDF joins Eletronorte and CHESF in Brazil for construction of the SINOP hydroelectric dam**

On 12 December 2014, EDF, through its subsidiary EDF Norte Fluminense, acquired a 51% stake in SINOP Energy Company (CES), which is in charge of building and operating the SINOP hydroelectric dam. The two other shareholders are Eletronorte (24.5%) and CHESF (24.5%), both subsidiaries of the Eletrobras group.

Work on this dam, which will have installed capacity of 400 MW, began in spring 2014 and commercial operation is scheduled to start in the second half-year of 2017. Based on analysis of the governance arrangements set up between the shareholders of CES, the Group's investment is classified as a joint venture under IFRS 10 and is therefore accounted for by the equity method.

#### **2.2.2.8 Agreement with Gazprom for the acquisition of EDF's stake in South Stream**

On 29 December 2014 EDF and Gazprom signed an agreement for the acquisition by Gazprom of EDF's 15% stake, held through its subsidiary EDF International, in the South Stream gas pipeline project (South Stream Transport BV<sup>11</sup>). Given this development, in line with pre-existing agreements EDF International recovered the full amount invested in the project.

#### **2.2.2.9 Investments and disposals by EDF Energies Nouvelles**

On 9 January 2014, EDF Energies Nouvelles, through its US subsidiary EDF Renewable Energy, announced its acquisition of Spinning Spur 3, a 194 MW wind farm project to be built in Texas. The project was originally developed by Cielo Wind Power LP and is expected to come on line in late 2015. Its electricity output will supply two municipal utilities under a 20-year power purchase agreement.

On 16 July 2014, EDF Energies Nouvelles also announced a 96% investment in the 175 MW wind farm project developed by Orion Energy Group and Vision Energy LCC. The project, named Pilot Hill and located in Illinois, is covered by a 20-year power purchase agreement with Microsoft Corporation.

EDF Energies Nouvelles also sold several wind farms. The main sales took place in North America: half of Spinning Spurs 2 (161 MW) and 90% of Shiloh IV (102.5 MW) in the US; 60% of Lake Alfred (150 MW), Massif du Sud (75 MW) and Saint-Robert (40 MW) in Canada. In the United Kingdom, 80% of Glassmoor (12 MW), Green Rigg (36 MW) and Rusholme (24 MW) were sold. These facilities were owned 50% each with EDF Energy.

In solar power, EDF Energies Nouvelles also sold 50% of the Catalina Solar plant (143 MWp).

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<sup>11</sup> South Stream Transport BV was previously owned 50% by Gazprom, the other shareholders being Eni (20%), Wintershall and EDF (15% each). It was formed to construct the undersea portion of the South Stream gas pipeline.

### 2.2.2.10 EDF Energies Nouvelles agreements for operation and maintenance

In December 2014, EDF Energies Nouvelles announced that it had signed several Operation and Maintenance (O&M) contracts to manage wind and solar power facilities on its own behalf and for third parties. The largest contracts are for 656 MW in the US, 599 MW in Italy and 588 MW in Canada. EDF Energies Nouvelles' O&M activity grew by 30% overall in 2014, from 9 GW to close to 12 GW of capacities managed in nine countries.

### 2.2.2.11 Poland

EDF Polska signed cooperation agreements with the city of Zielona Gora in April 2014, and the cities of Gdansk and Gdynia in September 2014. EDF Polska will provide support to these cities in energy efficiency, and matters of environmental protection more generally.

### 2.2.2.12 Belgium

During 2014 EDF Luminus signed cooperation agreements with the cities of Ghent and Genk, laying down the principles for collaboration on questions of sustainable cities, energy efficiency and training.

### 2.2.2.13 Snam, GIC and EDF Invest entered into an agreement with Crédit Agricole Assurances for its entry into the share capital of TIGF

On 28 January 2015, Snam, GIC, and EDF Invest entered into an agreement with Crédit Agricole Assurances for its entry into the share capital of TIGF with a 10% stake. Upon completion of the transaction, Snam, GIC, and EDF Invest will receive slightly above €180m and together with Crédit Agricole Assurances will hold respectively 40.5%, 31.5%, 18.0% and 10.0% of the share capital of TIGF indirectly. The completion of the transaction, which is subject to customary closing conditions, is expected to take place by the end of the first quarter 2015.

## 2.2.3 INVESTMENT PROJECTS

### 2.2.3.1 France

#### 2.2.3.1.1 *Flamanville EPR*

Following the preliminary work for the Flamanville project review with all suppliers which indicated a shift in the construction schedule, the Group announced on 18 November 2014 that the plant was now due to start operation in 2017.

This revision of the schedule results from difficulties encountered by Areva as regards:

- delivery of certain pieces of equipment such as the lid and internal structures to the vessel;
- implementation of France's ESPN<sup>12</sup> regulations for equipment under nuclear pressure for which Flamanville 3 is a first-of-a-kind, particularly concerning a set of assembly carried out by Areva and its subcontractors.

Areva has briefed EDF on the ongoing analysis of the welding defect in the steam generator, the qualification tests of the pressuriser valves, and the detailed metallurgical analysis of the vessel lid material.

The project review will enable EDF and all its suppliers to share this information so it can be integrated into the construction schedule, and to precisely define the consequences of the factors reported with a view to taking all the decisions necessary for the completion of construction.

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<sup>12</sup> *Réglementation Équipements Sous Pression Nucléaire Neufs*

### **2.2.3.1.2 Start of the “Linky” smart meter rollout**

The rollout of smart meters complies with European and French regulations on electricity metering systems (EU directive 2009-072; French law of 3 August 2009 (article 18); French decree of 31 August 2010, currently being updated; the French ministerial decision on metering of 4 January 2012). It follows a 300,000-meter pilot scheme conducted by ERDF in 2010 and 2011. After carrying out an assessment of this scheme, the French energy regulator CRE<sup>13</sup> recommended generalising the smart meter system in its decision of 7 July 2011.

At the initiative of France’s Minister for Ecology, Sustainable Development and Energy, a working party with representatives of all stakeholders was formed in late 2012. The work done during 2013 led the Prime Minister to announce on 9 July 2013 that ERDF would install 3 million smart meters by 2016.

ERDF therefore launched a call for tenders in October 2013 for supply of the first meters. Contracts were awarded in early August 2014 to 6 industrial firms, which will supply the first meters by the end of 2015. ERDF has also issued calls for tenders for the installation of millions of meters. The first household meters are due to be installed from autumn 2015.

Following the public consultation that opened on 30 April 2014, the CRE’s deliberations of 17 July 2014 on the tariff regulation framework for the Linky project were published in France’s Official Journal on 30 July 2014. Given the unusually large scale of this industrial project (€5 billion will be invested between 2014 and 2021 to install 35 million meters), a specific rate of return on assets has been set for a 20-year period.

### **2.2.3.1.3 Commissioning of new facilities by EDF PEI**

In keeping with the objective of implementing guaranteed-power electricity generation facilities for Corsica and French overseas territories, the subsidiary EDF PEI (standing for *Production Electrique Insulaire* or Island Electricity Generation) commissioned the final 6 diesel generators of the Bellefontaine power plant in Martinique, the 7 diesel generators for the Lucciana plant in Upper Corsica, and the first 7 diesel generators for the Pointe-Jarry plant in Guadeloupe, with a total combined generation capacity of close to 350 MW.

### **2.2.3.1.4 Programme of investment in existing nuclear facilities in France for the period 2015-2025**

The 22 January 2015, EDF’s Board of Directors approved in principle the major overhaul programme (so-called “*Grand Carénage*”) aimed at refurbishing the French nuclear fleet, enhancing reactor safety, and, if conditions allow, extending their operating lives. The Board of Directors also expressed its wish that the capex plan would be conducted, monitored and controlled based on the most exacting standards.

This investment programme is estimated to reach a maximum of €<sub>2013</sub>55 billion for the 58 reactors currently operating. This indicative figure will be confirmed later and gradually after the optimising of solutions for rolling out the programme, additional review work, and taking into account the multi-year energy plans (“*Programmations Pluriannuelles de l’Energie*” or “PPE”, and strategic plan) provided for under the energy transition bill.

This industrial programme will be gradually implemented, in compliance with the energy transition law, multi-year energy plans, the opinions and orders of the French Nuclear Security Authority (ASN), as well as the procedures for authorisation for reactors to run for more than 40 years. Its accounting impact will be analysed in 2015.

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<sup>13</sup> *Commission de Régulation de l’Energie*



### 2.2.3.2 United Kingdom

The Teesside offshore wind farm and the West Burton combined cycle gas turbine power plant were both officially opened on 16 April 2014. The Teesside wind farm off the coast near Redcar in north-east England has 27 turbines with total installed capacity of 62 MW.

The West Burton B power station in Nottinghamshire is the EDF Group's largest single capital investment project in the UK so far, with installed capacity of 1,300 MW.

In December 2014, EDF Energy Renewables (owned 50% by EDF Energy and 50% by EDF Energies Nouvelles) sold 80% of three wind farm facilities (Green Rigg, Rusholme and Glassmoor II, totalling 73 MW) to China General Nuclear Power Corporation (CGN).

### 2.2.3.3 Other activities

#### *2.2.3.3.1 Main commissioning of wind farms and photovoltaic power plants*

EDF Energies Nouvelles commissioned a number of wind farms in Europe during 2014, particularly in France: in the north of France, Basse Thiérache Sud (24 MW) in the Picardy region, Seuil de Bapaume and La Plaine de l'Escrebieux (combined capacity of 27 MW) in the Nord-Pas-de-Calais region, and in the south of France, Conilhac (9.2 MW), La Plaine de l'Orbieu (11.5 MW) and La Vallée de l'Hérault (14 MW) in the Languedoc-Roussillon region. The Group continued its expansion in Turkey with the commissioning of its eighth wind farm at Geycek, with capacity of 150 MW. In the United Kingdom, 23 MW of capacity was commissioned, including the M1, Burnfoot North and Barmoor facilities.

EDF Energies Nouvelles also saw further growth in North America, notably in Canada where Blackspring Ridge (300 MW) was commissioned. This is the largest wind farm in the west of Canada and is jointly owned in equal shares with the Enbridge group. Other facilities commissioned in Canada were first tranche of Rivière-du-Moulin (150 MW), and Le Granit and La Mitis (combined capacity of 50 MW) in Quebec. In the United States, the Hereford 2 (200 MW) and Spinning Spur 2 (161 MW) plants were commissioned.

In solar power, the Group commissioned its first 30 MWp solar power plant in India. It also announced the development of five additional solar projects in Rajasthan with total capacity of 120 MWp, for which it was awarded the contract after a call for tenders launched by the Indian government. In Israel, 7 solar plants with cumulative capacity of 54 MWp were commissioned.

As part of its expanding solar power activity in the United States, EDF also commissioned the Lepomis, Lancaster and CID power plants with combined capacity of 39 MWp.

#### *2.2.3.3.2 Allocation of Green Bond funds*

In November 2013, the Group successfully undertook the first "Green Bond" issue in Euros by a large corporate, raising €1.4 billion to finance future renewable energy projects by EDF Energies Nouvelles.

By 31 December 2014 €1,175 million<sup>14</sup> had been allocated to thirteen eligible projects (1.8 GW): ten onshore wind farms, two solar projects and one biomethane plant, located in the United States, Canada and France.

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<sup>14</sup> A detailed list of projects will be published in EDF's 2014 reference document.

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## 2.2.4 EXISTING NUCLEAR PLANTS

### 2.2.4.1 United Kingdom: resumption of operation at Heysham 1 and Hartlepool

Heysham 1 nuclear power plant operated by EDF Energy was shut down on 11 June 2014 for refuelling and an inspection of one of its eight boiler units. This followed tests which had taken place during a period of planned maintenance and inspection in 2013, which led to confirmation that there was a defect on a part of the boiler known as the boiler spine.

Under its safety policy, EDF Energy took the decision on 11 August 2014 to shut down other British reactors of a similar design, Heysham 1 Reactor 2 and Hartlepool Reactors 1 and 2. The inspection of all the boiler units of the four reactors at Heysham 1 and Hartlepool has now been completed, and no other defects were identified. Consequently, EDF Energy was able to put these four reactors back into operation, three in November 2014 and one in January 2015 at reduced capacity.

### 2.2.4.2 Belgium

After 10 months of outage for the Doel 3 and Tihange 2 nuclear reactors for inspections of the reactor vessels, which had been found to have micro-cracks during the summer of 2012, the Federal Nuclear Control Agency (AFCN) gave its authorisation on 17 May 2013 for both nuclear reactors to resume operation. The operator Electrabel had agreed on a battery of additional tests with the AFCN to evaluate the long-term behaviour of the reactor vessels. Since one of the tests conducted did not give the results experts had expected, Electrabel took the initiative on 25 March 2014 to shut both plants down temporarily as a precautionary measure until further test results are available. The EDF group owns 10.2% of these two reactors.

In addition to this, the Doel 4 nuclear reactor, in which EDF Luminus holds a 10.2% share, was out of operation from 4 August to 19 December 2014 after an oil leak in the non-nuclear section of the plant damaged the steam turbine. The possibility of sabotage has been raised, but the causes of the leak are still undetermined and an investigation is in process.

### 2.2.4.3 Findings of the AIEA's safety review of EDF's nuclear fleet

On 9 December 2014, the findings of the "Corporate OSART" mission were published by IAEA. This is the first assessment of integration of safety in the organising and functioning of the Group's corporate services, after a first review of this type with the Czech group CEZ, in 2013. This review was conducted over a period of two weeks by an Operational Safety Review Team (OSART) consisting of experts from third-country nuclear safety regulatory agencies. It dealt mainly with the management of serious accidents, human resources, technical support, communication and maintenance. The findings of the assessment are highly satisfactory, with no discrepancy found in comparison with IAEA standards and 17 good practices identified that could become international standards.

## 2.2.5 ENERGY TRANSITION

### 2.2.5.1 First-reading adoption by the French National Assembly of the energy transition bill

On 14 October 2014, the French National Assembly adopted the bill on the energy transition for green growth, on its first reading. This bill sets medium and long-term objectives.

The main objectives are to reduce greenhouse gas emissions from their 1990 levels by 40% by 2030 and 75% by 2050, and to halve final energy consumption by 2050, with an intermediate target of a 20% reduction by 2030. The bill also aims to bring about changes in the French energy mix, reducing the share of nuclear electricity production from its current 75% to 50% by 2025, cutting primary consumption of fossil-based energy by 30% between 2012 and 2030, and increasing the share of renewable energies in final consumption to 32% by 2030.

Regarding nuclear power, the bill proposes to limit total nuclear generation capacity to 63.2 GW, which is equivalent to the production capacity of the nuclear power plants currently in operation. Other objectives include energy-efficient renovation for 500,000 homes a year from 2017, and renovation of all buildings to meet the BBC<sup>15</sup> low-energy building standards by 2050.

The bill also introduces a new governance structure for climate and energy policies. EDF would be required to prepare a strategic corporate plan compatible with the multi-year energy programme, giving the government commissioner the power to oppose investment decisions that are not compatible with the strategic plan. The other key points of the bill include a reform of the support system for renewable energies and a reform to the governance of the CSPE (Contribution to the Public Electricity Service) system.

The legislative process is now continuing with the Senate's review of the bill in early 2015.

### 2.2.5.2 Partnership with Amundi to develop financing solutions for the energy transition

On 29 October 2014, EDF Group and Amundi, Europe's No. 1 asset manager, announced the establishment of a partnership for the creation of a joint asset management company. The company's purpose will be to raise funds with institutional and retail investors and to manage third-party funds earmarked for energy transition projects. EDF and Amundi aim to provide the market with new categories of funds dedicated to renewable energy generation (wind power, photovoltaic, small hydropower stations, etc.) and B2B energy savings (particularly for electricity-intensive industries).

## 2.2.6 REGULATORY ENVIRONMENT

### 2.2.6.1 France

#### 2.2.6.1.1 *The NOME law and the ARENH system*

Supplies of electricity to EDF's competitors under the ARENH scheme for regulated access to nuclear power supplies concerned a volume of 71.3 TWh for 2014 (36.8 TWh of which were for the first half-year). The annual volume sold under this scheme cannot exceed 100 TWh, plus a progressive increase from 1 January 2014 by the amounts sold to network operators to compensate for their power losses, according to a timetable set by government decision. Applications by suppliers in November 2014 to benefit from the ARENH tariff for the first half of 2015 (15.8 TWh) were down substantially compared to the previous year, principally because wholesale market prices had fallen and became a more attractive source of energy supplies.

The ARENH price was set at €42/MWh from 1 January 2012, and is subsequently intended to reflect the economic conditions of generation by the existing nuclear fleet. The draft decree stipulating the valuation method for costs making up the ARENH price was examined by France's Higher Energy Board (CSE<sup>16</sup>) on 19 June 2014, and has also been examined by France's Competition Authority and the CRE. It is currently under examination by the European Commission, which must approve the price formula. The French government has announced that this formula will apply from 1 July 2015. On 15 October 2014 the CRE stated in its report on regulated electricity sales tariffs that based on the information in its possession at that date, application of that formula would result in a rise of approximately €2/MWh in 2015.

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<sup>15</sup> *Bâtiments basse consommation*

<sup>16</sup> *Conseil Supérieur de l'Énergie*

### 2.2.6.1.2 CSPE

The Contribution to the Public Electricity Service (*Contribution au Service Public de l'Électricité* or CSPE) exists to compensate for certain public service charges assigned to EDF in particular<sup>17</sup>. The CSPE is based on electricity consumption and collected directly from the end-user.

Under the agreement signed in early 2013 by EDF and the French authorities, EDF is to be progressively reimbursed over the period to 31 December 2018 for the receivable consisting of the CSPE shortfall at 31 December 2012 and the costs of bearing this shortfall for the Group (a total amount of some €5.1 billion at 31 December 2014). France's amended finance law for 2013 also recognised the costs of bearing the shortfall in the CSPE mechanism as a public service expense entitling EDF to compensation through the CSPE system. The methods for calculating these costs were set out in articles L121-7 and L121-8 of the French Energy Code. The amount due to EDF at 31 December 2012 for bearing this shortfall, equal to €627m, was defined in a decision published on 30 September 2014. Also in 2014, the CRE recognised an amount of €87 million for these costs owed to EDF in 2013.

The key developments of 2014 concerned the legislative environment for purchase obligations:

- Following a formal injunction from the European Commission, the photovoltaic tariff bonus system was cancelled by a decision dated 25 April 2014. This system, introduced in early 2013, applied additional bonuses for power plants using photovoltaic solar panels assembled in Europe.
- The French government awarded the second contract for offshore wind farms (1,000 MW); the excess cost over market price will be compensated by the CSPE.
- On 17 June 2014, France's Ministry for Ecology, Sustainable Development and Energy signed a decision setting the terms for purchases of electricity from onshore wind farms. This decision, published in France's Official Journal of 1 July 2014, replaced the previous terms laid down in 2008, which were cancelled by the Council of State on 28 May 2014 following legal action by the association *Vent de Colère*, for non-compliance with the procedure for notifying the European Commission of State aid. The new decision adopted the wind power purchase terms of the 2008 decision and the impact on the CSPE was unaffected.
- The CRE published a decision on 16 December 2014 allowing future sales on the wholesale market of energy covered by purchase obligations bought by EDF. Once a dedicated scope for assessing balance has been defined, EDF will be compensated for the cost of the differential between forecast and actual production of energy under purchase obligations. This will provide objective compensation for the surplus cost of energy under purchase obligations borne by EDF.

The amount of expenses to be covered by compensation for 2014 is €5,888 million, 15% more than in 2013. The main explanations for this rise are the lower market prices, and a rise in the volume of renewable energies produced by wind and photovoltaic facilities. Another more minor factor was the fact that solidarity charges resulting from the higher number of beneficiaries of the basic necessity tariff increased by some €100 million. The amounts received during 2014 totalled €5,195 million, up by 12% from 2013 following the CSPE rise applicable from 1 January 2014 (increase of €3/MWh from 2013 taking the CSPE to €16.5/MWh for 2014). The rise in the amount of CSPE collected was limited by the mild weather effect of 2014 and the rise in exempted volumes. At 31 December 2014 the expenses were €699 million<sup>18</sup> higher than the income recorded by EDF.

The CRE's decision of 15 October 2014 states that all expenses to be compensated to operators in 2015 should amount to €6,431 million, while contributions recovered should total €7,002 million.

<sup>17</sup> Local distribution companies and Électricité de Mayotte also make small contributions to the system.

<sup>18</sup> Including the cost of bearing new shortfalls for 2013 and 2014

### **2.2.6.1.3 TURPE 4 Network access tariffs**

The decree of 2001 on the tariffs for using public electricity transmission and distribution networks was amended on 11 December 2014 to comply with the provisions of EU directive 2009/72/EC.

The amendment changes the methods for setting these tariffs, known as TURPE (*Tarifs d'Utilisation des Réseaux Publics d'Électricité*) considering that the CRE is now the only body with competence to do so.

For distribution tariffs from 1 January 2014, the CRE's decision of 12 December 2013 was published in the Official Journal of 20 December 2013. These tariffs were raised by an average 3.6% as of 1 January 2014, then reduced by 1.3% from 1 August 2014. The reduction reflects the clearance of the income and expenses adjustment account (CRCP<sup>19</sup>), (2% offset by a 0.7% inflation effect)<sup>20</sup>.

The French government also announced in a letter of 12 November 2013 to the President of the CRE that it intended to propose a law laying down a secure legal framework for setting the TURPE network access tariff, so that a normative economic regulation method can be implemented. This point is addressed in an article of the energy transition bill, which was adopted at its first reading by the National Assembly on 14 October 2014.

TURPE transmission tariffs were also reduced by 1.3% from 1 August 2014, again corresponding to 2% for the clearance of the income and expenses adjustment account (CRCP) offset by 0.7% inflation. On 27 May 2014, the CRE decided to apply an exceptional 50% reduction to the electricity transmission bills of industrial sites that are large electricity consumers. This measure has been in application since 1 August 2014 and will continue until 31 July 2015, for a total amount in the region of €60 million. This loss of income for RTE will automatically become a tariff-related receivable through the CRCP mechanism, to be compensated through the tariff changes of 1 August 2015 and 2016.

### **2.2.6.1.4 Cancellation of regulated sales tariffs by the Council of State**

In a decision of 11 April 2014, the Council of State partly cancelled the regulated electricity sales tariffs for the period 23 July 2012 to 31 July 2013, following a petition for cancellation brought by the ANODE (French association of energy retail operators). It had decided that the rises in the "yellow" and "blue" tariffs for the period, which were limited to 2% by the ministerial decision of 20 July 2012, were insufficient to cover EDF's electricity generation costs, and also too low in view of the legislator's aim to bring tariffs into line with supply costs for electricity distributed at market prices by 31 December 2015.

The Council of State ordered the ministers concerned to release a new retroactive tariff decision within two months, incorporating the principles laid down in its decision. In response to this order, the government published a draft tariff decision in the Official Journal on 31 July 2014. This draft decision set a new scale for the "blue" tariff for the period 23 July 2012 to 31 July 2013. From 2015 EDF will therefore invoice an additional amount in respect of the bills sent out for the period concerned, and has recorded revenues (excluding taxes) of €921 million in its consolidated financial statements for 2014.

On 12 September 2014, the Council of State's judge for urgent applications rejected the ANODE's application for suspension of the decision of 28 July 2014 in which the ministers in charge of energy removed the forecast average 5% increase in the regulated "blue" tariff that was mentioned in a previous decision of 26 July 2013. The judge considered that urgent application proceedings were inappropriate as the question did not meet the relevant urgency requirements. A decision on the substance of the matter is now expected.

<sup>19</sup> A mechanism to measure and offset differences between the actual and forecast figures on which tariffs are based.

<sup>20</sup> Percentage change between 2012 and 2013 in the average monthly French consumer price index excluding tobacco.

### **2.2.6.1.5 Regulated electricity sales tariffs in France**

The tariff decision of 26 July 2013 provided for an average 5% rise in the “blue” regulated sales tariffs from 1 August 2014. On 4 July 2014, the French government announced that this rise was to be cancelled and a decision to this end was published.

The government also decided to amend decree 2009-975 of 12 August 2009 in order to introduce before 31 December 2015 a method for constructing regulated sales tariffs by “stacking” or adding up the cost of regulated access to historical nuclear electricity (ARENH), the cost of supply for the complementary purchases on wholesale power markets (which includes the capacity guarantee), electricity networks and commercial costs, plus a normal rate of return. The decree also reaffirms the cost coverage principle. This new decree was published on 28 October 2014. On this basis, an official decision set the new tariff scales as of 1 November 2014. The average rises were 2.5% for the “blue” tariff for residential customers, 3.7% for the “green” tariff, and 2.5% for the “yellow” tariff. The “blue” tariff for non-residential customers was reduced by an average 0.7%.

### **2.2.6.1.6 Court of Auditors’ report on the cost of nuclear electricity generation**

On 27 May 2014, the French Court of Auditors released a report on the cost of generating nuclear electricity as part of the French parliamentary commission investigation into the costs of nuclear power, updating its previous report of January 2012. The document discusses the rises in operating expenses for the nuclear fleet between 2010 and 2013, forecast investments in the existing nuclear fleet, future costs for the nuclear fleet, and the issues of accidents and civil liability in nuclear operation.

The January 2012 report estimated investment expenditure for the existing nuclear fleet at €55 billion<sub>2010</sub> for the period 2011-2025, including additional expenses to implement the recommendations issued by the French Nuclear Safety authority ASN after the Fukushima accident. This cost trajectory corresponds to a vast industrial overhaul programme encompassing standard and non-standard maintenance operations and safety improvements for the plants, in order to ensure a stable operating lifespan for nuclear facilities.

The 2014 report by the Court of Auditors estimates the total cost of this programme at €62.5 billion<sub>2010</sub>, including €55 billion<sub>2011</sub> for the period 2014 to 2025. This corresponds to a forecast estimated cost of €56.4<sub>2012</sub>/MWh to €61.6<sub>2012</sub>/MWh for the period 2011-2025, depending on how the extension of the plants’ operating lifespan to 50 years is taken into account. This cost is coherent with the cost estimated by EDF based on the assumption that plants will have a 50-year operating lifespan (approximately €55<sub>2011</sub>/MWh).

### **2.2.6.1.7 Parliamentary commission report on the costs of nuclear power**

On 5 June 2014, the French parliamentary commission referred to in the previous section, set up to investigate the past, present and future costs of nuclear power, the operating lifespan of reactors and various economic and financial aspects of nuclear power generation and supply, also remitted its report.

After six months of work including more than sixty interviews with various stakeholders between January and May 2014 (ten with EDF), the commission made sixteen recommendations at the end of its report, intended to inform the parliamentary debate concerning the bill on the energy transition for green growth. On the question of nuclear costs, the commission’s report gives the figures established by the Court of Auditors and expresses concern about the general trend in the sector’s costs. It recommends that the public authorities should define a strategic energy framework to reduce the uncertainties affecting the nuclear power sector, particularly through the energy transition law.

Regarding the nuclear fleet’s operating lifetime, rather the systematic closure of plants after 40 years the report recommends staggered decommissioning between 40 and 50 years or more, to ensure gradual diversification of the electricity mix.

The other recommendations made by the commission are for further studies on the reprocessing policy and MOx fuels<sup>21</sup> the costs of a nuclear accident and the costs of the Cigéo waste storage centre project, stressing the need for rapid definition of a cost that is ratified by the public authorities.

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<sup>21</sup> Fuel made from reprocessed plutonium.

### 2.2.6.2 United Kingdom

On 19 March 2014, the British government confirmed that it was setting up a capacity market. EDF Energy took part in the first capacity auction in December 2014 for agreements starting from October 2018, with 97% of its capacity or 12.2 GW qualified.

In 2011, to meet its objectives in the fight against climate change, the British government introduced a Carbon Price Support mechanism intended to guarantee a minimum price for carbon, consisting of a tax added to the price of CO<sub>2</sub> emission rights. The aim of this mechanism is to bring the overall carbon price (emission right and tax) to £30/t in 2020, a target set when the price of CO<sub>2</sub> stood at around £15/t. In March 2014, in view of the significant decline in CO<sub>2</sub> prices on the markets, the British government decided to cap the carbon tax at £18/tonne from April 2016 until 2020.

On 26 June 2014, the UK's Competition Market Authority (CMA) began an investigation of the energy market. Its conclusions are expected to be released in December 2015.

### 2.2.6.3 Belgium

The law of 18 December 2013 amending the law of 2003 on the timetable for withdrawal from nuclear energy laid down the principles of a three-party agreement between Electrabel, EDF and the Belgian government defining the terms for extension of operation by Tihange 1 (in which EDF Belgium directly owns a 50% stake) to 2025, particularly the fees due by the owners to the State. The agreement was signed on 12 March 2014 and sets out the operating, financial and legal conditions of this extension.

The Belgian government organised a strategic reserve through a call for tenders from fossil-fired power plants that had announced their temporary or permanent shutdown, in order to secure the country's energy supply during the winter periods. The most attractive proposals were selected once the CREG<sup>22</sup>, Belgium's electricity and gas regulator, approved the prices as reasonable. The power plants included in this reserve will receive payment to cover their fixed costs. The Seraing plant, fully-owned by EDF Luminus, was selected for a 3-year period starting in winter 2014, bringing an end to the plant's temporary shutdown announced in March 2013.

On 18 December 2014, the Belgian government announced that it wanted to extend operations by the Doel 1 and Doel 2 nuclear reactors by 10 years. Their operating lifetime would not extend beyond 2025, or 50 years. This extension requires prior approval by the relevant authority (AFCN), setting the conditions for safety and security in the installations concerned. It will also require overall agreement from all stakeholders.

### 2.2.6.4 Hungary

The Group has heat and electricity production operations in Hungary through its subsidiary Budapesti ErőműZrt (BE ZRt) and also distributes and sells electricity through EDF Démasz ZRt. From September 2014 the regulator applied a further reduction in regulated tariffs for supplies of gas, electricity and heat to domestic customers. This reduction was 5.7% for domestic electricity customers, after two previous reductions applied in January (-10%) and November 2013 (-11.1%).

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<sup>22</sup> *Commission de Régulation de l'Electricité et du Gaz*

## 2.2.7 GOVERNANCE - BOARD OF DIRECTORS

The General Shareholders' Meeting of 21 November 2014 amended the articles of association in application of ordinance 2014-948 of 20 August 2014 on governance and capital transactions in companies with State shareholders, and decided on the membership of EDF's Board of Directors.

EDF's Board of Directors now has 11 directors appointed by the shareholders, 6 directors elected by employees and one director representing the French government.

The appointments of the following seven directors were renewed at the General Shareholders' Meeting of 21 November 2014: Olivier Appert, Philippe Crouzet, Bruno Lafont, Bruno Léchevin, Marie-Christine Lepetit, Colette Lewiner and Christian Masset.

Four new directors were also appointed by the shareholders: Jean-Bernard Lévy, Gérard Magnin, Laurence Parisot and Philippe Varin.

Of the eleven directors appointed by the shareholders on 21 November 2014, five were nominated by the State in application of the ordinance of 20 August 2014: Marie-Christine Lepetit, Olivier Appert, Bruno Léchevin, Christian Masset and Gérard Magnin.

Régis Turrini was appointed as Representative of the French State in the EDF Board of Directors.

Jean-Bernard Lévy was appointed as EDF's Chairman and CEO by decree of 27 November 2014.



### 3. ANALYSIS OF THE BUSINESS AND THE CONSOLIDATED INCOME STATEMENTS FOR 2013 AND 2014

Presentation and analysis of the consolidated income statements for 2013 and 2014 is shown on two levels for sales and EBITDA: a first focusing on the Group, then a second examining the different business segments (France, United Kingdom, Italy, Other International and Other activities). EBIT (operating profit) and net income are analysed from a more general standpoint.

The comparative figures for 2013 have been restated to reflect the impact of retrospective application of IFRS 10 and IFRS 11 (-€666 million impact on EBITDA, no impact on EDF net income).

<i>(In millions of Euros)</i>	<b>2014</b>	<b>2013 restated</b>
<b>Sales</b>	<b>72,874</b>	<b>71,916</b>
Fuel and energy purchases	(36,704)	(38,116)
Other external purchases	(9,181)	(8,287)
Personnel expenses	(11,785)	(11,291)
Taxes other than income taxes	(3,593)	(3,481)
Other operating income and expenses	5,668	5,358
<b>Operating profit before depreciation and amortisation (EBITDA)</b>	<b>17,279</b>	<b>16,099</b>
Net changes in fair value on Energy and Commodity derivatives, excluding trading activities	203	14
Net depreciation and amortisation	(7,940)	(7,154)
Net increases in provisions for renewal of property, plant and equipment operated under concessions	(157)	(227)
(Impairment)/Reversals	(1,189)	(617)
Other income and expenses	(212)	219
<b>Operating profit (EBIT)</b>	<b>7,984</b>	<b>8,334</b>
<b>Financial result</b>	<b>(2,551)</b>	<b>(2,942)</b>
<b>Income before taxes of consolidated companies</b>	<b>5,433</b>	<b>5,392</b>
Income taxes	(1,839)	(1,896)
Share in net income of associates and joint ventures	179	262
<b>Group net income</b>	<b>3,773</b>	<b>3,758</b>
<b>EDF net income</b>	<b>3,701</b>	<b>3,517</b>
Net income attributable to non-controlling interests	72	241
<b>Earnings per share (EDF share) (in Euros)</b>		
<b>Earnings per share</b>	<b>1.78</b>	<b>1.84</b>
<b>Diluted earnings per share</b>	<b>1.78</b>	<b>1.84</b>

## 3.1 SALES

Consolidated sales were up slightly (+1.3%), while showing an organic decline of 1.4%.

### 3.1.1 CHANGE IN GROUP SALES

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)	Organic growth (%)
Sales	72,874	71,916	958	+1.3	-1.4

Sales amounted to €72,874 million in 2014, an increase of €958 million (+1.3%) from 2013. This includes the favourable €921 million impact of the regulated tariffs catch-up for 2012-2013<sup>23</sup>. Excluding the effects of exchange rates (+€519 million), principally reflecting the pound sterling's rise against the Euro, and excluding changes in the scope of consolidation (+€1,449 million) essentially relating to the takeover of Dalkia in France, sales showed an organic decline of 1.4% due to the mild weather effect.

### 3.1.2 CHANGE IN SALES BY SEGMENT

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)	Organic growth (%)
<b>France</b>	<b>39,910</b>	<b>40,210</b>	<b>(300)</b>	<b>-0.7</b>	<b>-0.2</b>
United Kingdom	10,160	9,782	378	+3.9	-1.9
Italy	12,687	12,689	(2)	0.0	-0.4
Other International	5,603	6,349	(746)	-11.7	-11.1
Other activities	4,514	2,886	1,628	+56.4	+0.8
<b>Total excluding France</b>	<b>32,964</b>	<b>31,706</b>	<b>1,258</b>	<b>+4.0</b>	<b>-2.9</b>
<b>Group sales</b>	<b>72,874</b>	<b>71,916</b>	<b>958</b>	<b>+1.3</b>	<b>-1.4</b>

Sales outside the France segment represented 45.2% of total consolidated sales in 2014, compared to 44.1% in 2013.

#### 3.1.2.1 France

##### Change in sales in the France segment

France's contribution to Group sales amounted to €39,910 million, corresponding to an organic decline of €90 million (-0.2%) compared to 2013.

This decline in sales mainly results from the lower volumes sold to final customers due to weather effects (-25.4 TWh) with an impact of €1,899 million, which was only partly offset by the increase in electricity tariffs in August 2013 and November 2014, the change in the TURPE network access tariff and the regulated tariffs catch-up for 2012-2013 (+€908 million). Sales of gas to final customers were down by €133 million, principally because of the weather (-3.1 TWh).

<sup>23</sup> Regulated tariffs catch-up for the period from 23 July 2012 to 31 July 2013 following the French State Council's decision of 11 April 2014.

At 31 December 2014, EDF's volume market share for electricity sales to all final customers was 78.8%, 0.9 points down from 31 December 2013. EDF's share of the natural gas market was 4.7%, 0.3 points higher than at 31 December 2013.

**Breakdown of sales for the "France" segment between Generation and Supply (deregulated activities)<sup>24</sup>, network activities<sup>25</sup> and island activities<sup>26</sup>**

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)	Organic growth (%)
<b>Sales</b>	<b>39,910</b>	<b>40,210</b>	<b>(300)</b>	<b>-0.7</b>	<b>-0.2</b>
<b>Generation and Supply (deregulated activities)</b>	<b>37,678</b>	<b>38,007</b>	<b>(329)</b>	<b>-0.9</b>	<b>-0.3</b>
<b>Network activities</b>	<b>13,276</b>	<b>13,807</b>	<b>(531)</b>	<b>-3.8</b>	<b>-3.8</b>
<b>Island activities</b>	<b>1,071</b>	<b>931</b>	<b>140</b>	<b>+15.0</b>	<b>+15.0</b>
Eliminations	(12,115)	(12,535)	420		

The 0.9% decrease in sales by Generation and Supply (deregulated activities) is explained by the unfavourable impact of a decline in volumes, essentially driven by the very mild weather in 2014 (compared to the cold weather of 2013), which was only partially offset by the tariff increases of 1 August 2013 and 1 November 2014, and the regulated tariffs catch-up.

Sales by the network activities were down by 3.8%, as the transmission volumes declined due to very mild weather in 2014 compared to 2013, despite the favourable impact of the TURPE tariff increase from 1 January 2014.

## Electricity generation

Nuclear generation produced 415.9 TWh in 2014, compared to 403.7 TWh for 2013, an increase of +12.2 TWh. This surpassed the Group's upper end of the 410 – 415 TWh target for 2014 announced to the market. This significant improvement was driven by better control over the duration of scheduled outages with an average duration of the extension of planned outages reduced by half. The availability coefficient was 80.9% in 2014, higher than in 2013 (78.0%).

Hydropower output stood at 37.5 TWh, down by 5 TWh from 2013: conditions were less favourable after the exceptionally high water levels of 2013 (see section 1.2.1.4 on weather conditions).

Fossil-fired generation produced 6.9 TWh, 8.7 TWh less than in 2013. This decline is essentially caused by progressive decommissioning of the highest-pollution power plants, a lower solicitation of the fossil-fuel-fired power plant fleet on the back of weather conditions and a less favourable spread between electricity prices and fossil fuel prices.

Sales volumes to final customers (a market segment that includes Eurodif and local distribution firms) were down by 26.8 TWh, of which 25.4 TWh relate to the temperature differential. The effects of the end of the VPP<sup>27</sup> auction system, which were first felt in 2012, account for a 5.4 TWh downturn in sales in 2014. The volume of electricity supplied under the ARENH system was 71.3 TWh.

EDF was a net seller on the markets to the extent of 27.0 TWh in 2014, an increase of 24.5 TWh from 2013.

<sup>24</sup> Generation, Supply and Optimisation in mainland France, and sales of engineering and consulting services.

<sup>25</sup> Network activities now only include Distribution, as a result of application of the equity method to the Transmission activity since 31 December 2010. In mainland France, network activities are regulated via the network access tariff TURPE (*Tarifs d'Utilisation des Réseaux Publics d'Électricité*). Sales for the regulated activities include the delivery cost included in integrated tariffs.

<sup>26</sup> EDF's generation and distribution activities in the island energy systems (IES and PEI).

<sup>27</sup> Virtual Power Plant capacity auction system, generating deliveries for periods ranging from a few months to 3 years.

### 3.1.2.2 United Kingdom

The **United Kingdom**'s contribution to Group sales amounted to €10,160 million in 2014, 3.9% more than in 2013, corresponding to an organic decline of 1.9%. This includes a favourable exchange effect of €572 million.

The primary reason for the lower level of gas sales was the weather effect, which was less favourable than in 2013.

### 3.1.2.3 Italy

Italy contributed €12,687 million to consolidated sales, a stable result compared to 2013, or -0.4% in organic terms.

In an environment marked by sharply declining demand for electricity and gas, affected by exceptionally mild winter temperatures and lower prices on the gas and electricity markets, Edison's sales remained practically stable (+0.2%), or -0.2% in organic terms.

In the electricity business, sales rose by 9.7% due to the strong progression in volumes sold on the wholesale markets and to final users, largely offsetting the negative effects of the fall in market prices.

In the hydrocarbon business, in contrast, sales were adversely affected by a strong weather effect which had a significant impact on sales volumes to residential customers and fossil-fired power plants. Sales to industrial customers progressed substantially over the year.

Fenice registered sales of €400 million, an organic decline of -€22 million from 2013 due to its business in Spain which were affected by the energy reform.

### 3.1.2.4 Other International

The **Other International** segment principally covers operations in Europe, excluding the United Kingdom and Italy, and operations in the United States, Brazil and Asia (China, Vietnam and Laos).

This segment contributed €5,603 million to Group sales in 2014, €746 million or -11.7% less than in 2013. Excluding foreign exchange effects (-€44 million), sales declined in organic terms (-11.1% compared to 2013).

The downturn is essentially explained by the following factors:

- in **Belgium**, (-€594 million organic decline), the downturn in sales was particularly due to a decrease in the volumes of gas sold, in keeping with the milder weather of 2014 and pressure on electricity prices from tougher competition,
- in **Poland** (-€124 million organic decline), the downturn related to lower market prices caused by the milder weather in 2014,
- in **Hungary** (-€74 million organic decline), sales were affected by the fall in electricity prices and volumes sold on the markets, and penalised by an unfavourable regulatory context concerning the tariff for regulated activities.

However, sales rose in **Brazil** (+€113 million organic growth), driven by electricity sales on the spot market at exceptionally high prices as water levels were particularly low.

### 3.1.2.5 Other activities

**Other activities** comprise, among other entities, EDF Énergies Nouvelles, EDF Trading, Electricité de Strasbourg and Dalkia.

The contribution by the **Other activities** segment to Group sales in 2014 was €4,514 million, up by €1,628 million or 56.4% from 2013, corresponding to organic growth of €22 million (+0.8%). The scope effect was +€1,614 million or +55.9%, and mostly concerns the takeover of Dalkia's activities in France in late July 2014.

**EDF Énergies Nouvelles'** contribution to Group sales registered organic growth of €36 million (+4.6%) from 2013. This rise essentially results from expanding business in the Generation activity.

**EDF Trading's**<sup>28</sup> sales showed organic growth of €85 million from 2013 (+11.0%) due to good performance in North America businesses.

However, sales by **Électricité de Strasbourg** showed an organic decline of €50 million (-6.1%) from 2013, mainly caused by lower sales volumes due to the milder weather in 2014.

Sales for this segment include a favourable scope effect reflecting the takeover of Dalkia's activities in France from 25 July 2014.

## 3.2 OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA rose by 7.3%, with organic growth of 6.5% (including +4.6% from the 2012-2013 tariff catch-up). Excluding Edison and the regulated tariffs catch-up for 2012-2013, organic growth was 3.2%, higher than the 3% target set by the Group in early 2014.

	2014	2013 restated	Variation	Variation (%)	Organic growth (%)
<i>(In millions of Euros)</i>					
<b>Sales</b>	<b>72,874</b>	<b>71,916</b>	<b>958</b>	<b>+1.3</b>	<b>-1.4</b>
Fuel and energy purchases	(36,704)	(38,116)	1,412	-3.7	-5.3
Other external expenses	(9,181)	(8,287)	(894)	+10.8	+1.1
Personnel expenses	(11,785)	(11,291)	(494)	+4.4	+0.7
Taxes other than income taxes	(3,593)	(3,481)	(112)	+3.2	+2.8
Other operating income and expenses	5,668	5,358	310	+5.8	+6.0
<b>EBITDA</b>	<b>17,279</b>	<b>16,099</b>	<b>1,180</b>	<b>+7.3</b>	<b>+6.5</b>

### 3.2.1 CHANGE IN CONSOLIDATED EBITDA AND ANALYSIS

**Consolidated EBITDA** for 2014 amounted to €17,279 million, up by 7.3% from 2013. EBITDA includes the favourable €744 million impact of the regulated tariffs catch-up for 2012-2013. After adjustment for the positive €22 million scope effect, essentially related to the takeover of Dalkia's activities in France in July 2014, and favourable foreign exchange effects of €109 million, mainly resulting from the pound sterling's rise against the Euro, organic growth was +6.5%.

The Group stepped up its efforts to control its operating costs. Whereas the Spark cost-cutting plan limited their increase to 1.1%<sup>29</sup>, the increase in operating costs continued to slow in 2014, to +0.9%<sup>30</sup>.

<sup>28</sup> EDF Trading sales consist of its trading margin.

<sup>29</sup> At constant scope, exchange rates and methods

<sup>30</sup> A constant scope and exchange rates

The Group's **fuel and energy purchases** amounted to €36,704 million in 2014, down by €1,412 million (-3.7%) from 2013, or €2,003 million (-5.3%) in organic terms.

In **France**, the organic decline of €1,219 million (-7.3%) is essentially explained by:

- a lower level of purchases on the markets as sales volumes were down,
- recognition in 2013 of a €208 million increase in the provision for long-term radioactive waste management to reflect ANDRA's new financing requirements for studies concerning geological storage plans.

An organic decline was observed in **Italy** (-€214 million or -2.0%), as the strong downturn in prices in 2014 offset the rise in the volume of fuel and energy purchases. The decline in **Belgium** (-€456 million or -14.5%) is correlated with the decrease in sales volumes.

**Other external expenses** amounted to €9,181 million for 2014, up by €894 million (+10.8%) from 2013 (an organic rise of €94 million or +1.1%). In France, other external expenses increased by €167 million (+3.1%).

The Group's **personnel expenses** totalled €11,785 million, an increase of €494 million from 2013 (+€76 million or +0.7% in organic terms).

In **France**, personnel expenses amounted to €9,071 million, an organic increase of 0.5% from 2013 mainly reflecting the growth in the workforce, which offset the decrease in pension expenses (mostly resulting from the 2013 pension reform).

**Taxes other than income taxes** amounted to €3,593 million for 2014, up by €112 million or +3.2% from 2013 (+2.8% organic growth). This rise includes the effect of higher non-income taxes for the Generation activity in **France**.

**Other operating income and expenses** generated net income of €5,668 million in 2014, €310 million more than in 2013 (organic growth of €324 million or +6.0%).

In **France**, other operating income and expenses registered an organic increase of €481 million, largely due to the rise in the CSPE.

In **Italy**, there was an organic decrease of €275 million principally attributable to the non-recurring effects of renegotiations and arbitration concerning long-term gas contracts, which were higher in 2013 (Algeria and Qatar) than 2014 (Russia).

### 3.2.2 CHANGE IN CONSOLIDATED EBITDA AND ANALYSIS BY SEGMENT

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)	Organic growth (%)
<b>France</b>	<b>12,198</b>	<b>10,778</b>	<b>1,420</b>	<b>+13.2</b>	<b>+12.6</b>
United Kingdom	1,941	1,992	(51)	-2.6	-8.5
Italy	886	1,059	(173)	-16.3	-17.3
Other International	632	814	(182)	-22.4	-21.4
Other activities	1,622	1,456	166	+11.4	+15.0
<b>Total excluding France</b>	<b>5,081</b>	<b>5,321</b>	<b>(240)</b>	<b>-4.5</b>	<b>-5.8</b>
<b>Group EBITDA</b>	<b>17,279</b>	<b>16,099</b>	<b>1,180</b>	<b>+7.3</b>	<b>+6.5</b>

### 3.2.2.1 France

#### Change in EBITDA for the France segment

France contributed €12,198 million of consolidated EBITDA for 2014, up by 13.2% with organic growth of 12.6% compared to 2013 (including +6.8% for the regulated tariffs catch-up). The weather effect was more than offset by good operating results. This contribution accounted for 70.6% of Group EBITDA in 2014 against 66.9% in 2013.

#### Breakdown<sup>31</sup> of EBITDA for the France segment between Generation and Supply (deregulated activities), network activities and island activities

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)	Organic growth (%)
<b>EBITDA</b>	<b>12,198</b>	<b>10,778</b>	<b>1,420</b>	<b>+13.2</b>	<b>+12.6</b>
<b>Generation and Supply (deregulated activities)</b>	<b>7,929</b>	<b>6,705</b>	<b>1,224</b>	<b>+18.3</b>	<b>+17.3</b>
<b>Network activities</b>	<b>3,558</b>	<b>3,641</b>	<b>(83)</b>	<b>-2.3</b>	<b>-2.2</b>
<b>Island activities</b>	<b>711</b>	<b>432</b>	<b>279</b>	<b>+64.6</b>	<b>+64.6</b>

EBITDA for Generation and Supply (deregulated activities) rose by 18.3%. After adjustment for the €731 million impact of the regulated tariffs catch-up for 2012-2013 and the €63 million scope effect related to the transfer of upstream gas portfolio management activities to the "Other activities" segment, EBITDA was up by €430 million or +6.4%. This increase is essentially explained by the improved nuclear output (+€289 million), the rise in the energy component of regulated sales tariffs (+€413 million), and the decrease in costs associated with CO<sub>2</sub> emissions allowances (+€151 million) which offset the effect of the mild weather (-€141 million) and the lower hydropower output (-€170 million), as water levels had been excellent in 2013. The moderate increase (+0.7%) in other external expenses and personnel costs are due mainly to efforts to control costs and the solid results of nuclear reactors planned outages programme.

EBITDA for the network activities decreased by 2.2%, as the effects of the mild weather (-€385 million) were only partly counterbalanced by the rise in the TURPE network access tariff and the lower purchases to compensate for network losses due to falling electricity market prices.

EBITDA for the island activities was up by €279 million (+64.6%), primarily due to new power plants commissioned by the subsidiary EDF PEI following the Group's investment effort begun in 2009, with the aim of renewing practically all diesel-fired power plants.

### 3.2.2.2 United Kingdom

The **United Kingdom's** contribution to Group EBITDA for 2014 was €1,941 million, 2.6% lower than in 2013 (including €116 million in favourable foreign exchange effects), corresponding to an organic decline of 8.5%.

Nuclear generation output was 56.3 TWh in 2014, down by -4.2 TWh from the previous year. This decrease essentially results from unplanned outages of the Heysham 1 and Hartlepool reactors. Following inspections of the boiler units, operation was resumed in late 2014 and early 2015. Generation by the rest of the nuclear fleet registered a very good operating performance.

EBITDA for the B2C activity progressed, mainly thanks to the average increase in product accounts and EDF Energy's ongoing efforts to reduce costs despite the adverse weather effect on gas sales.

<sup>31</sup> Further details of this breakdown can be found in section 1.3.1.2.1.

### 3.2.2.3 Italy

The **Italy** segment contributed €886 million to the Group's consolidated EBITDA, 16.3% lower than in 2013 or an organic decline of 17.3%.

This movement essentially concerned Edison, which made a €801 million contribution to Group EBITDA in 2014, down by €176 million or -18.2% in organic terms. The decrease is attributable to the non-recurring effects of negotiations and arbitration concerning long-term gas contracts, which were higher in 2013 (Algeria and Qatar) than 2014 (Russia). Once corrected for these non-recurring effects, EBITDA for the Italy segment showed organic growth of more than 10%, reflecting a good operating performance.

The second round of negotiations concerning the Libyan gas contract is expected to conclude in the first half of 2015. This will bring to an end the cycle of price revisions initiated in late 2012 for all contracts.

In a context of falling prices, EBITDA for the electricity activities remained at its 2013 level, due to the very good hydro conditions and optimisation of the fossil-fired power plants' potential for flexibility.

Fenice contributed €86 million to Group EBITDA in 2014, down by 5.5% from 2013 as a result of the Spanish energy reform.

### 3.2.2.4 Other International

EBITDA for the **Other International** segment stood at €632 million in 2014, down by 22.4% from 2013 corresponding to an organic decline of 21.4%.

EBITDA in **Belgium** registered an organic decline of €158 million, having been adversely affected by the temporary unplanned shutdowns of the Doel 3, Doel 4 and Tihange 2 nuclear reactors (see 2.2.4.2), lower gas sales volumes caused by mild weather effects, and falling electricity margins in a difficult market.

EBITDA in **Poland** registered an organic decline of €59 million, due to a price downturn on the wholesale electricity markets and lower volumes of heat sold due to weather effects; these factors were only partly offset by better green energies generation margins and renewed support for cogeneration.

In 2013 this segment had recorded the favourable effect of the gain on sale of SSE, which has no equivalent in 2014.

**Brazil** achieved organic growth of €65 million in EBITDA, largely due to an improvement in electricity margins thanks to favourable market conditions.

### 3.2.2.5 Other activities

**Other activities** contributed €1,622 million to Group EBITDA for 2014, an organic rise of 15.0% from 2013.

**EDF Énergies Nouvelles'** contribution to consolidated EBITDA totalled €690 million in 2014. The organic growth of €40 million (+6.2%) compared to 2013 was driven by particularly active business in Development and Sales of Structured Assets. EDF Énergies Nouvelles also continued development of its operation and maintenance activity, which covered close to 12 GW of capacities at 31 December 2014 compared with 9 GW at 31 December 2013.

EBITDA at **EDF Trading** amounted to €632 million in 2014, with organic growth of €105 million (+19.9%) from 2013. This increase is principally due to the good business performance in North America.

**Dalkia** contributed €32 million to Group EBITDA due to the 5-month consolidation and the one-off impact of the opening balance sheet.



### 3.3 OPERATING PROFIT (EBIT)

EBIT decreased by 4.2%.

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)
<b>EBITDA</b>	<b>17,279</b>	<b>16,099</b>	<b>1,180</b>	<b>+7.3</b>
Net changes in fair value on Energy and Commodity derivatives, excluding trading activities	203	14	189	+1 350.0
Net depreciation and amortisation	(7,940)	(7,154)	(786)	+11.0
Net increases in provisions for renewal of property, plant and equipment operated under concessions	(157)	(227)	70	-30.8
(Impairment) / reversals	(1,189)	(617)	(572)	+92.7
Other income and expenses	(212)	219	(431)	-196.8
<b>Operating profit (EBIT)</b>	<b>7,984</b>	<b>8,334</b>	<b>(350)</b>	<b>-4.2</b>

The Group's consolidated **EBIT** amounted to €7,984 million for 2014, down by €350 million from 2013. This downturn is principally explained by the increase in net depreciation and amortisation, especially in France, higher impairment and unfavourable developments in other income and expenses.

#### 3.3.1 NET CHANGES IN FAIR VALUE ON ENERGY AND COMMODITY DERIVATIVES, EXCLUDING TRADING ACTIVITIES

The net changes in fair value on Energy and Commodity derivatives, excluding trading activities, rose from +€14 million in 2013 to +€203 million in 2014. The favourable developments were mostly located in **Italy**, where they concerned economic hedging of the industrial gas portfolio, under the combined effect of a significant decrease in forward contracts on the European gas markets and volumes hedged, and to a lesser extent in the **United Kingdom**.

#### 3.3.2 NET DEPRECIATION AND AMORTISATION

Net depreciation and amortisation was higher than in 2013 (+11.0%).

**France** registered a €645 million increase in net depreciation and amortisation, largely relating to the replacement of major nuclear plant components, investments in the fleet currently in operation, and investments made in distribution.

In the **United Kingdom**, the €104 million rise in net depreciation and amortisation (€54 million in organic terms) is essentially attributable to the commissioning of the West Burton B combined cycle gas turbine (CCGT) plant from the second quarter of 2013 and the rise in maintenance investments for the nuclear fleet. These effects were partly counterbalanced by the favourable impact of extensions in operating lives announced by EDF Energy, including at Dungeness B for 10 years until 2028; the expectation is an average life extension of eight year for the seven AGR (advanced gas-cooled reactors) power plants relative to the scheduled closure dates at British Energy acquisition in January 2009.

The €51 million increase in EBITDA in the **Other activities** segment mainly results from the first consolidation of **Dalkia** as of July 2014.

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### 3.3.3 NET INCREASES IN PROVISIONS FOR RENEWAL OF PROPERTY, PLANT AND EQUIPMENT OPERATED UNDER CONCESSIONS

The €70 million decrease between 2014 and 2013 in net increases in provisions for renewal of property, plant and equipment operated under concessions is mainly attributable to ERDF.

### 3.3.4 IMPAIRMENT / REVERSALS

In 2013, impairment amounted to €617 million and principally concerned:

- **Belgium:** €229 million, particularly for an EDF Luminus fossil-fired generation plant,
- **Poland:** €127million mainly due to the suspension of the supercritical coal-fired power plant project.

In 2014, impairment amounted to €1,189 million and essentially concerned:

- **Belgium:** €586 million in respect of the subsidiary EDF Luminus, due to the deterioration in long-term assumptions regarding market prices,
- the **United Kingdom:** €169 million in respect of the West Burton B combined cycle gas turbine plant due to the decline in market prices for gas, and the Hill Top Farm gas storage cavities in Cheshire following the reduction in the number of storage capacities put into development for reasons of site security and unfavourable market conditions,
- **Edison:** €167 million, mostly in respect of hydropower and wind power assets, which were affected by lower market prices.

### 3.3.5 OTHER INCOME AND EXPENSES

Other income and expenses generated a net expense of €212 million in 2014, compared to net income of €219 million in 2013.

In 2013, the main components of other income and expenses were:

- income of €472 million related to the favourable effect of the pension reform in France,
- an expense of €174 million related to EDF's investment in SLOE, a combined cycle gas plant in the Netherlands,
- restructuring expenses for the Group's activities, particularly in Belgium, Poland and Hungary.

In 2014, the main components of other income and expenses were:

- the gain on the sale of Dalkia International and the takeover of Dalkia's activities in France,
- an expense for revision of the contractor quotes for decommissioning of permanently shut-down French nuclear plants (UNGG plants, Creys-Malville, Brennilis and Chooz A).

### 3.4 FINANCIAL RESULT

<i>(In millions of Euros)</i>	2014	2013 restated	Variation	Variation (%)
Cost of gross financial indebtedness	(2,243)	(2,262)	19	-0.8
Discount effect	(2,996)	(2,931)	(65)	+2.2
Other financial income and expenses	2,688	2,251	437	+19.4
<b>Financial result</b>	<b>(2,551)</b>	<b>(2,942)</b>	<b>391</b>	<b>-13.3</b>

The financial result for 2014 was a financial expense of €2,551 million, an improvement of €391 million from 2013, as a result of the following:

- a slight decrease in the cost of gross financial indebtedness, as the rise in gross debt was offset by a decline in average coupon rates from 3.8% at 31 December 2013 to 3.3% at 31 December 2014 due to the favourable impact of fixed to floating operations;
- a €65 million increase in discount expenses, particularly resulting from the higher nuclear provisions and an increase in provisions for long-term and post-employment benefits in France and the United Kingdom,
- a €437 million improvement in other financial income and expenses, primarily relating to the increase in capital gains on divestment of dedicated assets.

### 3.5 INCOME TAXES

Income taxes amounted to €1,839 million, corresponding to an effective tax rate of 33.8% in 2014. The effective tax rate was 35.2% in 2013.

The effective tax rate was pushed up by impairment; after adjustment to eliminate this factor, it stood at 32.2% in 2014 compared to 34% in 2013.

The main explanation for the fall in the effective tax rate between 2013 and 2014 is the higher deduction of payments made during 2014 to bearers of perpetual subordinated bonds, and the favourable effects of the Dalkia operation in 2014. These impacts were partly offset by a positive effect in 2013, associated with a reduction in the UK tax rate that had no equivalent in 2014.

### 3.6 SHARE IN NET INCOME OF ASSOCIATES AND JOINT VENTURES

The Group's share in net income of associates and joint ventures was a positive €179 million in 2014, compared to €262 million in 2013. The downturn mainly results from the €115 million decrease in RTE's net income as a result of the mild weather in the early part of 2014 compared to 2013.

The share in net income of associates also includes impairment in 2014 totalling €425 million, including €206 million in respect of Alpiq, reflecting the less favourable energy environment, €122 million on CENG due to worsening prospects for long-term electricity prices in the United States, and €83 million on the investment in the joint venture Estag (Austria).

In 2013, impairment of €443 million was recognised, including €284 million on Alpiq and €146 million on CENG.

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### 3.7 NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Net income attributable to non-controlling interests<sup>32</sup> amounted to €72 million in 2014, €169 million less than in 2013. This change is essentially explained by the decline in Centrica's revenues on nuclear generation activities in the United Kingdom since volumes were down, and the lower revenue for non-controlling interest in EDF Luminus' net income.

### 3.8 EDF NET INCOME

EDF net income totalled €3,701 million for 2014, up by €184 million (+5.2%) compared to 2013.

### 3.9 NET INCOME EXCLUDING NON-RECURRING ITEMS

The Group's net income excluding non-recurring items<sup>33</sup> stood at €4,852 million for 2014, up by 17.9% compared to 2013.

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<sup>32</sup> Formerly called "minority interests".

<sup>33</sup> Group net after-tax income excluding non-recurring items and net changes in fair value on Energy and Commodity derivatives, excluding trading activities, net of tax.

Non-recurring items and net changes in fair value on Energy and Commodity derivatives, excluding trading activities, net of tax:

- -€1,290 million for miscellaneous risks and impairment in 2014, compared to -€615 million in 2013,
- +€139 million of net changes in fair value on Energy and Commodity derivatives, excluding trading activities, net of tax in 2014, compared to +€15 million for 2013.

## 4. NET INDEBTEDNESS, CASH FLOWS AND INVESTMENTS

Net indebtedness comprises total loans and financial liabilities, less cash and cash equivalents and liquid assets. Liquid assets are financial assets consisting of funds or securities with initial maturity of over three months that are readily convertible into cash and are managed according to a liquidity-oriented policy. It also includes the Group's loan to RTE.

Changes in the Group's net indebtedness were as follows:

In millions of Euros	2014	2013 restated	Variation	Variation (%)
<b>Operating profit before depreciation and amortisation (EBITDA)</b>	<b>17,279</b>	<b>16,099</b>	<b>1,180</b>	<b>7.3</b>
Cancellation of non-monetary items included in EBITDA	(1,901)	(224)	(1,677)	
Net financial expenses disbursed	(1,752)	(1,719)	(33)	
Income taxes paid	(2,614)	(1,936)	(678)	
Other items including dividends received from associates and joint ventures	679	357	322	
<b>Operating cash flow <sup>(1)</sup></b>	<b>11,691</b>	<b>12,577</b>	<b>(886)</b>	<b>(7.0)</b>
Change in working capital	(1,041)	(1,711)	670	
Net investments excluding strategic operations <sup>(2)</sup>	(12,045)	(11,830)	(215)	
<b>Cash flow after net operating investments (excluding strategic operations) and changes in working capital</b>	<b>(1,395)</b>	<b>(964)</b>	<b>(431)</b>	
Net investments in strategic operations <sup>(3)</sup>	158	755	(597)	
Dedicated assets	174	2,443	(2,269)	
<b>Cash flow before dividends <sup>(4)</sup></b>	<b>(1,063)</b>	<b>2,234</b>	<b>(3,297)</b>	
Dividends paid in cash	(2,944)	(2,548)	(396)	
<b>Cash flow after dividend</b>	<b>(4,007)</b>	<b>(314)</b>	<b>(3,693)</b>	
Issuance of perpetual subordinated bonds	3,970	6,125	(2,155)	
Other monetary changes	(44)	(55)	11	
<b>(Increase) / decrease in net indebtedness, excluding the impact of changes in exchange rate</b>	<b>(81)</b>	<b>5,756</b>	<b>(5,837)</b>	
Effect of change in exchange rate	(990)	377	(1,367)	
Effect of other non-monetary changes	296	(14)	310	
<b>(Increase)/Decrease in net indebtedness</b>	<b>(775)</b>	<b>6,119</b>	<b>(6,894)</b>	
<b>Net indebtedness at beginning of period</b>	<b>33,433</b>	<b>39,552</b>		
<b>Net indebtedness at end of period</b>	<b>34,208</b>	<b>33,433</b>		

<sup>(1)</sup> Operating cash flow is not an aggregate defined by IFRS as a measure of financial performance, and is not directly comparable with indicators of the same name reported by other companies. This indicator, also known as Funds From Operations (FFO), is equivalent to net cash flow from operating activities excluding changes in working capital after adjustment where relevant for the impact of non-recurring effects, less net financial expenses disbursed and income taxes paid.

<sup>(2)</sup> Net investments excluding strategic operations are operating investments (excluding Linky) and financial investments for growth, net of disposals. They also include net debts acquired or transferred in acquisitions or disposals of securities, investment subsidies received, and non-Group partner investments.

<sup>(3)</sup> Net investments in strategic operations are operations related to Linky and changes in the Group's portfolio of businesses.

<sup>(4)</sup> Cash flow before dividends is not an aggregate defined by IFRS as a measure of financial performance, and is not comparable with indicators of the same name reported by other companies. It is equal to the operating cash flow defined in note (1) after the changes in working capital, net investments excluding strategic operations (note (2)), net investments in strategic operations (note (3)) and allocations and withdrawals from dedicated assets.

## 4.1 OPERATING CASH FLOW

The operating cash flow amounted to €11,691 million in 2014 compared to €12,577 million in 2013, a decline of €886 million (-7.0%).

This change was mainly driven by elimination of non-monetary items with a favourable effect on EBITDA (-1,901 million, compared to -€224 million in 2013). This mainly reflects increases in certain types of expense, particularly the surrender of CO<sub>2</sub> certificates in 2014 for the first time, offset by reversals of provisions at the level of EBITDA, and a favourable change in 2014 in fair value on financial instruments related to trading activities, in contrast to the unfavourable change in 2013.

Other factors were an increase in income taxes paid (-€678 million), principally due to the higher advance instalments paid in 2014 in France.

These effects were partly offset by the rise in EBITDA (+€1,180 million) and the exceptional dividend received from CENG in 2014 (+€290 million).

## 4.2 CHANGE IN WORKING CAPITAL

The change in working capital increased by €1,041 million over 2014. Excluding the rise in the CSPE receivable (-€699 million), the increase amounted to -€342 million, and is mainly explained by:

- trade receivables related to the regulated tariffs catch-up for 2012-2013, which will be received from 2015 (increase of -€979 million) ;
- the mild weather of 2014, which generated a +€504 million decrease in trade receivables in France, +€178 million in the United Kingdom, and approximately +€100 million in Belgium;
- a -€217 million increase in inventories, principally driven by a price effect on uranium stocks in France and the United Kingdom.

### 4.3 NET INVESTMENTS EXCLUDING STRATEGIC OPERATIONS

Net investments excluding strategic operations amounted to €12,045 million for 2014 compared to €11,830 million in 2013, an increase of €215 million (+1.8%). Details are as follows:

In millions of Euros	2014	2013 restated	Variation	Variation (%)
Generation and Supply (deregulated activities)	5,574	5,347	227	4.2
Network activities	2,722	3,011	(289)	(9.6)
Island activities	438	424	14	3.3
<b>France</b>	<b>8,734</b>	<b>8,782</b>	<b>(48)</b>	<b>(0.5)</b>
United Kingdom	1,519	1,172	347	29.6
Italy	78	304	(226)	(74.3)
Other International	488	518	(30)	(5.8)
<b>International</b>	<b>2,085</b>	<b>1,994</b>	<b>91</b>	<b>4.6</b>
<b>Other activities</b>	<b>1,226</b>	<b>1,054</b>	<b>172</b>	<b>16.3</b>
<b>Net investments excluding strategic operations</b>	<b>12,045</b>	<b>11,830</b>	<b>215</b>	<b>1.8</b>

In France, net investments excluding strategic operations were down by -€48 million (-0.5%).

- In Generation and Supply (deregulated activities), the €227 million increase mainly resulted from payments made in 2014 for significant investments in the nuclear power fleet undertaken during 2013;
- In the network activities, the decline in net investments (-€289 million) was essentially explained by the lower number of customer connections and later timing in 2014 of investments to improve network coverage quality and network reinforcement.

In other countries, net investments excluding strategic operations were up by €91 million or +4.6%.

- In the United Kingdom, the increase of €347 million or +29.6% is largely explained by higher expenditure on new nuclear facilities, and fewer sales of wind farms in 2014 than 2013;
- In Italy, the decline of €226 million or -74.3% was principally caused by the arrival of an external partner (F2i) in the renewable energies sector.

In the Other activities segment, net investments excluding strategic operations were up by €172 million or +16.3%. This rise was primarily due to a scope effect resulting from consolidation of Dalkia France's investments in 2014.

### 4.4 NET INVESTMENTS IN STRATEGIC OPERATIONS

Net investments in strategic operations concern operations relating to Linky smart meters and changes in the Group's portfolio of businesses. In 2013, they principally concerned the sale of the Group's investment in SSE, the sale of the Sutton Bridge plant in the United Kingdom, and disposal of shares in Veolia. In 2014, strategic operations correspond to the sale of Dalkia International and the takeover of Dalkia's activities in France.

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## 4.5 DEDICATED ASSETS

In compliance with the French Law of 28 June 2006 on the sustainable management of radioactive materials and waste, EDF has built up a portfolio of dedicated assets for secure financing of its long-term nuclear obligations which amounted to €23,033 million at 31 December 2014.

Overall, the changes in dedicated assets comprise:

- allocations to reach full coverage of obligations;
- reinvestment of financial income (dividends and interest) generated by these assets;
- withdrawals of assets corresponding to the costs incurred over the period in application of long-term nuclear obligations falling within the scope of the Law of 28 June 2006;
- exceptional withdrawals proposed to the governance bodies in charge of managing dedicated assets when the value of the portfolio exceeds the amount of the obligations to be financed; such withdrawals must be validated by these bodies.

The net change of €2,443 million in 2013 mainly reflected the exceptional withdrawal of +€2,407 million and the allocation of the total CSPE receivable to dedicated assets on 13 February 2013; these two operations brought coverage of EDF's nuclear liabilities concerned by the Law of 28 June 2006 to 100%. In 2014, the changes observed correspond to the second and third types of change described above.

## 4.6 CASH FLOW BEFORE DIVIDENDS

Cash flow before dividends in 2014 was negative at -€1,603 million (compared to +€2,234 million in 2013) and is mainly explained by the following factors:

- operating cash flow of €11,691 million (see 1.4.1);
- a change in working capital of -€1,041 million (see 1.4.2);
- net investments excluding strategic operations of -€12,045 million (see 1.4.3).

The -€3,297 million difference from 2013 is essentially due to the exceptional withdrawal of €2,407 million from dedicated assets in 2013 which had no equivalent in 2014, the €812 million rise in net investments (including strategic operations) and the €886 million decrease in operating cash flow, partly offset by a more favourable change in working capital (+€670 million) than in 2013.

## 4.7 DIVIDENDS PAID IN CASH

Dividends paid in cash (-€2,944 million) comprise:

- the balance of the 2013 dividends (€1,268 million),
- the interim dividend for 2014 (€1,059 million) decided by the Board of Directors on 10 December 2014 and paid on 17 December 2014 at the rate of €0.57 per share,
- dividends paid by Group subsidiaries to their minority shareholders (€229 million),
- the payments made in 2014 to bearers of perpetual subordinated bonds for the "hybrid" issues of January 2013 and January 2014 (€388 million).

## 4.8 CASH FLOW AFTER DIVIDENDS

The cash flow after dividends amounted to -€4,007 million, €3,693 million below 2013. This decrease principally reflects the change in cash flow before dividends.



## 4.9 “HYBRID” BOND ISSUE

On 15 January 2014 EDF launched a perpetual subordinated bond in Euros, US dollars, and sterling (“hybrid” bond issue) in several tranches:

- US\$1,500 million at 5.625% coupon with a 10-year first call date;
- €1,000 million at 4.125% coupon with an 8-year first call date;
- €1,000 million at 5% coupon with a 12-year first call date;
- £750 million at 5.875% coupon with a 15-year first call date.

This bond issue is the second phase in the financing programme launched in January 2013, with the aim of building up an amount of subordinated instruments coherent with the portfolio of industrial assets in development.

## 4.10 FOREIGN EXCHANGE EFFECT

The foreign exchange effect (rise of the pound sterling and US dollar against the Euro<sup>34</sup>) had an unfavourable impact of -€990 million on the Group’s net indebtedness at 31 December 2014.

## 4.11 NET INDEBTEDNESS

The Group’s net indebtedness stood at €34,208 million at 31 December 2014 compared to €33,433 million at 31 December 2013. The €775 million increase is principally explained by negative cash flow after dividends (-€4,007 million – see 1.4.8), and an unfavourable foreign exchange effect (-€990 million), which was partly offset by the “hybrid” issue of January 2014 (+€3,970 million).

## 4.12 FINANCIAL RATIOS

	2014	2013 restated	2012 proforma <sup>(1)</sup>
Net indebtedness / EBITDA	2.0	2.1	2.4 <sup>(2)</sup>
Net indebtedness / (Net indebtedness + equity) <sup>(3)</sup>	46%	46%	56%

<sup>(1)</sup> The 2012 proforma ratios are restated to reflect allocation of the CSPE receivable to dedicated assets on 13 February 2013 and withdrawal of €2.4 billion of assets such that 100% of EDF’s eligible nuclear liabilities were covered by the dedicated assets.

<sup>(2)</sup> The denominator for the 2012 net indebtedness/EBITDA ratio includes 100% of Edison’s restated EBITDA and the restatement resulting from application of IAS 19 (revised).

<sup>(3)</sup> Equity including non-controlling interests, restated following application of IFRS 10 and 11 at 31 December 2013 and IAS 19 (revised) at 31 December 2012.

<sup>34</sup> The pound sterling rose by 7.0% against the Euro, from €1.199/£1 at 31 December 2013 to €1.284/£1 at 31 December 2014. The US dollar rose by 13.6% against the Euro, from €0.725/\$1 at 31 December 2013 to €0.824/\$1 at 31 December 2014

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## 5. MANAGEMENT AND CONTROL OF MARKET RISKS

### 5.1. MANAGEMENT AND CONTROL OF FINANCIAL RISKS

This section sets forth the policies and principles for management of the Group's financial risks defined in the Financial management framework (liquidity, interest rate, foreign exchange rate and equity risks), and the Group counterparty risk management policy set up by the EDF group. These principles apply only to EDF and operationally controlled subsidiaries or subsidiaries that do not benefit by law from specific guarantees of independent management such as ERDF. In compliance with IFRS 7, the following paragraphs describe the nature of risks resulting from financial instruments, based on analyses of sensitivities and credit (counterparty) risks.

Since 2002, a dedicated body – the Financial Risks Control department (*département Contrôle des Risques Financiers et Investissements* – CRFI) – has been in charge of financial risk control at Group level by ensuring correct application of the principles of the Financial management framework. This department, which has reported to the Group's Risk Control Division since 2008, is an independent unit that also has the task of carrying out a second-level check (methodology and organisation) of EDF entities and operationally controlled Group subsidiaries (excluding ERDF), and a first-level check of financing activities at parent company level, including Trading room activities.

The CRFI department issues daily monitoring reports of risk indicators relevant to activities in EDF's Trading room.

Regular internal audits are carried out to ensure controls are actually applied and are effective.

#### 5.1.1 LIQUIDITY POSITION AND MANAGEMENT OF LIQUIDITY RISKS

##### 5.1.1.1 Liquidity position

At 31 December 2014, the Group's liquidities, consisting of liquid assets, cash and cash equivalents, totalled €17,691 million and available credit lines amounted to €10,756 million.

For 2015, the Group's scheduled debt repayments (principal and interest) are forecast at €10,217 million at 31 December 2014, including €4,096 million for bonds.

At 31 December 2014, no Group company was in default on any borrowing.

##### 5.1.1.2 Management of liquidity risk

On 13 January 2014 EDF launched a "senior" bond issue in several tranches in US dollars:

- US\$750 million with 3-year maturity and a floating rate;
- US\$1,000 million with 3-year maturity and a 1.15% coupon;
- US\$1,250 million with 5-year maturity and a 2.15% coupon;
- US\$1,000 million with 30-year maturity and a 4.875% coupon;
- US\$700 million with 100-year maturity and a 6% coupon.

On 17 January 2014 EDF also issued a £1,350 million bond with 100-year maturity and a 6% coupon.

These issues enabled the Group to prepare for redemptions of bonds maturing in 2014 by taking advantage of good market conditions, and to continue its financing policy aiming to extend the average maturity of debt and bring it closer to the operating lifespans of its long-term industrial assets.

In addition, on 15 January 2014 EDF issued a perpetual subordinated bond in Euros, US dollars, and sterling (a “hybrid” bond) in several tranches:

- US\$1,500 million at 5.625% coupon with a 10-year first call date;
- €1,000 million at 4.125% coupon with an 8-year first call date;
- €1,000 million at 5% coupon with a 12-year first call date;
- £750 million at 5.875% coupon with a 15-year first call date.

These bonds include redemption options at EDF’s initiative, exercisable after a certain minimum period (8 to 15 years depending on the currency), and subsequently at each coupon date or in the event of highly specific circumstances (such as a change in IFRS or tax regime). The annual yield is set and revalued based on contractual clauses that differ with the currency. EDF has no obligation to pay interest as a result of contractual clauses that allow it to defer payment. Nonetheless, payment of the deferred interest is required by these clauses if it is decided to pay a dividend to the shareholders of EDF.

All these features give EDF an unconditional right to avoid paying out cash or another financial asset in reimbursement or interest on the principal. Consequently, in compliance with IAS 32, this issue is recorded in equity from reception of funds at the amount of €3,970 million

This issue forms the second phase of the financing programme launched in January 2013 to build up an amount of subordinated instruments coherent with the portfolio of industrial assets in development.

The average maturity of Group debt was thus 13.2 years at 31 December 2014, compared to 8.9 years at 31 December 2013. For EDF SA, the average maturity of debt was 14.4 years against 9.9 years at 31 December 2013.

At 31 December 2014, the residual maturities of financial liabilities (including interest payments) are as follows under IAS 39 (valued based on exchange and interest rates at 31 December 2014):

31 December 2014 <i>(In millions of Euros)</i>	Debt	Hedging instruments <sup>(1)</sup>		Garantees given on bonds
		Interest rate swaps	Currency swaps	
2015	10,217	(391)	19	359
2016 - 2019	19,385	(1,252)	75	332
2020 and later	54,908	(1,691)	(12)	169
<b>TOTAL</b>	<b>84,509</b>	<b>(3,334)</b>	<b>82</b>	<b>860</b>
Debt repayment	54,404			
Interest expense	30,105			

(1) Data on hedging instruments include both assets and liabilities

The EDF group was able to meet its financing needs by conservative liquidity management, and has obtained financing on satisfactory terms.

A range of specific levers are used to manage the Group’s liquidity risk:

- the Group’s cash pooling system, which centralises cash management for controlled subsidiaries. The subsidiaries’ cash balances are made available to EDF SA in return for interest, so as to optimise the Group’s cash management and provide subsidiaries with a system that guarantees them market-equivalent financial terms;
- centralisation of financing for controlled subsidiaries at the level of the Group’s cash management department. Changes in subsidiaries’ working capital are financed by this department in the form of stand-by credit lines provided for subsidiaries, which may also receive revolving credit from the Group. The investment subsidiary EDF Investissements Groupe (EDF IG), set up in partnership with the bank Natixis Belgique Investissements, also provides medium and long-term financing for EDF group operations outside France, arranged independently by EDF IG. The company sets its own terms, which are the same as the subsidiary would have in an arm’s-length market transaction;

- active management and diversification of financing sources used by the Group: the Group has access to short-term resources on various markets through programmes for French commercial paper (*billets de trésorerie*), US commercial paper and Euro market commercial paper. For EDF SA, the ceilings for these programmes are €6 billion for its French commercial paper, \$10 billion for its US commercial paper and \$1.5 billion for its Euro market commercial paper.

At 31 December 2014, the amount of commercial paper outstanding was €650 million for French commercial paper, and \$4,075 million for US commercial paper. No Euro market commercial paper was outstanding. EDF has access to the world's main capital markets: the Euro markets through its EMTN (Euro Medium Term Note) programme, which currently has a ceiling of €30 billion, particularly for Euro and sterling issues; and the domestic markets used for stand-alone issues in US dollars (144 A), yen (samurai bonds) and Swiss francs.

The table below sets forth the Group's borrowings, by type, of more than €650 million or the equivalent value in other currencies by maturity at 31 December 2014:

Type of borrowing (in millions of currency units)	Entity	Issue date <sup>(1)</sup>	Maturity	Nominal amount	Currency	Rate
Euro MTN	EDF	01/2009	01/2015	2,000 <sup>(2)</sup>	EUR	5.13%
Euro MTN	EDF	10/2001	10/2016	1,100	EUR	5.50%
Euro MTN	EDF	02/2008	02/2018	1,500	EUR	5.00%
Obligataire	EDF	01/2009	01/2019	2,000	USD	6.50%
Obligataire	EDF	01/2010	01/2020	1,400	USD	4.60%
Euro MTN	EDF	05/2008	05/2020	1,200	EUR	5.38%
Euro MTN	EDF	01/2009	01/2021	2,000	EUR	6.25%
Euro MTN ( <i>green bond</i> )	EDF	11/2013	04/2021	1,400	EUR	2.25%
Euro MTN	EDF	01/2012	01/2022	2,000	EUR	3.88%
Euro MTN	EDF	09/2012	03/2023	2,000	EUR	2.75%
Euro MTN	EDF	09/2009	09/2024	2,500	EUR	4.63%
Euro MTN	EDF	11/2010	11/2025	750	EUR	4.00%
Euro MTN	EDF	03/2012	03/2027	1,000	EUR	4.13%
Euro MTN	EDF	04/2010	04/2030	1,500	EUR	4.63%
Euro MTN	EDF	07/2001	07/2031	650	GBP	5.88%
Euro MTN	EDF	02/2003	02/2033	850	EUR	5.63%
Euro MTN	EDF	06/2009	06/2034	1,500	GBP	6.13%
Bond	EDF	01/2009	01/2039	1,750	USD	6.95%
Euro MTN	EDF	11/2010	11/2040	750	EUR	4.50%
Euro MTN	EDF	10/2011	10/2041	1,250	GBP	5.50%
Euro MTN	EDF	09/2010	09/2050	1,000	GBP	5.13%
Bond	EDF	01/2014	01/2017	1,000	USD	1.15%
Bond	EDF	01/2014	01/2019	1,250	USD	2.15%
Bond	EDF	01/2014	01/2044	1,000	USD	4.88%
Bond	EDF	01/2014	01/2114	1,350	GBP	6.00%

(1) Date funds were received.

(2) After redemption of part of the initial debt in late 2010, the real amount the Group will pay out on maturity is €1,382 million.

EDF has an overall amount of €9,747 million in available credit facilities (syndicated credit and bilateral lines). Syndicated credit lines amount to €4 billion with maturities extending to November 2019 (with an additional one-year extension option). No drawings had been made on these syndicated credit lines at 31 December 2014.

Credit lines represent an available amount of €5,747 million, with expiry dates extending to November 2019. The level of these credit facilities is regularly reviewed to ensure that the Group has sufficient back-up facilities.

The credit line with the European Investment Bank was increased by an additional €200 million at 31 December 2014. No drawings have been made on this new facility, which has maturity of 4 to 10 years.

EDF Energy has an external credit line of £500 million which was totally drawn.

EDF IG has an external credit line of €150 million (maturing in April 2016) and syndicated credit lines amounting to €600 million (maturing in April 2016). At 31 December 2014, a total of €587 million was drawn on these credit lines.

In November 2014, Edison subscribed a new €500 million credit line with a pool of banks (maturing in November 2016).

### 5.1.2 CREDIT RATINGS

The financial ratings agencies Standard & Poor's, Moody's and Fitch Ratings attributed the following long-term and short-term ratings to EDF group entities at 31 December 2014:

Company	Agency	Long-term rating (LT)	Short-term rating (ST)
EDF	Standard & Poor's Moody's Fitch Ratings	A+, stable outlook Aa3, negative outlook A+, negative outlook	A-1 P-1 F1
EDF Trading	Moody's	A3, negative outlook	n.a
EDF Energy	Standard & Poor's	A, négative outlook	A-1
Edison	Standard & Poor's Moody's	BBB+, stable outlook Baa3, stable outlook	A-2 n.a

### 5.1.3 MANAGEMENT OF FOREIGN EXCHANGE RISK

Due to the diversification of its activities and geographical locations, the Group is exposed to the risk of exchange rate fluctuations, which may have an impact on the translation differences affecting balance sheet items, Group financial expenses, equity and net income.

To limit exposure to foreign exchange risks, the Group has introduced the following management principles:

- local currency financing: to the extent possible given the local financial markets' capacities, each entity finances its activities in its own accounting currency. When financing is contracted in other currencies, derivatives may be used to limit foreign exchange risk;
- matching of assets and liabilities: the net assets of subsidiaries located outside the Euro zone expose the Group to a foreign exchange risk. The foreign exchange risk in the consolidated balance sheet is managed either by matching with liabilities for acquisitions in the same currency, or by market hedging involving use of financial derivatives. Hedging of net assets in foreign currencies complies with risk / return targets, and the hedging rate varies from 37% to 92% depending on the currency (apart from the BRL and CNY). If no hedging instruments are available, or if hedging costs are prohibitive, the foreign exchange positions remain open and the risk on such positions is monitored by sensitivity calculations;

- hedging of operating cash flows in foreign currencies: in general, the operating cash flows of EDF and its subsidiaries are in the relevant local currencies, with the exception of flows related to fuel purchases which are primarily in US dollars, and certain flows related to purchases of equipment, which concern lower amounts. Under the principles of the Financial management framework, EDF and the main subsidiaries concerned by foreign exchange risks (EDF Energy, EDF Trading, Edison, EDF Énergies Nouvelles) are required to hedge firm or highly probable commitments related to these future operating cash flows.

As a result of the financing and foreign exchange risk hedging policy, the Group's gross debt at 31 December 2014 breaks down as follows by currency after hedging:

#### Gross debt structure by currency, before and after hedging

31 December 2014 (In millions of Euros)	Initial debt structure	Impact of hedging instruments <sup>(1)</sup>	Debt structure after hedges	% of debt
EUR	30,110	7,647	37,757	68%
USD	12,948	(10,073)	2,875	5%
GBP	11,095	1,939	13,034	23%
Other currencies	1,499	487	1,986	4%
<b>TOTAL DEBT</b>	<b>55,652</b>	<b>-</b>	<b>55,652</b>	<b>100%</b>

(1) Hedges of liabilities and net assets of foreign subsidiaries

The table below presents the impact of an unfavourable variation in exchange rates on the Group's gross debt at 31 December 2014.

#### Sensitivity of the Group's gross debt to foreign exchange rate risks

31 December 2014 (In millions of Euros)	Debt after hedging instruments converted into Euros	Impact of a 10% unfavourable variation in exchange rates	Debt after a 10% unfavourable variation in exchange rates
EUR	37,757	-	37,757
USD	2,875	287	3,162
GBP	13,034	1,303	14,337
Other currencies	1,986	199	2,185
<b>TOTAL DEBT</b>	<b>55,652</b>	<b>1,789</b>	<b>57,441</b>

Due to the Group's foreign exchange risk hedging policy for liabilities, the income statement for companies controlled by the Group is marginally exposed to foreign exchange rate risk.

The table below sets forth the foreign exchange position relating to net assets in foreign currencies of the Group's subsidiaries.

### Net asset position

31 December 2014 <sup>(1)</sup> <i>(In millions of currencies)</i>	Net assets	Bonds	Derivatives	Net assets after management
USD	4,843	2,050	552	2,241
CHF (Switzerland)	1,150	730		420
HUF (Hungary)	93,480		86,000	7,480
PLN (Poland)	3,137		1,170	1,967
GBP (United Kingdom)	15,093	5,435	3,268	6,390
BRL (Brazil)	833			833
CNY (China)	8,007			8,007

<sup>(1)</sup> Net assets at 30 September 2014; Derivatives and bonds as at 31 December 2014.

The above table shows the assets of the Group's foreign subsidiaries in foreign currencies, adjusted for changes in the fair value of cash flow hedges and available-for-sale financial assets recorded in equity, and changes in the fair value of financial instruments recorded in income.

The following table sets forth the risk of foreign exchange loss in equity on net assets in foreign currencies of the Group's principal subsidiaries at 31 December 2014, assuming unfavourable, uniform exchange rate variations of 10% against the Euro. Net assets are converted at the closing rate and impacts are reported in absolute value.

### Sensitivity of net assets to exchange rate risks

In millions	31 December 2014 <sup>(1)</sup>			31 December 2013		
	Net assets after management, in currency	Net assets after management, converted into Euros	Impact on equity of a 10% variation in exchange rates	Net assets after management, in currency	Net assets after management, converted into Euros	Impact on equity of a 10% variation in exchange rates
USD	2,241	1,845	185	333	242	24
CHF (Switzerland)	420	349	35	648	528	53
HUF (Hungary)	7,480	24	2	33,028	111	11
PLN (Poland)	1,967	460	46	1,020	246	25
GBP (United Kingdom)	6,390	8,204	820	4,547	5,454	545
BRL (Brazil)	833	259	3	717	220	22
CNY (China)	8,007	1,063	106	7,019	841	84

<sup>(1)</sup> Net assets at 30 September 2014

The foreign exchange risk on available-for-sale securities is mostly concentrated in EDF SA's dedicated asset portfolio, which is discussed in section 5.1.6., "Management of financial risk on EDF's dedicated asset portfolio".

The foreign exchange risk associated with short-term investments and operating liabilities in foreign currencies remains restricted for the Group at 31 December 2014.

#### 5.1.4 MANAGEMENT OF INTEREST RATE RISK

The exposure of the Group's cash positions to interest rate fluctuations covers two types of risk: a risk of change in the value of fixed-rate financial assets and liabilities, and a risk of change in the cash flows related to floating-rate financial assets and liabilities.

To limit exposure to interest rate risk, the Group (apart from entities it does not control operationally) fixes principles as part of its general risk management policy, designed to limit the risk of change in the value of assets invested or possible increases in financial expenses. Some of the debt is variabilised and the distribution of exposure between fixed and floating rates is monitored with reference to asset / liability management criteria and expected fluctuations in interest rates. This distribution may involve the use of interest rate derivatives for hedging purposes.

The Group's debt after hedging instruments at 31 December 2014 comprised 60% at fixed rates and 40% at floating rates.

A 1% uniform annual rise in interest rates would generate an approximate €222 million increase in financial expenses at 31 December 2014, based on gross floating-rate debt after hedging.

The average cost of Group debt (weighted interest rate on outstanding amounts) was 3.3% at the end of 2014.

The table below sets forth the structure of Group debt and the impact of a 1% variation in interest rates at 31 December 2014. The impact of interest rate fluctuations was €93 million higher than in 2013.

##### Group debt structure and sensitivity to interest rate

31 December 2014 (In millions of Euros)	Initial debt structure	Impact of hedging instruments	Debt structure after hedging	Impact on income of a 1% variation of interest rates
Fixed rate	48,795	(15,377)	33,418	-
Floating rate	6,857	15,377	22,234	222
<b>TOTAL</b>	<b>55,652</b>	<b>-</b>	<b>55,652</b>	<b>222</b>

Interest rate variations on fixed-rate debt have no accounting impact.

Concerning financial assets, the table below presents the interest rate risk on floating-rate bonds and negotiable debt securities held by EDF, and their sensitivity to interest rate risks (impact on net income).

##### Sensitivity to interest rates of floating-rate instruments

31 December 2014 (In millions of Euros)	Value	Impact on income of a 1% variation of interest rates	Value after a 1% variation in interest rates
FLOATING-RATE INSTRUMENTS	1,529	(15)	1,514

#### 5.1.5 MANAGEMENT OF EQUITY RISKS

The equity risk is concentrated in the following areas:

##### Coverage of EDF's nuclear obligations

Analysis of the equity risk is presented in section 5.1.6, "Management of financial risk on EDF's dedicated asset portfolio".



### Coverage of employee benefit obligations for EDF SA, EDF Energy and British Energy

Assets covering EDF's employee benefit liabilities are partly invested on the international and European equities markets. Market trends therefore affect the value of these assets, and a downturn in equity prices would lead to a rise in balance sheet provisions.

28.9% of the assets covering EDF's employee benefit obligations were invested in equities at 31 December 2014, amounting to €3 billion.

At 31 December 2014, the two pension funds sponsored by EDF Energy (EDF Energy Pension Scheme and EDF Energy Group Electricity Supply Pension Scheme) were invested to the extent of 46.9% in equities and equity funds, representing an amount of £523 million of equities.

At 31 December 2014, the British Energy pension funds were invested to the extent of 33.7% in equities and equity funds, representing an amount of £1,720 million of equities.

### CENG fund

CENG is exposed to equity risks in the management of its funds established to cover nuclear decommissioning and employee benefit obligations.

### EDF's long-term cash management

As part of its long-term cash management policy, EDF has continued its strategy to reduce the portion of equity-correlated investments, resulting in a non-significant position well below €1 million at 31 December 2014.

### Direct investments

At 31 December 2014, EDF's investment in Areva amounted to €78.1 million, with estimated volatility of 41.9% (annualised volatility of monthly returns observed over three years).

## 5.1.6 MANAGEMENT OF FINANCIAL RISK ON EDF'S DEDICATED ASSET PORTFOLIO

Dedicated assets have been built up progressively by EDF since 1999 to secure financing of its long-term nuclear commitments. The law of 28 June 2006 and its implementing regulations defined provisions not related to the operating cycle, which must therefore be covered by dedicated assets; they are listed in note 47 to the consolidated financial statements at 31 December 2014.

The dedicated asset portfolio is managed under the supervision of the Board of Directors and its advisory committees (Nuclear commitments monitoring committee, Audit committee).

The **Nuclear Commitments Monitoring Committee (CSEN)** is a specialised Committee set up by EDF's Board of Directors in 2007.

A **Nuclear Commitments Financial Expertise Committee (CEFEN)** exists to assist the company and its governance bodies on questions of matching assets and liabilities and asset management. The members of this Committee are independent of EDF. They are selected for their skills and diversity of experience, particularly in the fields of asset / liability management, economic and financial research, and asset management.

### Governance and management principles

The governance principles setting forth the structure, decision-making process and management of dedicated assets are validated by EDF's Board of Directors. These principles also lay down rules for the asset portfolio's structure, selection of financial managers, and the legal, accounting and tax structure of the fund.

Strategic asset allocation is based on asset / liability reviews carried out to define the most appropriate target portfolio for financing long-term nuclear expenses. Strategic allocation is validated by EDF's Board of Directors and reviewed every three years unless circumstances require otherwise. Since 2013, this target allocation has consisted of a financial portfolio and around one quarter of unlisted assets. The unlisted assets are managed by EDF Invest (formed in July 2013 following the decree of 24 July 2013) and comprise infrastructures, real estate and investment funds.

The financial portfolio principally contains two sub-portfolios, “equities” and “bonds”, themselves divided into “secondary asset classes” or “pockets” that correspond to specific markets. The strategic allocation of the financial portfolio is 49% international equities and 51% bonds. A benchmark index is set for monitoring performance and controlling the risk on the financial portfolio.

As part of the regular revision of strategic allocation and the ongoing diversification of assets, a new long-term target structure for the bonds sub-portfolio was decided in the early part of the year, replacing the sovereign index previously used (100% Citigroup EGBI) by a more diversified sovereign and corporate benchmark index (60% Citigroup EGBI and 40% Citigroup EuroBIG corporate). This change was validated by the Board of Directors on 12 February 2014 for application from 1 January 2014.

A third “cash” sub-portfolio exists to provide secure coverage for the disbursements related to the purpose of the asset covered, and may be reinforced tactically, particularly when a prudent approach is required in the event of a market crisis.

The CSPE receivable was allocated to dedicated assets on 13 February 2013.

Tactical management of the financial portfolio has several focal areas:

- monitoring of exposure between the “equities” and “bonds” sub-portfolios;
- within each sub-portfolio, allocation by “class of secondary assets”;
- selection of investment funds, aiming for diversification:
  - by style (growth securities, unlisted securities, high-return securities),
  - by capitalisation (major stocks, medium and small stock),
  - by investment process (macroeconomic and sector-based approach, selection of securities on a “quantitative” basis, etc.),
  - by investment vehicle (for compliance with maximum investment ratios).
- for bonds, a choice of securities held directly, through brokers, or via investment funds incorporating the concern for diversification:
  - by type of issue (fixed income, indexed income),
  - by type of instrument (government or supranational bonds, covered bonds and similar, corporate bonds),
  - by issuer and by maturity.

The allocation policy for the financial portfolio was developed by the Operational Management Committee<sup>35</sup> on the basis of the economic and financial outlook for each market and geographical area, a review of market appreciation in different markets and market segments, and risk analyses produced by the CRFI department.

### Changes in the portfolio during 2014

In 2014, EDF Invest acquired a minority interest in Porterbrook in a consortium with three other long-term infrastructure investors: Alberta Investment Management Corporation, Allianz Capital Partners and Hastings Funds Management. Porterbrook is one of the three main rolling stock leasing companies in the United Kingdom. This investment was allocated to EDF Invest’s infrastructures pocket alongside TIGF and RTE.

EDF Invest also continued to build up its real estate and investment fund portfolio.

Amundi and EDF Invest have announced the creation of a non-exclusive real estate investment fund to invest at European level. This fund will raise EDF Invest’s exposure to the real estate asset class, to complement its direct investment strategy. This initiative led to a first real estate investment in Germany in late 2014.

The **total net allocation** to dedicated assets for 2014 was zero, as the realisable value of the assets now exceeds the value of the provisions they are intended to cover, following allocation of the CSPE receivable which resulted in a net allocation of €2,591 million in 2013.

**Disbursements** relating to decommissioning expenses incurred in 2014 were financed by the dedicated asset portfolio to the extent of €403 million, compared to €326 million in 2013.

<sup>35</sup> A permanent internal committee for evaluation, consultation and operational decision-making in the management of dedicated assets.

## Content and performance of EDF's dedicated asset portfolio

### Breakdown of the portfolio

	31 December 2014	31 December 2013
Equities sub-portfolio	32.9%	36.4%
Bonds sub-portfolio	27.9%	23.7%
Cash sub-portfolio	2.8%	3.7%
CSPE after funding	22.3%	23.2%
Unlisted assets (EDF Invest)	14.2%	13.0%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

At 31 December 2014, the total value of the portfolio was €23,033 million compared to €21,737 million in 2013 (pro forma figures for RTE share valuations following application of IAS 19 (revised)).

The distribution of the financial portfolio is also presented in note 47 to the consolidated financial statements at 31 December 2014.

### Portfolio content under the classification from Article 4, decree 2007-243 of 23 February 2007

Categories (In millions of Euros)	31 December 2014		31 December 2013	
	Book value	Realisable value	Book value	Realisable value
OECD government bonds and similar	3,332	3,627	2,643	2,828
OECD corporate (non-government) bonds	901	968	808	841
Funds investing in the above two categories	2,300	2,483	2,144	2,308
Equities traded on a recognised market	-	-	-	-
Funds not exclusively invested in OECD bonds	5,891	7,578	6,398	7,873
Hedges, deposits, amounts receivable	-23	-23	5	5
<b>Total financial product portfolio</b>	<b>12,401</b>	<b>14,633</b>	<b>11,998</b>	<b>13,855</b>
CSPE after funding	5,136	5,136	5,049	5,049
RTE (50% of the Group's investment)	2,015	2,555	2,015	2,567
Other unlisted securities and real estate assets	604	709	266	266
Adjustments on unlisted securities		-	8	-
<b>TOTAL DEDICATED ASSETS</b>	<b>20,156</b>	<b>23,033</b>	<b>19,336</b>	<b>21,737</b>

## Performance of EDF's dedicated asset portfolio

The table below presents the performance by portfolio at 31 December 2014 and 31 December 2013:

(in millions of Euros)	31/12/2014 Stock market or realisable value	Performance for 2014		31/12/2013 Stock market or realisable value	Performance for 2013	
		Portfolio	Benchmark index <sup>(1)</sup>		Portfolio	Benchmark index <sup>(2)</sup>
Equities sub-portfolio	7,574	11.8%	14.1%	7,918	21.1%	20.5%
Bonds sub-portfolio	6,419	9.9%	11.2%	5,147	1.0%	2.2%
<b>Total financial portfolio</b>	<b>13,993</b>	<b>10.7%</b>	<b>12.6%</b>	<b>13,065</b>	<b>11.6%</b>	<b>10.9%</b>
Cash sub-portfolio	640	0.7%	0.1%	790	0.7%	0.1%
<b>Total financial and cash portfolio</b>	<b>14,633</b>	<b>10.3%</b>	<b>12.6%</b>	<b>13,855</b>	<b>11.1%</b>	<b>10.9%</b>
CSPE after funding	5,136	1.7%		5,049	1.4%	
Unlisted assets <sup>(3)</sup>	3,264	8.4%		2,833	11.1%	
- including RTE shares	2,555	4.4%		2,567	11.1%	
<b>TOTAL DEDICATED ASSETS</b>	<b>23,033</b>	<b>7.9%</b>		<b>21,737</b>	<b>9.4%</b>	

(1) Benchmark index in 2014: MSCI World AC DN hedged in Euros 50% (excluding emerging country currencies) for the equities sub-portfolio, composite index of 60% Citigroup EGBI and 40% Citigroup EuroBIG corporate for the bonds sub-portfolio, Eonia Capitalisé for the cash sub-portfolio, 49% equities index + 51% bonds index for the total financial portfolio.

(2) Benchmark index in 2013: MSCI World AC DN hedged in Euros 50% (excluding emerging country currencies) for the equities sub-portfolio, Citigroup EGBI for the bonds sub-portfolio, Eonia Capitalisé for the cash sub-portfolio, 49% equities index + 51% bonds index for the total financial portfolio.

(3) Performance for assets held at the start of the year.

2014 was a very eventful year in macroeconomic and geopolitical terms. Growth in the United States was significantly impacted by extreme weather conditions early in the year, but then picked up strongly, reaching an estimated 5% on an annual basis in the third quarter. However, emerging and European economies disappointed expectations. Even Germany was affected by the slowdown. The only good news in the Euro zone was that the Iberian Peninsula seems to be on the road to recovery, as business saw a strong upturn. Growth in France and Italy, in contrast, was particularly disappointing. In the emerging countries, business activity slowed down further in China, although the slowdown appears to be well maintained by the authorities. But at the end of the year the situation was much more complicated for commodity exporting countries, especially oil exporters. In the second part of the year, black gold lost more than half its value in US dollars. While this was good news for consumers, it caused a falloff in both economic activity and currency values in the exporting countries. Russia has been the principal victim, experiencing a very significant drop in the rouble. The Russian economic crisis was aggravated by the sanctions imposed by western countries following the unrest in eastern Ukraine. The rivalries and civil wars tearing the Middle East apart were also sources of tension in the OPEC, which was not conducive to agreements on oil prices in the organisation.

Against this background, there was a significant shift in central bank action with a growing dichotomy between countries where the economy is recovering (USA, UK) and countries that are still fragile (Japan, Euro zone). The US Federal Reserve completely discontinued Quantitative Easing and is probably preparing to raise its base rates in 2015, whereas the Bank of Japan and the ECB have introduced securities purchase programmes and significant injections of cash. In early 2015 the ECB decided to undertake a broader asset repurchase programme. This divergence in monetary policies led to a very strong rise in the US dollar.

Worldwide, the markets registered good growth over the year despite several readjustments during the second half-year. The world equities markets (MSCI World AC DN index hedged in Euros 50% excluding emerging country currencies) were up by 14.1%. This was in line with many analysts' forecasts, but there was a more surprising 11.2% rise in the European bond index (60% Citigroup EGBI and 40% Citigroup EuroBIG corporate). 10-year rates were down considerably in the Euro zone in both core and other countries: -1.39% in Germany, -1.73% in France, -2.24% in Italy and -2.54% in Spain.

In this market environment, the financial portfolio performance was very positive and exceeded the 10% level for the third consecutive year at +10.7%. This should be compared with the composite benchmark, which rose by +12.6%. Half of the -195 bp difference is explained by the below-benchmark performance of the equities sub-portfolio managers. The other half is explained by allocation decisions that have emphasised a conservative approach:

- bond under-sensitivity was maintained in core and non-core countries early in the year, although this underweighting became less pronounced during the year and allocation to non-core countries was substantially reinforced;
- there was underweighting in the Pacific and Emerging countries equities pockets at the start of the year, then the equities allocation was reduced, especially in the Euro zone during the summer as geopolitical tensions intensified.

In 2014, the overall after-tax performance of dedicated assets (impact on reserves and net income) was +€1,135 million: +€855 million on the financial portfolio and cash (+1,380 million before tax), +€53 million for the CSPE receivable after funding (+€86 million before tax) and +€227 million for EDF Invest (including +€113 million for the RTE shares allocated to dedicated assets).

#### Dedicated assets' exposure to risks

EDF is exposed to equity risks, interest rate risks and foreign exchange risks through its dedicated asset portfolio.

The market value of the equities sub-portfolio in EDF's dedicated asset portfolio was €7,574 million at 31 December 2014. The volatility of the equities sub-portfolio can be estimated on the basis of the volatility of its benchmark index, which at 31 December 2014 was 12.4% based on 52 weekly performances, compared to 10.1% at 31 December 2013. Applying this volatility to the value of equity assets at the same date, the Group estimates the annual volatility of the equities portion of dedicated assets at €939 million. This volatility is likely to affect the Group's equity.

At 31 December 2014, the sensitivity of the bond sub-portfolio (€6,419 million) was 5.38, i.e. a uniform 100 base point rise in interest rates would result in a €343 million decline in market value which would be recorded in consolidated equity. The sensitivity was 4.70 at the end of 2013. While the sensitivity of the bond sub-portfolio was higher than in 2013, it remained below the sensitivity of the benchmark index (6.14).

### 5.1.7 MANAGEMENT OF COUNTERPARTY / CREDIT RISK

Counterparty risk is defined as the total loss that the EDF group would sustain on its business and market transactions if a counterparty defaulted and failed to perform its contractual obligations.

The Group has a counterparty risk management policy which applies to the parent company and all operationally controlled subsidiaries (except Dalkia). This policy, updated in September 2014, sets out the governance associated with counterparty risk monitoring, and organisation of the counterparty risk management and monitoring (including definition of limits and Group indicators). The policy also involves monthly consolidation of the Group's exposures, updated monthly for financial and energy market activities and quarterly for other activities. The CRFI department closely monitors Group counterparties (daily review of alerts, special cautionary measures for certain counterparties).

The table below gives details, by rating, of the EDF group's consolidated exposure to counterparty risk. At 30 September 2014, 90% of the Group's exposure concerns "investment grade" counterparties, mainly as a result of the predominance of exposures generated by the Cash and asset management activity, with most short-term investments in low-risk assets.

	AAA	AA	A	BBB	BB	B	CCC/C	Unrated	Total
31/03/2014	3%	18%	42%	26%	1%	1%	0%	10%	100%
30/09/2014	2%	19%	43%	26%	1%	1%	0%	8%	100%

The exposure to counterparty risk by nature of activity is distributed as follows:

	Purchases	Insurance	Distribution and sales	Cash and asset management	Fuel purchases and energy trading	Total
31/03/2014	4%	0% <sup>36</sup>	8%	77%	11%	100%
30/09/2014	6%	1% <sup>33</sup>	8%	75%	10%	100%

Exposure in the energy trading activities is concentrated at the level of EDF Trading, where each counterparty is assigned a limit that depends on its financial robustness. A range of methods are used to reduce counterparty risk at EDF Trading, primarily position netting agreements, cash-collateral agreements and establishment of guarantees from banks or affiliates.

For counterparties dealing with EDF's Trading room, the CRFI department has drawn up a framework specifying counterparty authorisation procedures and the methodology for calculation of allocated limits. The level of exposure can be consulted in real time and is systematically monitored on a daily basis. The suitability of limits is reviewed without delay in the event of an alert or unfavourable development concerning a counterparty.

As the situation in the Euro zone was still unstable, EDF continued to apply a prudent management policy for its cash investments in non-core countries. Apart from dedicated assets, purchases of sovereign debt are restricted to Italy and Spain (no exposure in Portugal, Greece, Cyprus, etc.) for maximum maturities of three years. Only "investment grade" banking counterparties are authorised, for limited amounts and maturities.

## 5.2 MANAGEMENT AND CONTROL OF ENERGY MARKET RISKS

### 5.2.1 FRAMEWORK FOR MANAGEMENT AND CONTROL OF ENERGY MARKET RISKS

In keeping with the opening of the final customer market, development of the wholesale markets and on the international scene, the EDF group is exposed to price variations on the energy market which can significantly affect its financial statements.

Consequently, the Group has an "energy markets" risk policy for all energy commodities, applicable to EDF and entities over which it has operational control.

The purpose of this policy is to:

- define the general framework for management of energy market risks, governing the various Group entities' asset portfolio management activities (energy generation, optimisation and sale, and trading for EDF Trading);

<sup>36</sup> 0.48% and 0.68% respectively at 31 March 2014 and 30 September 2014.

- define the responsibilities of asset managers and traders and the various levels of control of activities;
- implement a coordinated Group-wide hedging policy that is coherent with the Group's financial commitments;
- consolidate the exposure of the various entities operationally controlled by EDF on the structured energy-related markets.

At Dalkia, EDF Energies Nouvelles and Edison, the principles of the energy market risk policy are currently being rolled out. These entities are managed under a risk management framework approved by the Group's Executive Committee (Comex) and their respective Boards of Directors.

At entities not operationally controlled by EDF, the risk management framework is reviewed by the governance bodies.

### 5.2.2 ORGANISATION OF RISK CONTROL

The process for controlling energy market risks for entities operationally controlled by the Group is based on:

- a governance and market risk exposure measurement system, clearly separating management and risk control responsibilities;
- an express delegation to each entity, defining hedging strategies and establishing the associated risk limits. This enables the the Comex to set an annual Group risk profile consistent with the financial objectives, and thus direct operational management of energy market risks over market horizons (generally 3 years).

Given its close interaction with the decisions made in the generation and supply businesses, this process involves Group management and is based on a risk indicator and measurement system incorporating escalation procedures in the event risk limits are exceeded.

The Group's exposure to energy market risks through operationally controlled entities is reported to the Comex on a quarterly basis. The control processes are regularly evaluated and audited.

### 5.2.3 PRINCIPLES FOR OPERATIONAL MANAGEMENT AND CONTROL OF ENERGY MARKET RISKS

The principles for operational management and control of energy market risks for the Group's operationally controlled entities are based on clearly-defined responsibilities for managing those risks, distinguishing between management of assets (generation and supply) and trading.

Managers of generation and supply assets are responsible for implementing a risk management strategy that minimises the impact of energy market risks on the variability of their financial statements (the accounting classifications of these hedges are described in note 41 to the 2014 consolidated financial statements). However, a residual risk remains that cannot be hedged on the market due to factors such as insufficient liquidity or market depth, uncertainty over volumes, etc.

For operationally controlled entities in the Group, positions on the energy markets are taken predominantly by EDF Trading, the Group's trading entity, which operates on the markets on behalf of other Group entities and for the purposes of its own trading activity associated with the Group's industrial assets. Consequently, EDF Trading is subject to a strict governance and control framework, particularly the European regulations on trading companies.

EDF Trading trades on organised or OTC markets in derivatives such as futures, forwards, swaps and options (regardless of the accounting classification applied at Group level). Its exposure on the energy markets is strictly controlled through daily limit monitoring overseen by the subsidiary's management and by the division in charge of energy market risk control at Group level. Automatic escalation procedures also exist to inform members of EDF Trading's Board of Directors of any breach of risk limits (value at risk limit) or loss limits (stop-loss limits). Value At Risk (VaR) is a statistical measure of the potential maximum loss in market value on a portfolio in the event of unfavourable market movements, over a given time horizon and with a given confidence interval<sup>37</sup>. The stop-loss

<sup>37</sup> EDF Trading assesses VaR by the Monte Carlo method, which refers to historical volatilities and correlations estimated on the basis of market prices observed over the 40 previous trading days. The VaR limit applies to EDF Trading's overall portfolio.

limit stipulates the acceptable risk for the trading business by setting a maximum level of loss over a rolling three-month period. If the limit is exceeded, EDF Trading's Board of Directors takes appropriate action, which may include closing certain positions.

In 2014, EDF Trading's commitment on the markets was subject to a daily VaR limit of €36 million (with a daily confidence interval of 97.5%), and a stop-loss limit of €180 million<sup>38</sup>. The VaR and stop-loss limits were not exceeded in 2014, and EDF Trading's risks remained within the limits of the mandate from EDF at all times. The stop-loss has never been triggered since its introduction.

At Edison, for operational purposes net exposure<sup>39</sup> is calculated based on its entire portfolio of assets and contracts (industrial portfolio), and on assets and contracts related to its trading business for the company's own purposes (trading portfolio). The level of economic capital engaged in the markets, expressed in terms of Profit at Risk (PaR)<sup>40</sup> is then determined using this net exposure.

For an analysis of the fair value of the Group's commodity hedging derivatives, see note 41.5 to the 2014 consolidated financial statements. For details of commodity contracts not classified as hedges by the Group, see note 42.3 to the same consolidated financial statements.

### 5.3 MANAGEMENT OF INSURABLE RISKS

The EDF group has an extensive insurance programme that covers EDF SA and controlled subsidiaries as they are integrated, including ERDF and Edison which was incorporated into the Group's main programmes in 2012 and 2013. The coverage, exclusions, excesses and limits are appropriate to each business and the specificities of these subsidiaries.

The main insurance programmes cover:

- **conventional damage to Group property:** EDF is a member of the international mutual insurance company OIL<sup>41</sup>. Additional insurance coverage is provided by EDF's captive insurance subsidiary Wagram Insurance Company Ltd<sup>42</sup>, other insurers and reinsurers,
- **damage to the EDF group's nuclear facilities:** In addition to coverage through EDF's membership of OIL, physical damage (including following a nuclear accident) to EDF's nuclear installations in France and EDF Energy's nuclear facilities in the United Kingdom, and nuclear decontamination costs, are covered by a Group insurance policy involving the French nuclear pool (Assuratome), the British atomic pool National Risk Insurers (NRI) and the European Mutual Association for Nuclear Insurance (EMANI). In connection with CENG's operations in the United States, EDF Inc is a member of NEIL<sup>43</sup>,
- **damage to merchandise transported,**
- **nuclear operator's civil liability:** EDF's current insurance policies comply with French law n° 68-943 of 31 October 1968, as amended by law n° 90-488 of 16 June 1990, which codified the civil liability obligations imposed on nuclear facility operators by the Paris Convention. To guarantee availability of the funds required to meet such obligations, EDF opted to use insurance policies. The cover provided by EDF's policies with Allianz and the European Liability Insurance for the Nuclear Industry (ELINI) is equal to the limits of liability set by law in the event of an accident, whether at a nuclear facility or during transport,

<sup>38</sup> Five times the VaR. €180 million.

<sup>39</sup> Net exposure is the residual exposure after using all natural hedging options provided by vertical and horizontal integration of the various techniques.

<sup>40</sup> Profit at Risk or PaR is a statistical measure of the maximum potential decline, related to unfavourable market movements, in the margin compared to budget for a given time horizon and confidence interval.

<sup>41</sup> Oil Insurance Limited.

<sup>42</sup> An Irish insurance company fully-owned by EDF.

<sup>43</sup> Nuclear Electric Insurance Limited.



For onsite accidents, total cover is €91.5 million per nuclear accident, for a maximum of two occasions per site within a three-year period. In accordance with the law, these insurance policies purchased do not include an excess. However, Oceane Re, a Group reinsurance company, shares this risk through reinsurance agreements entered into with Allianz and ELINI.

In the United Kingdom, where EDF Energy operates nuclear plants, the liability scheme applicable to operators of nuclear facilities is similar to that in France. EDF Energy is insured to the extent of £140 million, the current limit for civil liability applicable to nuclear plant operators in the United Kingdom. Since 1 January 2014, this insurance has been provided by ELINI and Wagram Insurance Company Ltd. Oceane Re is associated with this risk via the reinsurance contract issued to the benefit of Wagram Insurance Company Ltd.

In the United States, the specific Price-Anderson Act regime would apply in the event of a significant nuclear accident (above \$300 million).

- **general civil liability:** this programme covers the Group against the possible financial consequences for third parties of the (non-nuclear) risks inherent to the EDF group's businesses,
- **civil liability of directors and senior executives:** EDF's insurance programme covers the Group's directors and senior executive personnel,
- **construction risks:** for these risks, EDF takes out insurance policies covering specific worksite risks (general worksite risks/ general assembly risks). These policies are not part of a Group programme but are purchased on an ad hoc basis for major projects such as the Flamanville EPR, or construction of combined cycle power plants, dams, combustion turbines, etc. This cover is recorded as an investment in the EDF SA financial statements,
- **exploration and production:** Edison had a specific insurance policy providing Damage and Civil Liability coverage for these assets worth €2.2 billion, both onshore and offshore. Through optimised use of EDF's membership of OIL, Edison was able to construct a new specific "Exploration and Production" programme from 1 January 2013,
- on 11 August 2011, ERDF took out a policy with Natixis/Swiss Re that runs until 30 June 2016 (five storm seasons) for **coverage of ERDF's overhead distribution network** against the consequences of exceptional events such as storms and gales. This "cat-bond" provides maximum cover of €150 million, with payouts based on a parametric index dependent on wind speed. On 27 December 2011, additional €40 million coverage was subscribed for a four-year period, to reduce the excess.

The total value of premiums for all types of coverage provided by EDF's insurance programmes and Group programmes managed by EDF Assurances was €146 million in 2014, including Dalkia and €18 million for coverage of ERDF's overhead networks.

## 6. TRANSACTIONS WITH RELATED PARTIES

The types of transaction undertaken with related parties are detailed in note 48 to the consolidated financial statements at 31 December 2014.

## 7. SCOPE OF CONSOLIDATION

A list of all consolidated companies is included in note 51 to the 2014 consolidated financial statements.

## 8. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties to which the EDF group considers itself exposed are described in section 4.1 of its reference document.

The EDF group policies for risk management and control are described in section 4.2 of its reference document.

## 9. FINANCIAL OUTLOOK

### 2015 Guidance

In 2015, the Group faces several major challenges to its financial equation. Industrial challenges involving the existing French nuclear fleet with the roll-out of the "Grand Carénage" programme ; finalising of agreements and the financing package for the Hinkley Point C project with a view to a final investment decision; and bringing the current cycle of renegotiating gas contracts to a successful end at Edison. There will also be commercial challenges arising from the end of the yellow and green regulated tariffs and from the ARENH formula. And policy challenges with the expected adoption of the French energy transition law.

Against this backdrop, the Group announces the following financial guidance for 2015:

- **EBITDA Group<sup>44</sup>**: organic growth 0 to 3%
- **Net financial debt / EBITDA**: between 2x and 2.5x
- **Payout ratio, based on net income excluding non-recurring items post-hybrids<sup>45</sup>**: 55% to 65%

### Roadmap for positive cash flow by 2018<sup>46</sup>

The Group had announced its ambition in February 2014 to achieve positive cash flow after dividends excluding Linky in 2018.

Given the trends of 2014 in key components of the cash flow, the Group has put a roadmap in place for meeting this ambition.

Regarding EBITDA, the Group is striving to maximise its gross margin and step up its efforts in controlling operating expenses while taking into account the regulatory environment and changing markets.

The action plan also aims to continue improving working capital requirements, with an objective of €1.8 billion in optimised cash flow in 2018 on a like-for-like basis.

And, lastly, in accordance with what was announced in early 2014, the Group's net investment trajectory will peak in 2015, but brought down to €13 billion. Net investments excluding new developments should then gradually recede as projects are commissioned, reaching no more than €11 billion in 2018. The investments for new developments will be financed mostly by reallocating the proceeds from non-strategic assets disposals, the value of which will be optimised throughout the duration of the plan.

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<sup>44</sup> At constant scope and exchange rates and excluding the impacts of the €744 million catch-up on 2014 EBITDA following the French Council of State's decision of 11 April 2014

<sup>45</sup> Net income excluding non-recurring items adjusted for payments on the hybrid issues booked as equity

<sup>46</sup> After dividends, excluding Linky