

EDF

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Web conference chaired by Henri Proglio

with Thomas Piquemal

Free translation from French

— **Henri Proglio:** Hello everyone. I'm with Thomas Piquemal and we are pleased to welcome you to this conference on our 2012 half-year results. Given the format being used, may I remind you that the slides for this presentation are available on our website.

Now the key figures for the first half of 2012. In a difficult context, both from a global economic standpoint and in terms of operating constraints, I believe I can say that EDF turned out a good solid performance: sales at more than €36 billion, accounting for growth of more than 8% and 7.1% organic growth, with EBITDA up 4.6% at more than €9 billion (up 3.3% in terms of organic growth), driven mainly by the new energies and distribution in France. This good set of figures allows to post EDF net income of €2.768 billion (up 4.6%), and in particular net income excluding non-recurring items at nearly €3 billion, marking a significant increase of more than 10%, which is a substantial increase in operating income over the six-month period. This clearly shows how EDF's profits have continued to rise. This fine performance was all the more satisfying because the second quarter proved more complicated, but we'll get back to that.

In June 2012, net financial debt came to €39.7 billion. This includes the expected effect of the Edison takeover and a total cumulated CSPE deficit of €4.5 billion. The ratio of net financial debt to EBITDA was 2.5. Thomas will explain those figures in more detail. Before that, I'd like to say a few words about our operating income, shown on slide number five. As you can see, these operating results are up thanks to a portfolio of diversified businesses. The fact that we achieved these positive results in a tough economy proves the relevance of a portfolio of diversified activities based on EDF's special integrated model. Remember that in 2011 the exceptional nuclear production performance made it possible to offset a decline in hydraulic

production caused last year by a record drought. In this first half of 2012, we are observing exactly the reverse phenomenon, especially in the second quarter for reasons that are easily understandable. In nuclear production in France like in Great Britain, in the second quarter, we had a large number of planned outages. In France, some outages were also extended for longer periods than usual, especially in May and June. Here again, Thomas will go into that in further detail. Naturally, these shutdowns interfered with output, which was down 10.6 TWh in France compared to the first half of 2011, causing us to lower our nuclear output targets to around 415 TWh from the 420 to 425 TWh initially predicted. This relative decline in nuclear output after a relatively high output in 2011 in no way calls into question our steady investment policy, particularly the plan to replace major components, which has already largely paid off.

In the United Kingdom, for the same reasons as in France, output was down by 1.2 TWh, but the target of reaching annual output of more than 55 TWh is maintained for 2012. However, the decline in nuclear output was offset by a high level of activity in renewable energy – first of all, with a sharp increase in hydraulic production of nearly 42% or 6 TWh. This increase was due to efficient management of water stocks and also to a return to much more favourable weather conditions, but, as you saw in France, the second quarter was exceptionally rainy.

To continue with renewable energy, EDF Energies Nouvelles also had an excellent semester with the sharp increase in wind and solar production in Europe and also in North America. Wind production rose by more than 35% and solar by 40% thanks to favourable weather conditions and the commissioning of new wind and solar farms. Construction on three solar farms is nearly complete in France in Toul, Massangis and Crucey ahead of schedule, totalling 2,450 MW of capacity that are now being built around the world not counting the recent positions taken by EDF Energies Nouvelles in the Moroccan and South African markets

Lastly, to conclude my comments on operating performance, I must underscore the performance by distribution activity driven by an increase in volume due primarily to the weather factor during the period and to the August 2011 increase in transmission rates. Hence, on the whole, aside from nuclear, for special reasons, operating performance is on target, again demonstrating the merits of our diversified production mix, which enables us to skate through periods of uncertainty while maintaining the necessary output level. These

results also reflect capital expenditures totalling nearly €5.9 billion, up 22.5% compared to the first half of 2011. Two thirds of those expenditures were devoted to France; for example there was a 30% increase in grid quality investments.

During the period, our major projects in France and Europe moved ahead, demonstrating the effectiveness of our strategy in that region, rolled out over five major key countries in which EDF is active and well positioned. Slide 6 shows the main drivers attesting to the vitality of our business. Hence, in our markets in Europe, EDF is gaining a stronger foothold in five key countries, starting with France, where EDF is now involved in two industrial projects that rank among the largest in the country and also in Europe: Flamanville 3 and the Dunkirk methane terminal.

Regarding the Flamanville EPR, we have already discussed that, and I won't say anything further about it except to point out that the ASN, France's nuclear safety authority, validated the command and control changes last April and more than 90% of the civil engineering is now complete.

However, I have more to say about the Dunkirk methane terminal project. This is an exemplary project, both in terms of its European scope and the number of partners involved: (i.e. we are partnered with Belgium's Fluxys 25% and Total 10%) and in terms of design. A unique feature is that the terminal will be connected to two markets, France and Belgium, and will account for around 20% of the natural gas consumed in France and Belgium. With a commercial capacity of 13 bcm per year, it will be able to handle the largest methane tankers in the world; it is slated for commissioning in 2015. After Flamanville it is the second largest industrial project in France both in terms of capital expenditures (accounting for more than €1 billion) and in terms of the number of hours worked. Of course it is also an opportunity for the Nord-Pas-de-Calais industries. 88% of the contracts related to the projects were awarded to local companies, illustrating EDF's firm footing in the region. This terminal has much more to offer than it seems with two direct benefits; first, it enables the group to build a diversified natural gas portfolio to supply its own power production plants and second, it boosts EDF's presence in the natural gas markets along with its European partners. Finally, still regarding our major projects in France, I'd like to point out the success of EDF Energies Nouvelles, which with Alstom has won three out of the four offshore wind calls for tenders for the construction of 1,500 MW and the creation of around 7,500 direct and indirect jobs. Flamanville, Dunkirk and offshore wind energy – these are great examples of capital

expenditures at the service of the French industry with a significant number of jobs created! However, as we have said repeatedly, our domestic market is of course Europe with one key country in the system, Italy. In the second quarter, we took further steps to buy out Edison, now a jumping off point for growing our global business in natural gas. After the Edison takeover, which was finalised on 24 May, granting us 80% of the Company, we launched a mandatory tender offer on the remaining 20%, in accordance with market regulations, which will close on 3 August, after which EDF will own more than 90% of Edison.

This deal makes us a leading company in Italy, where Edison is the country's second largest gas utility and the third largest electricity generator with 7GW of production capacity, over which we now have full control in addition to EDF Group's existing production capacity. I must underscore how closely this deal is tied to our view of Europe's energy future. Dunkirk, Edison and related developments in Italy, all these major natural gas projects we are spearheading with the utmost consistency, are intended to pave the way for more security of supply while North Sea gas production may disappear in the medium term.

Another country in which EDF is the leading electricity producer is the United Kingdom, of course, where in the second quarter three major developments led to further growth. First of all, this past May, with the introduction of an energy bill by the British government, instituting the mechanism known as "Contract for Difference," encouraging developments in "low carbon" energies, which includes nuclear. The terms have yet to be defined, and, depending on the financial conditions set, we will then be able to make a final decision on whether or not to invest in nuclear power projects before the end of this year and on the authority to extend by seven years the operating life of AGR technologies nuclear power plants compared to the shutdown date at the time British Energy was acquired in January 2009. And, lastly the tests for commissioning the first unit of the West Burton combined cycle gas power plant in Nottinghamshire. The three units of that plant, which has a total capacity of 1,305 MW, will be commissioned by the end of the year. As you can see, EDF, a leading player in France, Italy and the United Kingdom, continues to grow with the aim of developing a strong presence in those three countries to serve the whole of Europe. This reaffirmed strategy also holds true for two countries in which EDF now holds key positions: Poland, a very large market in which we have been active for 14 years with more than 4,000 employees, the leading foreign investor and the third largest electricity producer with around 24% of the market share in the Polish biomass market, EDF provides nearly 10% of the electricity and 15% of the urban heat. Lastly, in Poland we are one of the leading producers

of energy from biomass with around 24% of the Polish biomass market with 1.5 TWh of electricity produced from 1.2 million tons of biomass, making EDF a leading player in that market.

Just like Belgium, which we tend to discuss less often even though we are active in that country through EDF Luminus, the second largest player in the Belgian energy market with nearly 13% of the national production capacity, 20% of market share, 1.6 million customers and more than 1,000 employees.

Now I was hoping to give a brief overview of strong positions in Europe given the developments representing major progress during the first half of the year. The recent takeovers of Edison and EDF Energies Nouvelles at the right time for the Group are helping to enhance EDF's expertise, thus confirming the merits of its unique model as an integrated company. EDF is now better equipped to meet the challenges of the world of electricity with strong growth in demand.

Lastly, I would like to discuss one little known business line that is especially strategic in the current context, more of an inter-company business to which we do little justice although it is essential for the balance of our own supply/demand from production facilities in Europe. I'm talking about EDF Trading, a business backed by physical industrial assets and hence by a real economy. EDF Trading is the Group's interface with the markets. It is an undisputed player and leader in the wholesale electricity markets in Europe and North America; it plays a major role in managing and optimising the supply and demand of the EDF Group's production portfolio. For example, in 2011, EDF Trading traded around 4,000 TWh of electricity in Europe and the United States, 560 billion therms of natural gas, nearly 500 million tons of coal and more than 300 million tons of CO₂. Hence this activity is absolutely essential since it enables us to get the most value from EDF's physical assets with an added significant benefit: it consumes little capital.

There you have a host of reasons to be confident in the future of EDF, which logically lead us to confirm our short and medium-term objectives, which Thomas will discuss again at the end of the presentation. I will now turn the floor over to him.

— **Thomas Piquemal:** Thanks, Henri. I would like to extend my greetings to each and every one of you. Now I'm going to explain our first-half results in detail, starting with a little information on the presentation of our financial statements and the accounting policies we

chose to use for this period. They are the same as those used in the prior first-half, with one exception, which concerns post-employment personnel commitments. We restated the 2011 column, which we posted on our website. This restatement was designed first of all to anticipate one standard and to limit the volatility on our income statement. Moreover, in terms of scope, we are fully consolidating Edison at 80% in economic interest, but fully in our accounts, starting at the end of May; in other words, we have it at 50% as a contribution in our income statement until the end of May. You know the key figures; Chairman Henri Proglio presented them a little while ago. They are up compared with the first half of 2011. On a like-for-like basis EBITDA was up 3.3%; EDF net income was up 4.6% at €2.768 billion, and net income excluding non-recurring items came to €2.945 billion, up more than 10% compared to first-half 2011. These results are better than expected. You may remember that we were expecting a steady operating performance over the first half of 2012 compared to first-half 2011 owing to the schedule of planned outages in our production facilities in France and also in the United Kingdom, and we did better than expected for two main reasons: the first is related to cost control in France and the United Kingdom, and the second relates to the outstanding performance by EDF Energies Nouvelles over the period compared to first-half 2011. I will obviously go into further detail in my explanations.

Debt came to €39.7 billion. This figure is 2.5 times EBITDA, which is the ceiling we set in terms of debt-equity ratio. This debt figure of €39.7 billion includes the €4.5 billion total cumulated CSPE deficit and also the first consolidation of Edison for more than €2 billion. These figures reflect the full consolidation of Edison's debt at 30 June as well as an atypical effect on our working capital requirement, due notably to the weather. I will discuss this in further detail during my presentation. The following page show the change in sales, which is up, organic growth of 7.1% on a like-for-like basis, , driven by growth in France of €1.2 billion. This reflects the effect of rates and also of the cold snap on the regulated portion.

The other high-growth country in terms of sales is Italy, which was up €500 million owing to the price hike on the market. However, this increase did not result in improved margins, far from it. To the contrary, margins continued to fall in Italy in the first six months of the year. EBITDA was up 3.3% thanks to an increase in France (a €359 million increase in EBITDA). The decline presented here in the United Kingdom is purely an accounting effect owing to the fact that we stopped accounting for a certain number of assets recognised in the first consolidation of the British Energy balance sheet in 2008. This reflects a decline of around €100 million in EBITDA as well as the outages schedule for the United Kingdom in first-half

2012. Let me say right away that the performance of the United Kingdom is in line or even a little better than expected. Italy is down €30 million. As I explained, margins continued to decline over the period, and you will see on the right-hand side that EDF Energies Nouvelles saw a €141 million increase in EBITDA in the period compared with the same period last year. EBITDA was up 3.3% on a like-for-like basis, with a depreciation and amortisation expense somewhat stable compared to the prior year. Here we have two effects nearly offsetting each other. First of all, an increase in our amortisation allowance related to our continued effort in terms of capital investments, but also the favourable effect of extending the life of the AGR facilities to 7 years that was recognised in this period. Impairments on our operating income totalled €194 million in operations. I will go into further detail on this in a little while. This means a 2.9% increase in EBIT to €5.602 billion.

As you can see on the following page, our financial expense remained perfectly stable compared with first-half 2011. There also the increase in finance costs stemming from the increase in the amount of liabilities was offset by a certain number of capital gains on securities and financial income that we recorded over the period. The tax expense is higher in absolute value, but the effective tax rate is fairly comparable. During the prior year we recorded a certain number of non-recurring expenses, which skewed this tax expense. The sharp increase in net income from associates and from equity affiliates should be noted. This applies mainly to RTE, which is wholly owned by us, but which is consolidated by the equity method on this line. There was a sharp increase in net income owing mainly to the February cold wave. Overall, EDF net income rises 4.6% and 10.3% when non-recurring items are restated. Let me remind you that we apply the pay-out ratio to ordinary income net of tax. This allows us to establish the company's policy in terms of dividend rate, for which, as you know, we have a target of 55 to 65%. Now for non-recurring items, which I will present in detail: a negative €177 million for the period compared with practically nothing in first-half 2011. In fact, in first-half 2011, we had a positive effect, which was the capital gain realised on the sale of EnBW, which was offset by a number of negative items, the main one being a provision for Dalkia. These different items offset each other in first-half 2011, while in first-half 2012, the main negative item involved an additional impairment we had to recognise on our CENG stake in the United States. This impairment reflects the continued decline in gas and power prices and the downward mismatch of forward curves, which led us to recognise an additional provision on the order of \$300 million.

You also see it on this line. The Edison takeover resulted in an expense of €51 million. This is net of the effect of the first consolidation of the Edison balance sheet. The accounting entries are naturally much more complex than the impression given by that line. We did the first revaluation of the Edison balance sheet at 30 June and the revaluation of the different assets compared with the acquisition price and with the cost price on our books, resulting in an extremely marginal difference of €51 million. This will naturally be offset in the future by the synergy we will be able to develop on this activity.

I will now go into detail on our performance in France and in the major geographical regions in the world starting, as I said, with France, where because of a larger number of scheduled shutdowns in first-half 2012 as well as extended shutdowns, the contribution by nuclear output is down €392 million from first-half 2011, largely offset by better hydraulic production of €276 million. The net weather effect the cold snap which had a positive effect on the EBITDA of ERDF but negative on the rest of the Group in France due to the need to cover ourselves at prices higher than the prices we charge our customers, represented an expense of €100 million for the period. To get an overall view of the effect of the cold snap, we should add the positive income from RTE, which, as I said earlier, is accounted for on the equity affiliates' line. You can see there that on the whole, the Group is practically immune to such totally atypical weather effects. This is also due in large part to the hard work and the improvements made by our EDF Trading teams and optimisation teams in France.

The effect of tariffs and the increase in market prices of nearly €400 million on EBITDA relates mainly to the effect of the increase in distribution and transmission rates. The TURPE had an impact of more than €140 million on ERDF. However, there was an increase in the energy portion of the integrated rate, since the regulated selling price is set globally with different components, and the contribution by the energy portion you see there was a very slight increase of €80 million in first-half 2012. We also benefited from a slight increase in market prices in the period. Operating expenses were kept under control: an increase of €230 million in operating expenses for the period, related in part (I would say almost 50%) to measures under the Fillon plan, which was announced quite some time ago. Restated for the effect of this exceptional measure, the increase in operating expenses in France was less than inflation. This attests to our cost control efforts over the period. The other effects concern ERDF, particularly the rate of loss recorded and also the end of the TaRTAM mechanism, which I will not dwell on more than necessary since it is a mechanism that was terminated on 30 June 2011. The electricity upstream/downstream balance presented on the following page

also shows sales for the first time in first-half 2012 (since it did not exist in first-half 2011), you can see on the right, at ARENH price under the reform of the French market, 30 TWh. I'm continuing on the right to explain that consumption by customers at 199 TWh is up by 6 TWh, but only as related to the weather effect, which explains an increase in consumption on the order of 8 TWh, with the 2 TWh decline related to a decline in market share in equity financing.

I simply want to point out that over this period, consumption in France (this is fairly atypical) is fairly stable, adjusted for weather effects, consumption stable and even down for large manufacturing companies. On the left-hand side, which gives output and procurement, you can see that nuclear is down by 11 TWh. We were expecting a decline on the order of 8 TWh, but more pronounced due to a more difficult month of June. (I'll get back to that in a moment.), while there was a production increase in hydropower of 6 TWh. As I said earlier, this is what explains the wide variations in EBITDA on the French portion, on production facilities. Nuclear production as presented on the following page was slightly equivalent to production in the prior first-half, and we were expecting a decline on the order of 8 TWh over the period owing to the scheduled shutdown program. You can see that this decline is more pronounced in the month of June. During June, we experienced extended outages, particularly on level N4, related to additional audits which we are conducting with the nuclear safety authority. For this reason, our nuclear output target has been lowered to around 415 TWh compared with our previous target of 420 to 425 TWh range. You can see on the following page that our shutdown program was busier in the second quarter of 2012 than in the second quarter of 2011. Some shutdowns were extended as you can see in the different colour codes, and unexpected shutdowns occurred during the month of June. Some of the main shutdowns will have to be wound down in August or September.

Hydropower output was up sharply (+41.8%) in the period. It was up in the first three months of the year. This increase grew in momentum during the rest of the period. Output was good in the first three months of the year, while, as you can see on the following page giving the hydrological curve, the reverse occurred at the end of March or rather April. In the first part of the year, the hydrological level was very low compared to 2011 levels. However, hydropower output ended up, attesting to the proper management of our hydropower reserve by our optimisation staff at year-end 2011. Because of experiencing nearly maximum conditions in the second part of the period, we have a hydropower stock at the same level of

historic levels as of end-June 2012, which allows us to confirm our hydropower output target for the year 2012.

In the United Kingdom, operating performance is in line with or even slightly better than our expectations. However, you wouldn't think so from seeing the figures on changes, since EBITDA was down 16.1% on a like-for-like basis, but there again I emphasise the fact that you have to do as we have been doing now for several months, i.e. restate the impact of the fair value revaluation of the British Energy acquisition balance sheet. This is a purely accounting entry recognised at the time of the first consolidation of the British Energy balance sheet. When restated for this item, EBITDA is down 8.3% on a like-for-like basis, which reflects mainly the schedule of planned shutdowns and, even though it has practically no effect on our margin, a slight decline in volume of the B2B segment due to a highly competitive market.

I am confirming our objective of an increase in nuclear production in the United Kingdom over the prior year. This June performance goal is completely in line with that objective. The electricity balance is presented on the following page and does not call for any particular additional comments on my part. I've already referred to the slight erosion in the B2B portfolio. If not, on the left-hand side, you see an increase in fossil-fired output. Coal-fired plants are up (+4TWh) because of the more favourable dark spread over the period. In Italy, sales were up (+16.5%) including everything, Edison and FENICE unfortunately did not result in an increase in EBITDA. Far from it. In fact, EBITDA is down 14%, which illustrates the continued decline of margins. As you know, our challenge in Italy is to renegotiate gas contracts or else to obtain favourable arbitrage. This is definitely on the agenda; it is one of the major challenges of our second half, and we are expecting decisions in that regard by the end of the year for two out of three contracts.

The takeover of Edison is now complete. Since the end of May, we have held more than 80% of Edison, which will be fully consolidated in our accounts from that date. This deal is in line with our goal of taking over Edison while limiting any disbursements to the extent possible. You see that it is limited to €100 million, and the effect on our debt situation. €100 million, that's thanks to the fact that we bought the 50% of the controlling holding company that we did not own, but that we sold, Edison sold the 50% in Edipower, which means that for EDF as a whole, this is a takeover with an extremely limited cash out. We completed the temporary allocation of the purchase price, revalued assets including the brand and overall, I

can say right away that for future years, this balance sheet revaluation has an extremely marginal effect on our accounts, no effect on EBITDA, and a very slight effect on our net income, which will be offset by the synergies expected, which I have already had an opportunity to discuss. Edison's electricity balance is presented on the following page. We have few comments to make other than a decline in hydro-electric output by Edison owing to reservoir levels and local rainfall. But in addition to the electricity balance specific to Edison, I believe what is more important is to talk about trends in the Italian market, where we have experienced significant declines in consumption in the area of electricity adjusted for seasonal effects, and we have experienced an overall increase in the production of renewables, which naturally leads to lower margins, and a continued squeeze effect on CCGT figures. All this was known, naturally, and anticipated at the time of the Edison takeover. As I said, our challenge is to renegotiate gas contracts in the second half of the year

In the Other International segment, you see that EBITDA is down 17% on a like-for-like basis. I believe I can say that one of the recurrent theme in these different segments is the unfavourable trend in economic conditions, of course, but also in regulations, whether it is in Belgium with the tariffs freeze, or in Central and Eastern Europe, with, for example in Hungary the elimination of support for co-generation, Slovakia, where we are experiencing declining margins, or Poland, particularly in the area of biomass fuel. All this as well as the impact of lower prices in the United States, is the primary explanation for the decline in EBITDA in our business in the rest of the world. Whether in the continental European hub, in the United States or Brazil, even though in Brazil it is hard to compare with an excellent year 2011. Moreover in this first-half 2012, we experienced a decline in profitability related solely to a shutdown, for maintenance, of two gas turbines. However, in the other activities segment our performance was absolutely outstanding: business was up 28.4%, driven by the good performance of EDF Energies Nouvelles, which was a +70% contribution to EBITDA thanks to the output in both wind and solar. Chairman Proglia mentioned this earlier. Also regarding the steady activity selling structured assets, this is part of EDF Energies Nouvelles' traditional businesses. EDF Trading's performance is marginally down, but in line with our expectations, given the economic downturn in North America.

These good operating results, along with control over financial expense and a tax rate that remained normal, explain the sharp improvement in our operating cash flow, as you can see on the following page: funds from operations were up 10.4% at €6.586 billion. Unfortunately, despite this increase in funds from operations, our free cash flow is a negative €1.756 billion,

owing of course to the increase in capital expenditures, which I will come back to, but also to a decline in the WCR since you see that the increase in our working capital requirement explains a net disbursement for the period of €2.5 billion. In this figure you will find the increase in the CSPE compensation loss for around €700 million. There are two other effects I'd like to mention. The first is an atypical effect on the WCR in accounts receivable in France, atypical because of the doubly atypical weather we experienced in December 2011 and June 2012 - an unusually mild month of December 2011 and a month of June, which, on the other hand, was especially cold. This explains why we had atypical accounts receivable on those two dates and hence around €700 million related solely to that weather effect. The other effect of the deterioration of the WCR is related to Edison. Over the period, Edison's debt increased by €500 million because of the decline in the WCR, which was partly related to the weather and seasonal effects on the amount of securitisation and disposals of accounts receivable, but also to payment delays both in Italy and in Egypt. That is the main reason for the effects on the working capital requirement, and therefore some of them will be corrected before the end of the year or else are atypical because of the weather effects I described.

Capital expenditures are up €1 billion. Given that our overall capital expenditure target for the year, as I have already indicated, is around €12 billion – an increase of €1 billion can be explained by three major areas. First of all, renewables saw a €455 million increase in capital expenditures, related mainly to the ramping up of our capital expenditure programme in the United States, since in 2012 we still qualify for a certain number of investment incentives. In the United Kingdom, we invested €350 million more than in first-half 2011, mainly because of the start-up of some projects in renewable energy and a ramping up of investments in the area of new nuclear. Lastly, in France, where we expended considerable effort with one example in the area of power grids, where the overall investment budget increased by 13%, 30% of which was devoted to network quality and security. This explains the increase of nearly €1 billion in our capital expenditures over the period. A negative free cash flow of nearly €1.8 billion, an allowance for dedicated assets that continued over the period for €400 million, a dividend payment, first consolidation and changes in scope or acquisitions for €600 million. The first consolidation of Edison for €2.4 billion explains the increase in debt over the period from €33.3 billion to €39.7 billion. I believe it is important to underscore that this debt of €39.7 billion enables us to finance the CSPE deficit for €4.5 billion, as I have just said, that we are financing and for which EDF does not receive any compensation for the cost of carry; this debt also makes it possible to finance major development projects at a cost of

€11.2 billion. I think this figure deserves to be stressed since few groups, I believe, finance as many projects in development, which is naturally a source of significant growth for the group's income in the future. In these €11.2 billion, you will find more than €2 billion in renewable projects and €9 billion in other projects, in the area of the new nuclear in France, in the United Kingdom, in China, in the area of gas-fired combined cycle plants with West Burton in England, which is in a test phase, or else in other areas, notably in natural gas infrastructures like Dunkirk, which the Chairman brought up earlier.

This debt is two and a half times our EBITDA, which is the maximum debt ratio we have set. This is the reason why our goal is to pursue and intensify our efforts to find a solution to the problem of the CSPE deficit. A few weeks ago we began discussions on that topic, and we are also willing to revise our expense and capital expenditure trajectory by the end of the year. For that reason, I can confirm all our objectives as I announced them in February of this year. They were confirmed at the first quarter conference call. You are familiar with them. I'm referring to targets for income growth of: 4% to 6% for EBITDA, 5% to 10% for net income excluding non-recurring items with a payout ratio target applied to net income excluding non-recurring items of 55% to 65% and hence a debt to EBITDA ratio below 2.5x, demonstrating our desire to gain control over our financing structure and to preserve a very sound structure.

For 2012, our objectives are in line with these figures, with the target of a dividend at least stable compared with the dividend paid for 2011. The major challenge for 2012, as I said at the beginning of the year during the first quarter conference call, is to renegotiate gas contracts at Edison over this second half of the year, an assumption we are making, as I indicated several times when confirming our objectives for 2012. This completes my presentation. We are at your disposal to answer any questions.

— **Question from Michel Debs, Credit Suisse:** Can you brief us on Edison's credit, its timing, its cost and the latest developments?

— **Thomas Piquemal:** The tender offer on Edison is underway. It will be closed on 3 August. We are waiting for the results to decide what we'll do after this mandatory procedure. What I can tell you is that I read in the paper the statement by a minority

shareholder who owns around 10% of the capital that he would contribute stock to the tender offer. That is why Chairman Proglia mentioned earlier that we would own more than 90% of the capital if this occurs. Otherwise, I have nothing further to say about the tender offer process. We are waiting for the results and we will make a decision on any further steps to take in terms of listing after the results, hence after 3 August.

— **Question from Martin Young, Nomura:** Can you confirm that renegotiating the two gas contracts will lead to a €600 million gain in EBITDA in the second half? What contract will remain to be renegotiated and what will the timetable be?

— **Thomas Piquemal:** Well, €600 million is indeed the assumption we have adopted for our 2012 forecast. The two contracts now in arbitration are the contracts with Qatar and with Libya. We will still have a third one, which is with Algeria. We are hoping either for a renegotiation or for arbitration in 2013.

— **Another question from Martin Young, Nomura:** Given your good results in the first half of 2012, why not raise your 2012 targets for the year as a whole?

— **Thomas Piquemal:** As I said earlier, I believe the results attest to a special effort we have made on costs, and on accelerating a certain number of disposals in the area of renewables. We are already giving ranges of income forecasts: 5% to 10% growth in net income. I believe that going beyond that would not be helpful, also given the fact, as I said earlier, we are lowering slightly our nuclear output target to around 415 TWh. I have already explained that our priority is growth in net income, but aside from what I've already said, I have nothing to add.

— **Thierry Deleuze:** Question on the CSPE and France. The CSPE totalled €4.5 billion at end-June. What do you anticipate for year-end 2012 and what possibilities are you considering for solving this deficit?

— **Henri Proglia:** The CSPE, with the current rates, is rising by around one billion a year. We had a little more in the first half at €700 million for the period. Essentially, it is a matter of obtaining compensation for the cost of carry through negotiations, as Thomas said earlier, i.e. basically so that the income statement will not be impacted by the cost of carry, which you can imagine is significant, and then staggering the recovery of the deficits so as not to affect the increase in electric bills and therefore the ability to change energy tariffs within electric bills and to ensure recovery of the deficit over time. We have engaged a discussion with the government. It is one of our priority actions, which should lead to results by the end of the year.

—**Question from Vincent de Blic, JP Morgan:** Thomas, in the first quarter, you indicated EBITDA of 8.5 and net income of 2.5. The EBITDA and net income at end-June are clearly higher than previously indicated. What are the main effects that explain this better performance?

— **Thomas Piquemal:** There is a purely accounting effect: you add €100 million related to changes in accounting policies on post-employment commitments. I mentioned this in the introduction. Then we have two major effects, as I said: controlling operating expenses in France and the United Kingdom with a massive effort we undertook during the first half. Renewables performed very well thanks to higher output volumes than expected, but also thanks to disposals of structured assets made over the period, one of which was made in anticipation of what we had predicted over the second half. And lastly, I would also mention a foreign exchange effect that was hard to predict, on the order of €80 million.

— **Question from Martin Young, Nomura:** “What are your expectations in terms of the ARENH price increase and the potential timetable for these increases?”

— **Henri Progllo:** The subject of ARENH is a little more complicated since you know it involves dual-level reasoning as ARENH, which was introduced by the NOME Law on opening up the market, is designed to set a scalable tariff. Changing it implies that the gap between the tariff and the selling price be reduced. Well, that involves a change in tariffs, whether they are yellow, blue or green, i.e. whether it is a matter of residential or business tariffs. The ARENH indexations will be in a second phase. Obviously that will not be the case in 2012, and therefore it means a tariffs negotiation on two fronts –tariffs evolution again, which means negotiating with the government, and then evolution of the ARENH in a second phase, which will be the consequence of the change in tariffs. That’s all we can say as of now. Obviously the discussion is ongoing. We cannot speculate or anticipate the decisions to be made.

— **Question from Arnaud Joan, Cheuvreux:** “What assumptions for changes in ARENH have you made in your 2011-2015 guidance?”

— **Thomas Piquemal:** We are not giving out any details on our assumptions; we have established a framework, and we are at the point of even indicating targets, and we have delivered results during the different periods. I will stop there. I won’t go into all our assumptions, especially since, as Chairman Henri Progllo has said, we still have negotiations to come.

— **Question from Michel Debs, Credit Suisse:** Can you brief us on the progress of the synergy program?

— **Thomas Piquemal:** Yes, and furthermore, that is also one of the reasons we are able to control our operating expenses and undertake a major effort to control our costs. The programme is underway; we have prepared a slide in the appendix of the different documents we are making available on our website giving you a breakdown of the gains we have generated. In the first half we gained a little more than €300 million, which is even ahead of the target we set for the year. In addition to the synergy programme, we are targeting a

certain number of well identified costs in the Group, on which I will not dwell at length, but I had mentioned it. We have identified others that definitely deserve a special treatment which are beginning to produce its effects. But the synergies/transformation programme as announced in July 2011 is ongoing and progressing normally.

— **Questions from Andrew Moulder, CreditSights:** there are rumours about the fact that you may need to write down assets post Edison acquisition. Will the €51 million you mentioned in your slides be the only visible impact on these asset revaluations or devaluations?

— **Thomas Piquemal:** Well, we have completed the first calculation of the balance sheet and therefore of the consolidation and revaluation of Edison is balance sheet on our books. After this process, which was carried out with an expert and confirmed by our statutory auditors, the impact on our financial statements is €50 million. After that process, as I recall, we have twelve months to finalise this acquisition price allocation in accordance with accounting standards. I am not aware of anything that would lead us to change that. That is the reason why, based on the information I have in the current context, there is no reason to anticipate any downward or upward movement. Furthermore, on that aspect, above and beyond all this accounting complexity that I really don't want to dwell on unless you want me to, I would say that in this deal, by buying the stock at 89 euro cents a share, we did a downward averaging compared to the full cost of acquiring Edison, and now our average cost of acquiring Edison is extremely close (within €50 million) to the revalued worth of that company on our books.

— **Question from Damien De Saint Germain, Crédit Agricole:** Of the €600 million in EBITDA in 2012 related to arbitrage, what will the recurring part be and what will the one-off part be?

— **Thomas Piquemal:** I don't want to give any further details. Again we have an arbitration underway; there is a considerable amount at stake for the Group. I simply want to mention it

to give you the assumptions underlying our forecast, i.e., as I said, there is a lot at stake for us, but naturally, I have no intention of going into any further detail on our assumptions or our requests.

— **Question from Bertrand Lecourt, Deutsche Bank:** You had a guidance of 15.4-15.7 for 2012. Does this take into account the renegotiations of the €600 million Edison gas contract? That's the first question on Edison, and I'll ask you the second one after your response.

— **Thomas Piquemal:** Alright, I give guidance in percentages. Then all you have to do is make the calculations. I could add that compared with the consensus published on our website, I'm comfortable with the figures in the consensus both in terms of EBITDA and net income.

— **Another question from Bertrand Lecourt, Deutsche Bank.** What change in EBITDA and EBIT do you anticipate for the full year 2012 in an average weather? And what is the possible impact of the Exceltium contract on the second part of the year?

— **Thomas Piquemal:** I believe we're already giving a lot of details on our prospects. Therefore, I'm not going into detail on growth. EDF is turning out a very good performance in this first-half. This is of course related to some weather effect, to the TURPE effect and also to cost-control measures, efforts to control fees, which will continue into the second part of the year. This means we are actually expecting performance to be up for ERDF during the year 2012 compared with 2011. As for Exceltium, we will see. I commented on our debt-to-EBITDA ratio target and our commitment to maintain it. The fact that we are launching an action plan on our costs and investments, the fact that this has been in progress for a number of weeks now. Chairman Proglia has given you several details on the CSPE talks. I believe the main thing is our commitment to maintaining our debt ratio and our very sound financial structure.

— **Thierry Deleuze:** Three final questions before going on to the audio questions. First question on lowering the nuclear output target: “What are the reasons and what will be the medium-term impact on the Kd?”

— **Thomas Piquemal:** Well, “what are the reasons?”, they are related to longer-than-expected extensions of shutdowns and maintenance operations, particularly on level N4 since June. These corrections and hence the solution to these problems will be found for some of them in August or else during September. Therefore these two-to-three-month delays, which I described for some tranches on a new basis, explain why we were lowering our objective. These are extremely powerful tranches, level N4. That is the reason why we are lowering our nuclear output target. As for the Kd, the impact on the future Kd (there I’m referring to impacts on 2012) relates to extended shutdowns and therefore once this is settled, there is no impact on the Kd.

— **Thierry Deleuze:** Still on the subject of nuclear: “Can you give us a new view of the nuclear operating investment plan over the next five to ten years?”

— **Thomas Piquemal:** No, I can’t since I told you that we are going to revise it by the end of the year. Obviously, without any changes in our objectives, our investment forecasts in terms of safety and maintenance, but regarding nuclear overall, we have several other factors and therefore everything regarding the Group’s investment trajectory that I announced in February 2011 will need to be revised by the end of the year. Therefore, I will specify all that again later, in February 2013, in accordance with what I told you earlier.

— **Thierry Deleuze:** Next-to-last question: “Given the good performance of your renewable business, what are your plans to grow this business in the future?”

— **Henri Proglio:** Listen, the renewable development plan in the future is by definition based on both opportunities and countries in which we are engaged in that business. As you

saw, this is a very international activity with a focus on priority countries for EDF. That is the point where the converging strategies of EDF and EDF Energies Nouvelles are paying off. We have a highly ambitious development plan and at the same time a plan for controlling investments and net capital expenditures that is totally in line and that fits the logic of the Group's financial strategy. That means two things. It means that the value added by EDF Energies Nouvelles in its area of expertise is both the upstream part of the cycle, i.e. developing research and selecting sites, all the negotiating and permitting procedures which are essentially the most vital for that activity, in other words the quality of the projects, the ability to design them, implement them and bring them to fruition, and then, secondly, the downstream part of the cycle, management of the production facilities constituted. Between the two, the ownership of the equipment, whether it is windmills or photovoltaic, is less important, and therefore the part leaving traces in the 2012 financial statements, which consists of designing, implementing, doing the design-build and managing the facilities and those developments is more important than the ownership part of the corresponding assets. That part lends itself well to the disposal during the process of part of the activities developed with the corresponding capital gains that both comply with the Group's ambitions of mastering the technology and initiating developments, and secondly of maintaining the integrated management of the electrical system stemming from those developments. That is the strategic part. So yes, we have a highly ambitious growth plan, much more ambitious than net capital expenditures, which are on the order of €1.2 billion, allocated to EDF EN. Hence that is the part that will remain on our books. The development part may be very significant, more than it is now.

— **Question from Franck Bataille, Credit Suisse:** “What will EDF's financing policy be with regard to Edison? Is EDF aiming to see Edison's rating return to the investment grade category?”

— **Thomas Piquemal:** The EDF group has an extremely significant amount of cash, and so naturally the issue of refinancing Edison can no longer be raised in the same terms. All this is being studied in detail, and I don't want to comment on the way we treat existing financing except to say that we will wait for the due dates and we will see. This is now being analysed.

— **Question from Benjamin Leyre, Exane:** I have three questions, please. First of all, what is your view of the possibility that closing Fessenheim would cause stability problems on the grid? Second question: regarding your debt, are you maintaining your objective of being below a 2.5 debt-EBITDA ratio? And a related question: would payment of an interim dividend be a potential adjustment variable? And a third question if I may: you indicated in the first quarter an amount of €4 billion in net income from ordinary activities if the gas contracts in Italy were renegotiated. Are you maintaining your estimate? Thank you very much.

— **Henri Proglia:** I'll take the part of the question regarding Fessenheim. RTE, our transmission subsidiary, released a report at the beginning of the year on balancing the grid, stating that the French grid could be balanced only if the same kind of output capacity were installed in Alsace, and that it was an absolute condition for balancing the grid, for reasons relating both to the French grid and also to interconnections with neighbouring grids. Therefore, the question must be asked and the answer given in this context.

— **Thomas Piquemal:** For the financial questions, yes our objective continues to be a 2.5 debt to EBITDA ratio. That said, there are major challenges lying ahead, particularly when it comes to the issue of the CSPE deficit, the issue of revising our net investments and expenses trajectory, but I can confirm that our objective is a debt-EBITDA ratio of 2.5. As for dividends, we have a pay-out target of 55% to 65% of net income excluding non-recurring items. Obviously it is not up to me to comment on whether payment will be in cash or securities. However, above and beyond what I just said (i.e. no comment on knowing whether or not payment is in cash or stocks), I would like to specify one thing. Since it seems to me that I've read inaccuracies here and there. Under no circumstances could the minority shareholders be obligated to accept dividends in securities. In other words, should EDF decide (I'm not trying to say this will really happen, and I'm speaking purely theoretically). Should EDF decide to propose an option of paying the dividend in stock, the minority shareholders would have the option of taking it in cash. Those are the market regulations and that's the way it is. Thus, theoretically, under no circumstances would the minority shareholders be obligated to take a dividend in shares. Lastly, I did say that if everything were on target, we could approach €4 billion in net income. If you calculate 5% to 10% growth in net income on the adjusted figure for modifying the accounting treatment I

described earlier, you can see that in the upper range, you have to arrive at 4. Again, if everything is on target. As for me, my priority is to give you a view between now and the end of the year in keeping with the levers we have. My view is 5% to 10% growth in net income, and we will be in the range.

— **Question from Philippe Ourpatian, Natixis:** Hello, Mr. Proglie, Mr. Piquemal. The first question on EDF EN. Can we have an idea of the amount of DSSA (Development and Sale of Structured Assets) in EBITDA since it is a recurring business with a strong seasonality? The second on the corporate income tax. Can we get an idea of your rate at year-end so that we can better estimate the bottom line? The last point on Dalkia. May we have an idea of the contribution by Dalkia to EBITDA for the period? Thank you.

— **Thomas Piquemal:** Well, the contribution by Dalkia over the period was slightly down due to certain provisions recognised on customers accounts in Italy. I'm saying that from memory, but the figures should be verified; it is on the order of €30 million, but the figures should be verified. The Group's tax expense, the effective tax rate is about one third. I believe that rate is in line with what may be used in the models. Lastly, EDF EN, I would say there is around €100 million contribution from DSSAs. So it is true; you are right to say that seasonality can vary on DSSAs and also on that subject we expect to ramp up the DSSA programme in the second half. That is why capital expenditures by EDF Energies Nouvelles are fairly high in the first half. And overall, during the year, we will spend less than €1.2 billion in net capital expenditures in the area of renewable energy.

— **Question from Myriam Cohen, AlphaValue:** We have no more questions now on audio. I'm returning to an online question: Can you elaborate on the consequences of the Energy Market Reform in the UK for EDF? .

— **Henri Proglie:** Listen, the British government decided to introduce a new policy through the contract known as Contract For Difference, which resembles what we would call in France a guaranteed revenue contract. In other words, fundamentally the government

negotiates a target price with operators and a corresponding revenue. So the price per megawatt is a revenue related to operations now included in a bandwidth. In other words, if you exceed the corresponding revenue and if as a result the market carries the developments, then the operator must pay back the government an amount corresponding to the additional revenue. If conversely the market conditions are such that you fall below what was defined as the bottom of the bandwidth, then there is additional revenue. That subject is now being discussed.

So after that, the bandwidth structures still have to be defined through negotiation. This means that essentially the elements that lead to the parameters that lead to developing this bandwidth. Of course, still in strict correlation with the market, since, as you know, the British want to remain close to the market and therefore, competition remains the fundamental element in determining the entire economic balance. And that is why they have provided for what they call the Carbon Floor, the floor price of carbon, which will serve in calculating the bandwidth. These are all the parameters that will lead to the economic equilibrium of the new projects in Great Britain, whether nuclear or related to other forms of energy. Well, it is a subject under discussion. We cannot elaborate further from negotiations that are starting. The negotiations will obviously be carried out successfully during the second half of the year before the decision on major projects appears on the agenda at the end of the year.

— **Question from Emmanuel Turpin, Morgan Stanley:** Hello everybody, Emmanuel Turpin of Morgan Stanley. I have three questions, please. First, getting back to the reasons you may be revising your capital expenditure programme between now and the end of the year, the first half being better than expected. The nuclear output problems are temporary and so I wanted to know what is causing the review. And I imagine that, for capital expenditures, it is too early to quantify what you have in mind, but directionally, would this mean reductions in France or abroad? Second question, please: as we are already anticipating the energy debate scheduled for this autumn in France, in your discussions with the government, do you think this autumn's debate could be an opportunity to rethink the financial or tariff themes, for example, to provide structural support for the CSPE issue, or are you planning to review issues not included in a more comprehensive debate? This autumn, could we bring up the subject of tariff mechanisms or to the contrary, will this autumn's energy debate be

mainly about long-term energy policies and therefore the nuclear issue? And to conclude, a question that is a bit more technical: we have read the report by the CNEF requesting to revise the discount rate you use for your nuclear output. Do you think this is a subject worth discussing with your auditors between now and the end of the year, or do you think the 5% discount rate is correct? Thank you.

— **Thomas Piquemal:** I'll take the first question, which has to do with the capital expenditure trajectory. "Why while we have results greater than expected?" Quite simply because we are committed to respecting a debt-equity ratio of 2.5 because financial soundness is one thing that is extremely important for the Group. Given its growth prospects and because we are facing major challenges both with respect to negotiating the ARENH trajectory and to negotiating the CSPE. These are two examples, among others, and, given the fact that our aim is truly to respect a tightly controlled debt ratio, we have to plan for everything and so we have to consider possibly revising a certain number of parameters in our financial trajectory, the trajectory I announced last year in terms of costs and capital expenditures. Now, unfortunately, you understand that I can't tell you anything more since the work has begun and will naturally continue until the autumn. I will tell you that if there are any changes, by February 2013.

Regarding the question on the discount rate, of course there is no question because the auditors approved it on 30 June. The rate will be reviewed at the end of every fiscal year as usual, and market conditions and the long-term characteristics of the underlying bonds will be taken into consideration. We apply the accounting principles required and so I have no reason to announce any changes in the rate, but it will be subject to a traditional review when our accounts are closed for the year.

— **Henri Proglie:** On the issue of the energy debate and negotiations with the State, it is essentially a debate on energy; it is a debate on the country's energy guidelines, which has nothing to do with the negotiations now underway on the terms and conditions for enforcing our public service mandate. As for the debate, we'll see what direction it takes. Finally it is an in-depth debate on trends in the French energy mix presumably, probably with a few considerations in terms of energy savings. In terms of networks, in terms of optimising smart networks, obviously there are all the subjects that affect the energy sector in general. So let's allow for the debate to unfold. Regarding the application of our negotiations with the State on

considerations that relate to both tariff management and the management of associated issues like the CSPE, obviously these negotiations will be held at the same time, so they will not depend on a philosophical or technical debate on the country's energy future. The negotiations must be held in a much shorter timeframe on practical cases, and I hope it will lead to fast decisions. So they will be held or they are now being held and will continue for a decision before the end of the year.

— **Thierry Deleuze:** This is the end of the questions we had on audio. Of course the entire investor relations team is available for more technical questions. Now the time has come to thank you in the hope of seeing you again for the next results presentation in November.