Electricite de France (EDF.PA)

Rating	**OUTPERFORM***
Price (05 Feb 10, Eu)	37.62
Target Price (Eu)	47.90[1]
Market cap. (Eu m)	69,554.36
Enterprise value (Eu m)	143,405.4

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

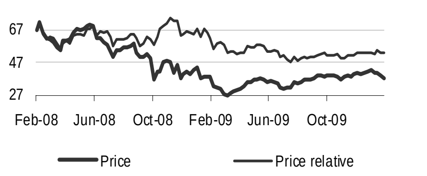
Research Analysts
Elisenne Verdoja CFA
44 207 888 5302
elisenne.verdoja@credit-suisse.com

REINSTATEMENT

Liberalisation is a positive far from priced-in

- **Positive ahead of liberalisation; add to Credit Suisse Focus List:** We reinstate coverage on EDF post restriction with an Outperform rating and a price target of €47.9 per share. We also add EDF to the Credit Suisse Focus List. We think now is a good time to buy the shares; we assess the risks from the liberalisation of the French power market as skewed to the upside.
- **Liberalisation—a positive far from priced-in:** We think EDF would benefit strongly from regulated tariffs being liberalised: we assess that the company's 2010E EBITDA would be c30% higher were current regulated customers to pay market prices. A reform was launched last September and should lead to a liberalisation law being implemented from 2011. Details are scarce at this stage and many outcomes possible—thus we think sensitivity analysis is the only way to estimate the value of liberalisation to EDF. On this basis, we assess that the market is currently ascribing a negative value to liberalisation, while even our most bearish scenario implies some upside potential. Our central case uses more conservative assumptions on French power prices evolution than those suggested in the most recent press reports; but it nevertheless results in 27% valuation upside potential (€47.9ps SOTP) and 8% earnings CAGR over 2009E–15E.
- **An eventful year ahead:** From the FY09 results on 11 February, we expect a reassuring message from new CEO Proglio on EDF's negotiating position regarding the liberalisation process. More importantly, the political process leading to reform will be ongoing throughout 2010 and should give investors more confidence that the liberalisation process is indeed under way.
- **Valuation:** Our SOTP-based price target of €47.9 offers 27% upside potential versus current levels. On multiples, although near-term numbers look unattractively expensive versus the sector, above sector average earnings growth should lead to this premium fading progressively by 2013E.

Share price performance



The price relative chart measures performance against the Europe Dow Jones Stoxx index which closed at 249.39 on 05/02/10
On 05/02/10 the spot exchange rate was Eu .7 /US$1

Performance Over	1M	3M	12M
Absolute (%)	-9.7	-1.6	-1.7
Relative (%)	1.4	3.3	-16.8

Financial and valuation metrics

Year	12/08A	12/09E	12/10E	12/11E
Revenue (Eu m)	64,279.0	67,281.8	70,233.1	71,928.6
EBITDA (Eu m)	14,240.00	17,120.34	18,216.72	18,695.83
Net Income (Eu m)	5,196.4	4,658.9	4,784.3	4,839.0
CS adj. EPS (Eu)	2.36	2.07	2.17	2.20
Prev. EPS (Eu)	—	—	—	—
ROIC (%)	2.67	2.27	2.57	2.53
P/E (adj., x)	15.91	18.20	17.32	17.12
P/E rel. (%)	131.5	118.9	148.8	178.2
EV/EBITDA	8.8	8.4	8.1	7.9

Dividend (12/09E, Eu)	1.28	IC (12/09E, Eu m)	128,787.1
Dividend yield (%)	3.4	EV/IC	1.1
Net debt (12/09E, Eu m)	43,599.3	Current WACC	7.5
Net debt/equity (%)(12/09E, %)	154.8	Free float (%)	12.7
BV/share (12/09E, Eu)	15.2	Number of shares (m)	1,848.87

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates.

Table of contents

Executive summary

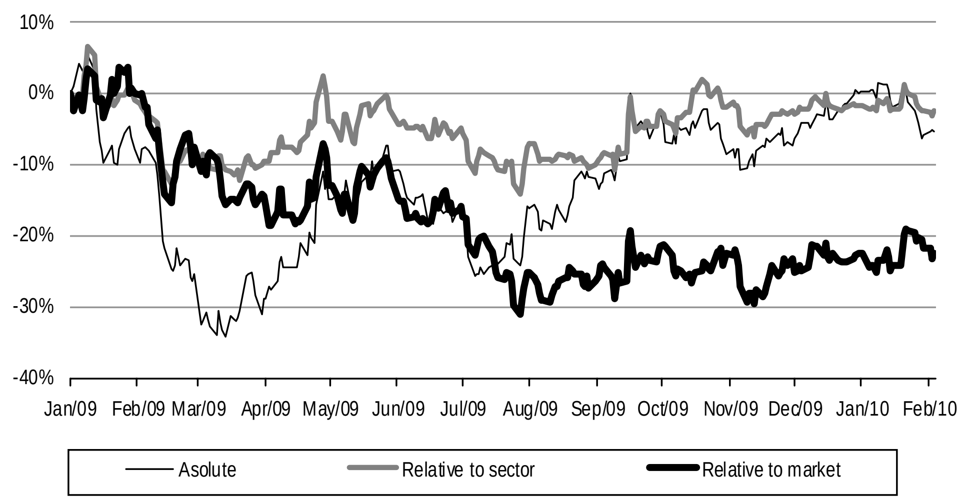
Muted share price performance over the past year

Since the beginning of 2009, EDF's share-price performance has been muted, broadly in line with that of the Utilities sector.

Performance has been mainly driven by announcements related to the liberalisation of the French electricity market, with the Champsaur Commission reporting its findings on the subject in April 2009; the French government announcing in September 2009 its willingness to open part of the market to competition over the course of 2010; initial press reports (from *Enerpresse* in particular) in October, outlining the main directions liberalisation could take; and further press reports giving detailed updates on these directions mid-January (*Reuters, les Echos, Enerpresse*).

However, a lack of confirmation from the government on the content of the press reports has, in our view, curbed investors' enthusiasm on the possible outcome of a reform, which we think could be a strong positive for EDF.

Figure 1: **EDF share price performance**



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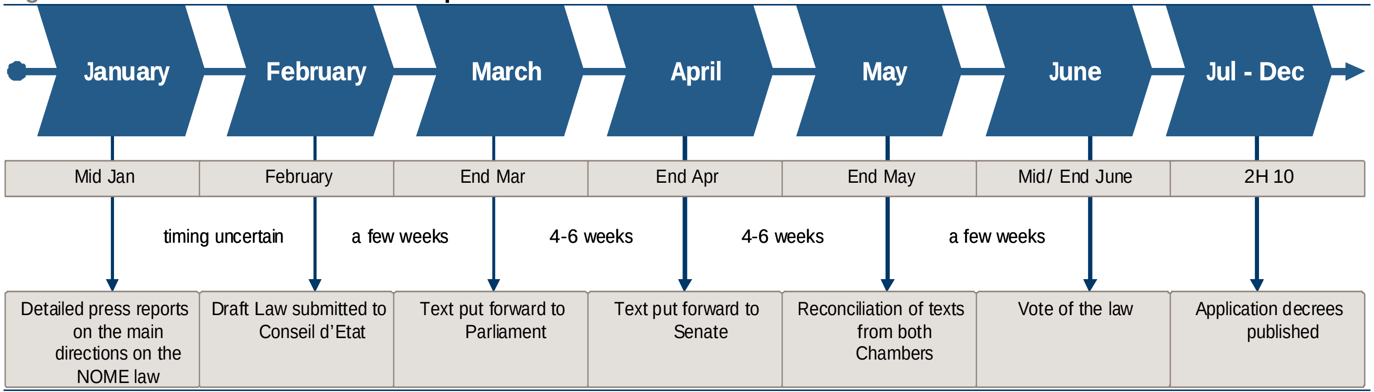
Liberalisation is a positive far from being priced-in

Liberalisation now seems more credible than it has ever been

After years of indecision and given ongoing pressure from the European Commission, the French government now seems more willing to initiate a reform of the French power market. Although the government had stated that it was aiming to implement a liberalisation law (NOME) in July 2010, given the recent delays we think it is more realistic to expect this to happen in 2011.

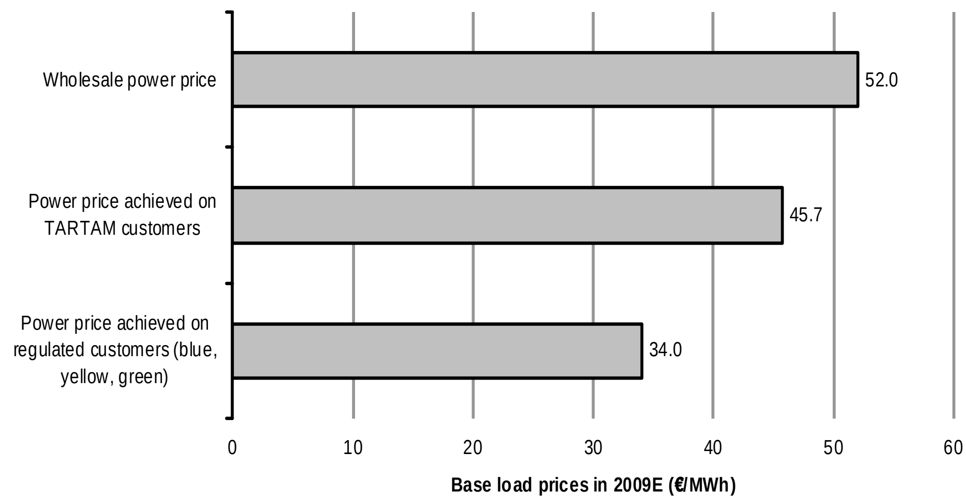
Figure 2: Our estimated timeline for implementation of the NOME Law



Source: Enerpresse, Les Echos, Reuters, Credit Suisse estimates

As a fixed-cost generator with more than two-thirds of its sales volumes regulated at levels well below that of the wholesale market, EDF would strongly benefit from at least part of the tariff system disappearing in our view. As an illustration, we assess that the company's 2010E EBITDA would be c30% higher were current regulated customers to pay market prices.

Figure 3: Prices achieved by EDF on regulated customers vs wholesale market prices



Source: Company data, Credit Suisse estimates

How to price uncertainty? Scenario analysis is our answer

Detailed press reports on the likely directions that the NOME Law could take have provided substantial incremental visibility versus last September, when the government initially announced its intention to liberalise the power market without giving much clarity on how this would be done. Even from these reports several key points of uncertainty nevertheless remain especially on: 1/ how industrial tariffs will be liberalised; 2/ how third-party access to EDF's nuclear production will work; and 3/ what will happen to residential tariffs. It is also important to point out that given no text has been officially published by the government, the final law could differ materially from the proposals reported in the press.

Given these open questions, we think the only way to look at EDF at this stage is through a scenario analysis. We have fully rebuilt our model with this in mind and although there are multiple possible combinations we have focused on four key scenarios: a bear case, which we think has excessively bearish assumptions and therefore provides a valuation floor; a bull case, which we think has overly optimistic assumptions and therefore provides a valuation ceiling; and two base cases, where we have looked at what we think is a realistic framework, both on the low and the high end – hence a low base case, which is the basis of our price target and forecasts, and a high base case, which is more bullish. These scenarios are summarised in Figure 5.

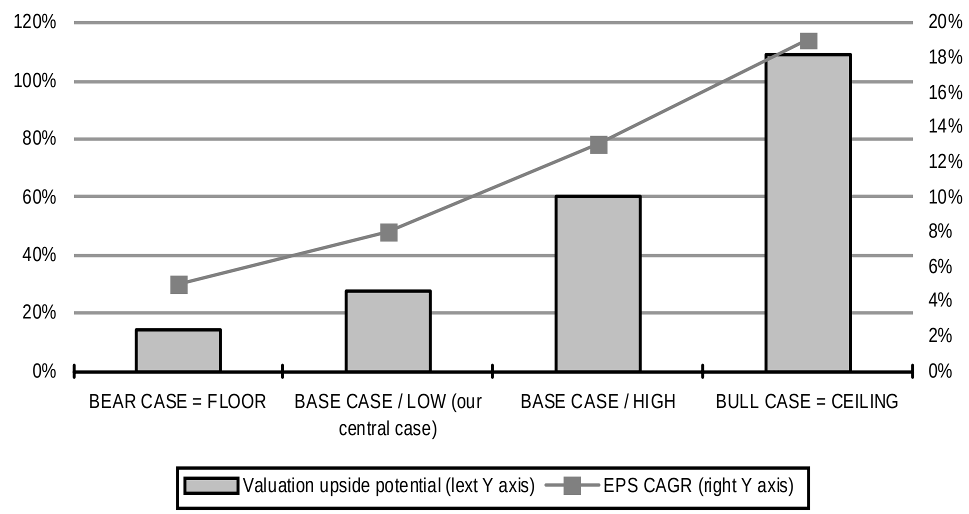
The conclusions from this exercise are threefold:

(1) At the current share price level, the market appears to be assigning a negative value to liberalisation.

(2) Even with conservative assumptions (our low base case) on tariff evolution going forward (i.e. no liberalisation and all tariff classes rising at inflation in perpetuity), the stock offers 27% potential valuation upside (SOTP €47.9) and an 8% recurrent EPS CAGR over 2009E-2015E –this is our central scenario.

(3) A less conservative yet still realistic scenario (high base case) assuming liberalisation of industrial tariffs by 2016 and the end of the nuclear access tariff by 2026, drives up the potential valuation upside to 60% (SOTP €60.3) and the EPS CAGR to 13%.

Figure 4: **EDF's SOTP valuation and 2009E-2015E EPS growth forecasts under different liberalisation scenarios**



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse estimates
EDF share price as of close on 05/02/10 (€37.6 per share)

Figure 5: Liberalisation scenario details

	REPORTED LIBERALISATION PROPOSAL*	BEAR CASE = FLOOR	BASE CASE / LOW = OUR CENTRAL CASE	BASE CASE / HIGH	BULL CASE = CEILING
Scenario	EDF benefits from the liberalisation of industrial tariffs (i.e. higher prices achieved). In exchange competitors get access to part of the nuclear generation at an attractive price	All tariffs remain regulated. Competitors get overly low-cost access to nuclear generation in perpetuity	All tariffs remain regulated. Competitors get access to nuclear generation at a reasonable economic cost – in perpetuity	Industrial tariffs get liberalised, residential tariffs not. Competitors get access to nuclear generation at a reasonable economic cost for a defined time period.	All tariffs eventually get liberalised. Competitors get access to nuclear generation at higher cost for a defined time period.
What it means	Liberalisation positive for EDF and its competitors	Liberalisation negative for EDF, positive for its competitors	Liberalisation neutral for EDF, positive for its competitors	Liberalisation positive for EDF, positive for its competitors	Liberalisation very positive for EDF, positive for its competitors
Details					
Residential tariffs	Stay - in the past have grown at inflation	Stay and grow at inflation	Stay and grow at inflation	Stay and grow at inflation	Disappear in 2026
Industrial tariffs	Disappear in 2016 - in the past have grown between inflation and 8%	Stay and grow at inflation	Stay and grow at inflation	Disappear in 2016	Disappear in 2016
Nuclear access tariff	Introduced until 2026 - likely range €34-46/MWh	€34/MWh, grows at inflation and does not disappear	€43/MWh, grows at inflation and does not disappear	43/MWh, grows at inflation and does not disappear	Disappear in 2026
EDF implied SOTP (€ps)		42.9	47.9	60.3	78.7
Upside potential versus current share price		14%	27%	60%	109%
EDF EPS CAGR over 2009E-2015E		5%	8%	13	19%

Source: © Datastream International Limited ALL RIGHTS RESERVED, Enerpresse(*), Credit Suisse estimates
EDF share price as of close on 05/02/10 (€37.6 per share)

Liberalisation looks more credible now than it ever has

After years of little progress and given ongoing pressure from the European Commission, the French government now seems more willing to bring about a reform in the national power market, with a press release published in September last year; detailed press reports on the likely directions that the NOME Law could take in October and January; and the liberalisation law likely, on our estimates, to be implemented in 2011. As a fixed-cost generator with more than two-thirds of its sales volumes regulated at a level well below the wholesale market, EDF would, in our opinion, benefit strongly from the abolition of at least a part of the tariffs.

France: Still a largely regulated power market

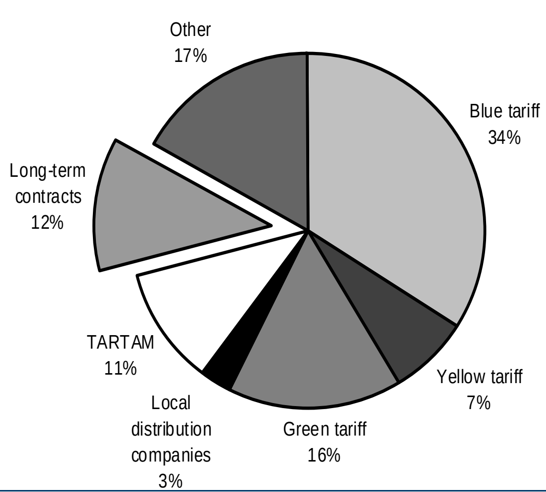
Government-controlled electricity tariffs have been maintained…

The French power market remains, at this stage, largely regulated. Although like all other EU countries, France had from 2001 to respond to the European directives calling for progressive liberalisation of the power market, a government-controlled tariff system was maintained, giving end-customers the option to stay under the tariff—which most of them did when power prices started rising steeply from 2004.

For those customers who had made the unfortunate choice of leaving the tariff system– mainly very large electricity users who were attracted by low wholesale market power prices in the first years of liberalisation – the government introduced from July 2007 the so-called TARTAM. With the TARTAM, customers who had left regulated tariffs could come back to a tariff mechanism for a limited period of time – initially expiring in July 2009 but extended to July 2010.

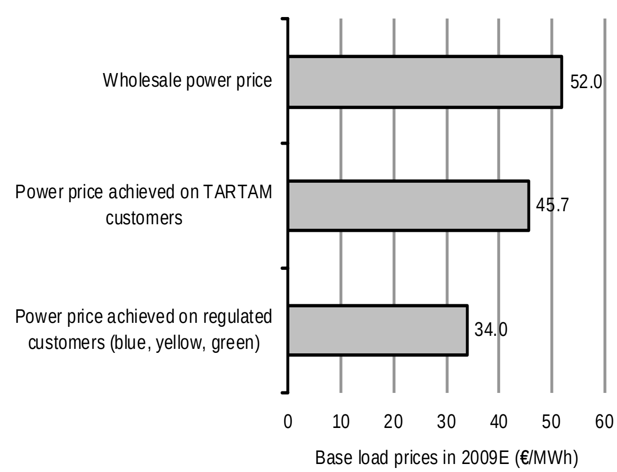
As a result, most of EDF's power sales volumes in France currently fall under one form of tariff or another; at levels well below those of the wholesale market. EDF would strongly benefit from at least part of the tariff system disappearing in our view. As an illustration, we assess that the company's 2010E EBITDA would be c30% higher were current regulated customers to pay market prices.

Figure 6: **More than two-thirds of EDF's French sales volumes are currently regulated**



Source: CRE, Credit Suisse estimates (data as of 2008)

Figure 7: **Prices achieved by EDF on regulated customers compared to wholesale market prices**



Source: Company data, Credit Suisse estimates

… and challenged by the European Commission as State Aid

On 13 June 2007, the European Commission opened a investigation into regulated electricity tariffs in France for large and medium-size companies. The EC argued that these tariffs were maintained at artificially low levels versus the liberalised market, creating distortion of competition on the EU Single Market; and therefore represented State Aid. Tariffs for residential and small industrial customers (blue tariff) were explicitly excluded from the investigation.

The launch of this investigation was taken by the market as a very positive signal that the European Commission was willing to force the opening of the French power market to competition upon the French government – implying eventual convergence of French power prices to wholesale market levels, hence a boost to EDF's earnings.

However the initial press release from the EC did not mention any timing for the completion of the inquiry; and the EC remained silent on the subject for a very long while, making near-term liberalisation less and less likely.

Recent developments suggest that reform is well on track for implementation in 2011

Over the past year however, several steps taken by the French government and the European Commission seem to have put liberalisation back on track. There is now what we view as a very credible impetus to implement a reform of the power market by 2011.

STEP 1: State Aid case extended to the TARTAM

On 10 March 2009, close to two years after the launch of its initial State Aid investigation, the European Commission extended the scope of the investigation to include the extension of the TARTAM mechanism – signalling renewed interest in the subject of French tariffs.

STEP 2: Champsaur Commission report

In April 2009, the Champsaur Commission handed to the government a report on the organisation of the French electricity market. The main conclusion from this report was that the current tariff situation was not satisfactory or economically viable over the long-term. The Champsaur report suggested two possible solutions: either full liberalisation of the market and taxation of the nuclear fleet; or a transitory mechanism whereby all suppliers would get access to base load electricity at a price reflecting the full economic cost of the fleet (undefined in the document), which would progressively evolve to new-build cost as the existing fleets got renewed – i.e. on our analysis over the very long term. The Champsaur Commission highlighted its clear preference for the second solution i.e. progressive and controlled liberalisation of the base load fleet. Although the Champsaur report was in our view a step in the right direction, the Champsaur Commission only had an advisory role to the government and had no power to implement its recommendations.

STEP 3: Agreement between the French government and the EC

Another key step towards liberalisation was taken however on 15 September 2009, through a press release from the French government, where it announced its commitment to reforming the French electricity market by 1st July 2010, where regulated tariffs for residential and small commercial and industrial customers would be maintained but regulated tariffs for large customers would disappear. On the same day the European Commission also published a press release, welcoming the French government's move.

STEP 4: Detailed indications from the press on what the liberalisation law could look like

In October 2009, the French press (*Enerpresse* in particular) outlined the main directions liberalisation could take, and detailed updates on these directions were published mid-January, once again in the press (*Reuters, les Echos, Enerpresse*). Given the absence of an official document from the French government, it is important to note however that the draft law that should be put forward to Parliament in the coming months could materially differ from these proposals.

The key points from these press reports are:

(1) EDF's competitors should be granted access to its base load generation fleet:

- for volumes of up to 120TWh, reflecting alternative suppliers' end-customer sales in France;
- at a level reflecting the economic conditions of electricity production from the (existing) nuclear fleet which would be determined by the French energy regulator (CRE);
- from a date yet to be determined, until 31/12/2025.

(2) Regulated tariffs:

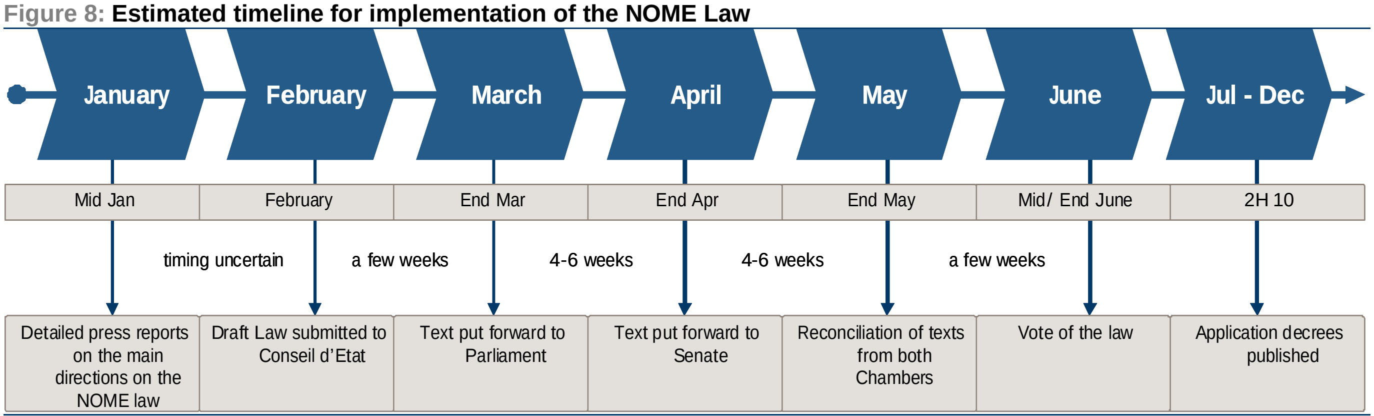
- should end by 31/12/2015 for large industrial customers;
- should be maintained for residential and small industrial customers;
- should become the responsibility of the CRE at the latest three years after the NOME law is voted; and
- should reflect the overall costs carried by EDF.

What are the next steps?

In its September 2009 press release, the French government highlighted that its target was to initiate a reform by 1st July 2010. This seemed to make perfect sense as it corresponded to the expiration of the TARTAM. This effectively implied drafting of the law and discussion with industry participants in Q4 2009; voting on the law by the Parliament and the Senate over 1Q 2010; and application decrees in 2Q 2010.

Since then however, Henri Proglio has been appointed CEO at EDF and has signalled in a recent letter to shareholders that he wants to be involved in the negotiations. Moreover regional elections are planned for mid March (14 and 21) and the NOME law might be less of a priority on the political agenda. All this seems to have already delayed the process, as an initial draft law is yet to be published. We would therefore expect the process to be delayed by a quarter at least, with voting in 2Q 2010 and application decrees over 2H 2010.

Figure 8: **Estimated timeline for implementation of the NOME Law**



Source: Credit Suisse estimates

In our view this means that the market reform is now unlikely to be implemented before the beginning of 2011; that the TARTAM will probably have to be extended until then; and that there will be yet another tariff decision in August 2010.

Why should we believe in liberalisation now more than before?

Although the experience with gas tariffs have taught us to be careful with the commitments offered by the French government on tariffs (for a discussion on French gas tariffs please see our report *GDF Suez: At a Standstill*, dated 8 July 2009), we think there are good reasons to believe that the current efforts will lead to a true reform of the French power market.

First, the European Commission seems to have worked in the background and exercised quite a lot of pressure on the government to get a decision on industrial tariffs; while leaving the highly political subject of residential tariffs out of its scope of intervention.

Second, the French government recently decided to delegate its responsibility on gas residential tariffs to the CRE, which in our view shows that it is willing to evolve towards less intervention on energy tariffs overall.

How to price the uncertainty? Scenario analysis is our answer

In the move to liberalisation, several key points of uncertainty remain on how industrial tariffs will be liberalised; how third-party access to EDF's nuclear production will work; and what will happen to residential tariffs. We think that the only way to look at EDF at this stage is through a scenario analysis. We have focused on four key scenarios: a bear case, giving us a valuation floor; a bull case, giving us a valuation ceiling; and two base cases, where we have looked at what we think are realistic frameworks - our price target and forecasts are derived from a "low" base case but we have also considered a "high", more bullish case. The conclusions from this exercise are threefold. First, at the current share price level, the market appears to be assigning a negative value to liberalisation. Second, even with reasonably conservative assumptions (our low base case) on tariff evolution going forward (i.e. no liberalisation and all tariff classes rising at inflation in perpetuity), the stock offers 27% valuation upside potential (SOTP €47.9) and an 8% recurrent EPS CAGR over 2009E-2015E. Third, a less conservative yet still realistic scenario (high base case) assuming liberalisation of industrial tariffs by 2016 and the end of the nuclear access tariff by 2026, drives up the valuation upside potential to 60% (SOTP €60.3) and the EPS CAGR to 13%.

Key uncertainties remain

Ahead of the finalisation of a law text and of its application decrees, key uncertainties remain:

- How will industrial tariffs be liberalised?
- How will third-party access to EDF's nuclear production work?
- What will happen to residential tariffs?

Figure 9: **Trying to assess the implications of NOME**

	Volumes (TWh, assuming no change from 2008)	Baseload power price achieved (€/MWh)
CURRENTLY		
Blue tariff	172	c34.0
Green tariff	36	c34.0
Yellow tariff	79	c34.0
Tartam	55	38.6
TOTAL	342	34.7 weighted average
FROM 2011		
Blue tariff	172	34.0
Nuclear access tariff	68 to 120 – depending on what level access is granted to alternative supplier	34.0 to 46.0 – depending on the what is defined as the historical cost of nuclear
Liberalised	50 to 102	Should converge to market level by 2016
TOTAL	342	36.3 to 38.8 weighted average
BY 2026		
Blue tariff	Should still exit	Unclear how will have evolved: at inflation, following the evolution of nuclear cost?
Nuclear access tariff	Should expire on 31/12/2025 but government has the option to extend according to press reports	Unclear how will have evolved: at inflation, integrating nuclear life extension costs?
Liberalised	Should include nuclear access volumes if the nuclear access tariff expires	Market level

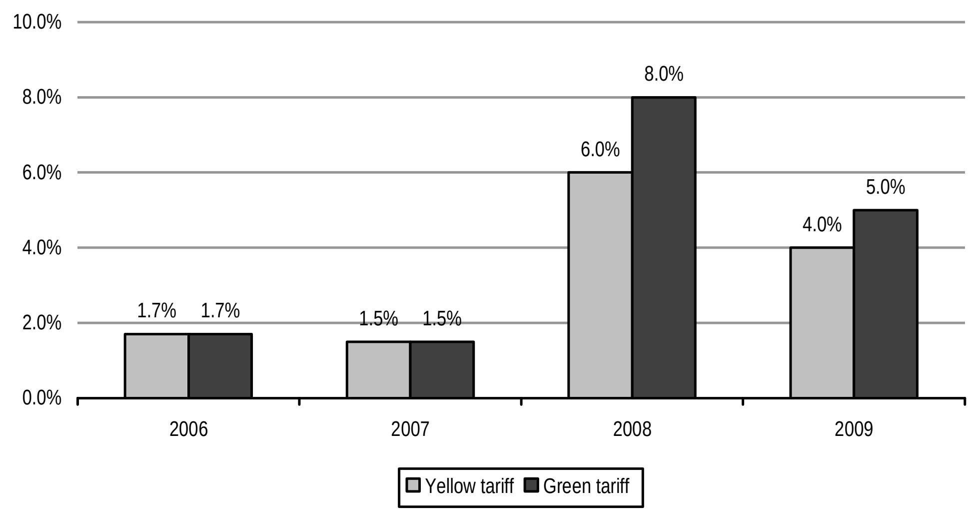
Source: CRE, Company data, Credit Suisse estimates

How will industrial tariffs be liberalised?

Regulated tariffs for non-residential customers (i.e. yellow and green tariffs) should end by 31/12/2015 according to press reports on the NOME law. This would mean that from 2016 onward these customers would be subject to free-market offers, which in all likelihood would converge towards wholesale market prices. Indeed, even if alternative suppliers could source part of their electricity from EDF's nuclear fleet at a lower cost, in a non-regulated market the price charged would be that of marginal production – still a CCGT in France at this stage.

What is left undetermined however is what will happen to green and yellow tariffs in the meantime, over 2010-2015. Until now annual tariff rises have been decided by the French government in a rather unpredictable fashion, and we would expect this to continue to be the case over these six years.

Figure 10: Annual tariff rises for yellow (medium industrial customers) and green tariffs (large industrial customers)



Source: Company data

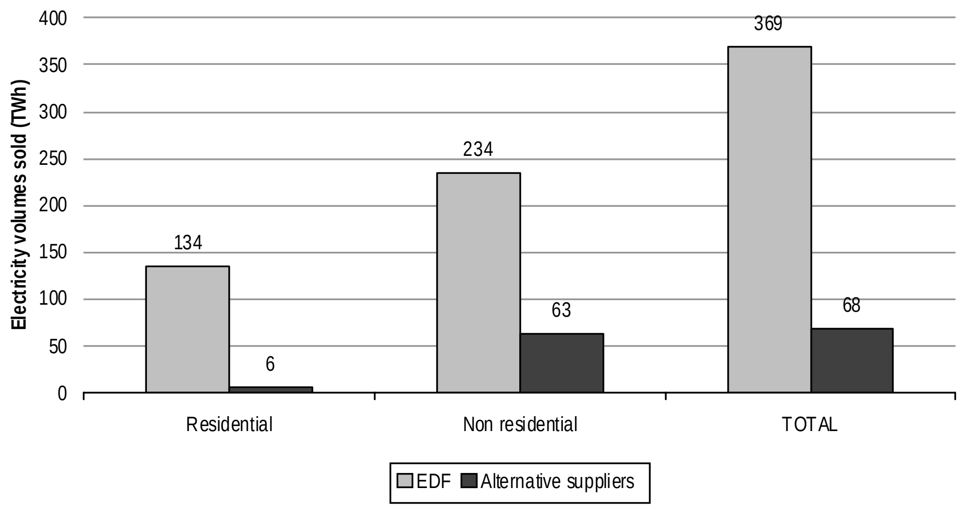
The one positive point we see is that once the commitment to liberalisation is made, there will be a clear incentive for the government to make industrial tariffs evolve towards market levels, to avoid a steep one-off rise in 2016.

How will access to nuclear production work?

According to the press, EDF competitors should be granted access to its nuclear production for up to 120TWh per annum until the end of 2025. Under such circumstances, three key points remain uncertain however: 1) how volumes will be released to third-parties; 2) at what price; and 3) how prices will evolve between now and the end of 2025.

First, how will volumes be released to third-parties? Currently, according to the latest data published by the CRE, alternative suppliers only represent 68TWh of sales volumes in France – 42TWh of "normal" volumes and 27TWh of volumes under the TARTAM. Therefore at this stage they do not need access to 120TWh of power, as they do not have end-customers to sell those volumes to.

Figure 11: **Volumes sold on the French market by EDF and alternative suppliers**



Source: CRE, Credit Suisse research

The second key question that remains unanswered is the price at which access to this nuclear production will be granted. In its September press release, the government stated that alternative suppliers would be able to buy "at the economic conditions of the historical nuclear fleet". More recently, Pierre-Frank Chevet, head of DGEC (the government organisation working on the NOME law) was quoted by *Reuters* saying that this would include the cost of extending the life of existing plants.

The debate is, in our view, as political as it is economic. Up until now, several numbers have been mentioned as reflective of the economic cost of nuclear power generation, summarised in Figure 12 and which range from €34 to €46/MWh for the existing fleet – and even €54/MWh if we take into account the cost of new-build. Although it is impossible at this stage to know where the final decision will stand, these different price levels do provide a good basis for scenario analysis, in our view.

Figure 12: **Diverging views on the cost of nuclear power generation**

Cost of nuclear	What does it refer to?	Source
c€34/MWh	Underlying base load generation component in all tariffs post the August 2009 decision according to EDF - which according to regulator CRE covers EDF's historical accounting costs	EDF 1H09 roadshow presentation, CRE statement dated 10/08/2009
€35/MWh	EDF's asset base in 2007, based on historical accounting costs	Tariff decree published on 12/08/2008, referring to CRE's calculations
€41-43/MWh	EDF's re-valued asset base in 2007	Tariff decree published on 12/08/2008, referring to CRE's calculations
€45-46/MWh	Current economic cost of existing nuclear fleet in 2008	EDF's calculations
€54/MWh	Flamanville updated new-build cost in 2008	EDF's calculations as per December 2008 Investor Day

Source: CRE, EDF, Credit Suisse research

The third question is what will happen between now and 2026 to this regulated tariff. By then, the cost structure of nuclear production will have evolved quite substantially, with at least two new nuclear plants online (Flamanville targeted for 2013 and Penly for 2017); and EDF having started to invest in the extension of the life on its existing fleet from 40 to 60 years (in 2026, more than half of the existing capacity will be over 40 years old). Nuclear tariffs should in theory evolve along with these costs.

What will happen to the residential tariff?

The blue tariff—which applies to residential and small industrial customers and represents a third of EDF's total sales volumes in France—should be maintained. How it will evolve over time remains a question however, all the more as the Champsaur report had suggested liberalisation over the very long term.

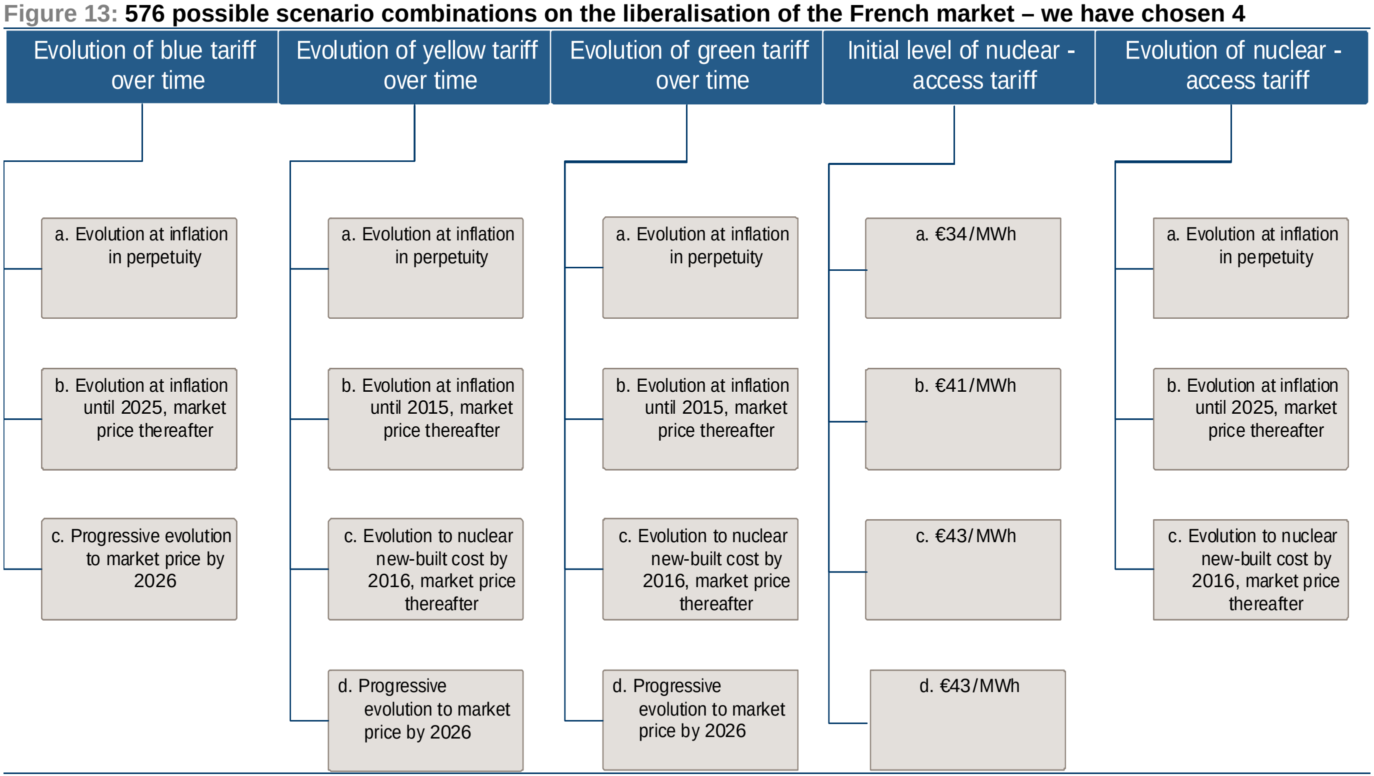
Scenario analysis: The current market price is below our worst-case liberalisation scenario

Given the various uncertainties on the exact outcome of the liberalisation process, we think the only way to look at EDF at this stage is through scenario analysis.

Choosing scenario variables

To reflect the points of uncertainty highlighted in the section above, we have decided to use five key variables; and several sub-scenarios for each variable, as summarised in Figure 13 below and explained in details thereafter.

Figure 13: 576 possible scenario combinations on the liberalisation of the French market – we have chosen 4



Source: Credit Suisse research

(1) **Evolution of the blue tariff over time**: This is the tariff for residential and small commercial and industrial customers, which according to the proposals reported by the press should be maintained. We have looked at three scenarios for this tariff:

a. Evolution at inflation in perpetuity – implicitly assuming that residential customers never get liberalised.

b. Evolution at inflation until 2025, market price thereafter – this is not suggested in the reported proposals but would follow the agenda for removing the nuclear access tariff, which is not at all unrealistic in our view.

c. Progressive evolution to market price by 2026 – this is a bullish scenario, which based on our power price forecasts would imply an annual tariff increase of 4%, or about 2x the rate of inflation.

(2) **Evolution of the yellow tariff over time**: This is the tariff for medium-sized industrial customers, which according to reported proposals should be liberalised from 2016.

a. Evolution at inflation in perpetuity – implicitly assuming that liberalisation does not happen.

b. Evolution at inflation until 2015, market price thereafter. This is bearish short term, as recent tariff rises for this segment have been above inflation; but this would also imply a step-jump in 2016 (41.8% based on our power price assumption), which in our view is unlikely to happen.

c. Progressive evolution to nuclear new-built cost by 2016 (which stood at €54/MWh in 2008 according to EDF), market price thereafter. This, in our view, is a reasonable option for the government to consider, as EDF's assessment of the nuclear new-built-cost is public. This option would however imply annual tariff rises of 7.1% on our estimates, while the maximum increase we have seen for this tariff in the recent past is 6%.

d. Progressive evolution to market price by 2016 – this is a bullish scenario, which based on our power price forecasts would imply annual rises in the tariff of 9.0%.

(3) **Evolution of the green tariff over time**: This is the tariff for large-size industrial customers, which like the yellow tariff should be liberalised in 2016. For this tariff we have used the same four scenarios as for the yellow tariff. Scenario c. and d. would imply annual rises of 8.5% and 10.7% respectively over 2011E-2015E, above the maximum 8% we have seen in the past.

(4) **Initial level of the nuclear-access tariff**: This is completely undefined at this stage but statements from both EDF and the CRE have established a €34-€46/MWh range – admittedly extremely wide. We have chosen four price levels within this range (see Figure 12 for definitions of these price levels):

a. €34/MWh.

b. €41/MWh.

c. €43/MWh.

d. €46/MWh.

(5) **Evolution of the nuclear-access tariff**. This tariff should end in 2026 but the government has the option to extend it. No indication has been given on its annual evolution. We have considered three scenarios, very similar to the ones used for the yellow and green tariffs:

a. Evolution at inflation forever – implicitly assuming that the government indefinitely exercise its option to extend the tariff.

b. Evolution at inflation until 2026, market price thereafter. This would also imply a step-jump in 2016 (41.8% based on our power price assumption), which in our view is unlikely to happen, as the government would very likely exercise its option to extend the nuclear-access tariff to avoid such a rise.

c. Progressive evolution to nuclear new-built cost by 2026 (which stood at €54/MWh according to EDF), market price thereafter. This, in our view, is a reasonable option for the government to consider and would imply reasonable annual tariff rises of 3.4% on our estimates.

Running a scenario analysis is then just a question of combining the different options for each variable. We value EDF's generation on a DCF basis, running the plants to the end of their assumed lives – our assumptions therefore directly feed into our valuation.

In theory, there are 576 combinations possible – in practice some combinations are more realistic than others, which limits the range of possibilities.

Scenario conclusions: the current share price level is below the valuation implied from our bear case scenario on liberalisation, we see 27% potential valuation upside on our base case

We have focused our analysis on four scenarios – bear case, low base case, high base case, bull case. We detail our underlying assumptions in Figure 14.

Figure 14: Assumptions underlying our bear, base and bull cases

VARIABLE	BEAR CASE	LOW BASE CASE	HIGH BASE CASE	BULL CASE
Blue tariff evolution	a - Evolution at inflation in perpetuity	a - Evolution at inflation in perpetuity	a - Evolution at inflation in perpetuity	c - Progressive evolution to market price by 2026
Yellow tariff evolution	a - Evolution at inflation in perpetuity	a - Evolution at inflation in perpetuity	c - Progressive evolution to nuclear new-build cost by 2016	c - Progressive evolution to market price by 2016
Green tariff evolution	a - Evolution at inflation in perpetuity	a - Evolution at inflation in perpetuity	c - Progressive evolution to nuclear new-build cost by 2016	c - Progressive evolution to market price by 2016
Nuclear access tariff initial level	a - €34/MWh	c - €43/MWh	c - €43/MWh	c - €46/MWh
Nuclear access tariff initial evolution	a - Evolution at inflation in perpetuity	a - Evolution at inflation in perpetuity	a - Evolution at inflation in perpetuity	c - Progressive evolution to nuclear new-built cost by 2026

Source: Credit Suisse research

- Our bear case corresponds to a downside versus the status-quo, as it implies that no liberalisation happens on any of the tariffs (blue, green, yellow); and the implementation of the nuclear access tariff results in lower achieved prices for EDF.
- Our low base case corresponds both to what we think is realistic and the market should be willing to price now into the shares – this is the scenario on which we have chosen to set our price target. Like the bear case it assumes no liberalisation of any of the tariffs (neither blue, green, yellow or nuclear access), but instead ongoing evolution of these tariffs at inflation. Making this assumption effectively insulates our EDF valuation from our long-term power price assumptions. We however assume that the nuclear-access tariff is initially set at €43/MWh or at the top of what the CRE defined as the economic cost of the fleet in 2007– this is well above the €34/MWh accounting cost assumed in the bear case but we think it is far too bearish to assume that no reference to the economic value of assets will be made by the CRE when deciding this tariff.
- Our high base case is still within what we view as a realistic range of possibilities, just more bullish than the low base case. The difference is that we assume liberalisation from 2016 for the yellow and green tariffs; and from 2026 for the nuclear access tariff. This is in line with the proposals as reported in the press but we think the market would be unwilling to price liberalisation due in 6 and 16years' time at this stage.
- Our bull case corresponds to the assumption that all tariffs are progressively liberalised – by 2016 for the yellow and green tariffs and by 2026 for the blue and the nuclear access tariffs; that the government implements tariff rises that are quite steep to progressively get to market price levels; and that the nuclear access tariff level is initially set at €46/MWh, at the top of the range requested by EDF and above the levels suggested by the CRE.

The key conclusions of running these scenarios are summarised in Figure 15 and Figure 16.

Figure 15: Impact of each scenario on Credit Suisse forecasts and valuation for EDF

	BEAR CASE	LOW BASE CASE	HIGH BASE CASE	BULL CASE
EDF implied SOTP (€ps)	42.9	47.9	60.3	78.7
Upside potential versus current share price	14%	27%	60%	109%
EDF EPS CAGR over 2009E-2015E	5%	8%	13%	19%

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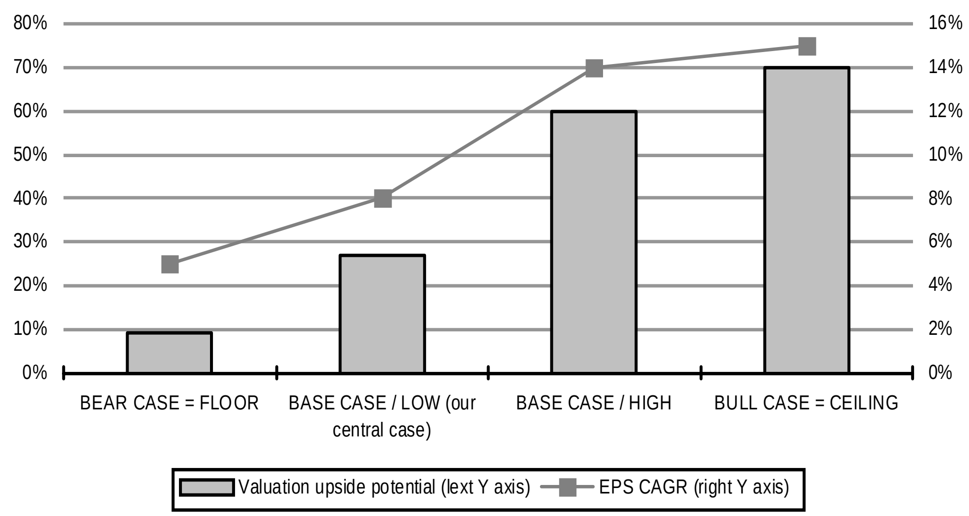
EDF share price as of close on 05/02/10 (€37.6 per share)

(1) **The current share price level is below the valuation implied from our bear case scenario**, implying that the market is ascribing a negative value to the French power market reform.

(2) **Even if all liberalisation measures are abandoned, continued rise of existing tariffs at inflation and setting of the nuclear access tariff at an economic (rather than accounting) level would imply 27% valuation upside potential and close to double-digit earnings growth** over 2009-2015 on our estimates.

(3) Under what we believe are realistic assumptions that liberalisation of the yellow and green tariffs is confirmed for 2016 and that the nuclear access tariff disappears by 2026, **the potential valuation upside could rise to 60% and earnings growth to 13%.**

Figure 16: EDF's SOTP valuation and 2009E-2015E EPS growth forecasts under different liberalisation scenarios



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EDF share price as of close on 05/02/10 (€37.62 per share)

Catalysts: an eventful year ahead

Unlike most of its large cap peers, who have suffered from an utter lack of news flow over 2009 and which do not seem to offer much in the way of catalysts in 2010, EDF is likely to witness a very eventful year. Although we expect these events to be positive overall, we would not rule out potential volatility in the shares, especially around the Parliamentary debate on the liberalisation of the French electricity market (likely in 2Q 2010); and ahead of the publication of application decrees to implement the liberalisation law (likely some time in 2H 2010).

11 February: FY09 results release

The release of the company's FY09 results on 11 February will be the first opportunity given to EDF's new CEO Henri Proglio to communicate to the market.

We do not expect much surprise on the numbers front, as the company was extremely explicit in the guidance it gave at the time of its nine-month revenue release mid November for EBITDA (c€17bn, including a negative €1bn impact from strikes in France), net income (€3.7–3.8bn) and net debt (2.5–3.0x EBITDA). Our forecasts are summarised in Figure 17.

Figure 17: EDF FY09 results expectations

	2008A	2009E	Y-o-Y change	Consensus (Zone Finance)	Comment
EBITDA	14,240	17,120	20%	16,954	Company guidance is €17bn
Operating profit	7,911	10,041	27%	9,664	
Financial Result	-3,167	-4,433			Increase related to higher net debt and high cost of British Energy bridge loan
PBT	4,744	5,608	18%		Includes €330m Ermosson capital gain
Income tax	-1,561	-1,636			We assume a 31% tax rate, in line with company guidance
Equity method income	352	263			2008 included a €120m one-off
Minority interest	-135	-136			Centrica's acquisition of a 20% stake in British Energy was in late part of the year
Discontinued operations	0	0			
Net income	3,400	4,098	21%	3,756	Company's guidance is €3.7-3.8bn
Recurrent net income	4,308	3,768	-13%	3,624	
Net debt (€bn)	-24.5	-43.6			Company's guidance is 2.5-3.0x net debt/EBITDA
Reported EPS (€)	1.87	2.25	20%		
Recurrent EPS (€)	2.36	2.07	-13%		
DPS (€)	1.28	1.28	0%	1.21	
EBITDA breakdown					
France	9,020	9,477	5%	9,577	Negative impact of TARTAM provision in 2008A (€1.2bn) and of strikes in 2009E (€1bn)
UK	944	3,208	240%	2,832	First-time consolidation of British Energy
Germany	1,114	1,138	2%	1,142	
Italy	911	782	-14%	793	
Other International + other activities	2,251	2,515	12%	2,610	Strong performance from EDF Trading and Poland highlighted at 9m results
Total	14,240	17,120	20%	16,954	

Source: Company data, Zone Finance, Credit Suisse estimates

However, we expect two interesting points to emerge from the results presentation and the Q&A session:

(1) **Reassuring message on EDF's negotiating position in the liberalisation process**. Mr. Proglio has not yet had the opportunity to communicate to the market his stance on liberalisation. However, in the New Year newsletter sent to shareholders in January, he stated explicitly his intention to defend shareholders' best interests in the negotiation process. We would expect more detail in particular on his view of where nuclear access tariff should stand and how the residential regulated tariff should evolve.

(2) **Clarification of Proglio's strategic vision for the Group**. After various press reports (*Reuters*, *La Tribune* 22/01/10) about the possible cancellation of the disposal of EDF Energy's regulated network, we would expect Mr. Proglio to give some visibility on this front and, more broadly, to clarify where he thinks the strategic boundaries of the group stand. This would give us a good idea about potential acquisition risk at EDF under his leadership, which is particularly relevant ahead of the Roussely review of the French nuclear industry, due to be released in April.

April: Roussely report on the "future of the French nuclear industry"

At the end of 2009, François Roussely was asked by French president Sarkozy to conduct a study on "the future of the French nuclear industry". Mr. Roussely was EDF's CEO between 1998 and 2004 and is therefore particularly well positioned to gather experts' views on this subject. The results of Mr. Roussely's study are expected for the end of April.

The theme of Mr. Roussely's report is not very clear and we believe it could address many subjects – such as which fuel mix should be chosen in France for the future; how to finance the renewal of the French nuclear fleet, or how international marketing of the French EPR should be organised between EDF and Areva, in particular.

That said, the study was commissioned following the failure of a French bid for the construction of a nuclear reactor in the Middle East, owing to what was seen as poor coordination of the French companies involved. Keeping this in mind, any further press speculation surrounding EDF taking a stake in Areva could be detrimental to the market's views on the former.

Throughout 2010: Debate on the liberalisation of the French power market

As we have discussed throughout this report, the imminent liberalisation of the French electricity market is likely to be the overriding theme for 2010, especially now that the process does indeed look to be on track. However, we would expect:

- **Relatively limited newsflow until the end of March**, as French politicians' focus turns to the regional elections (schedule for 14 and 21 March). The reform is unlikely to be taken as a subject for debate during the elections in our view, as at this stage it is does not affect residential customers.

- **More noise likely in Q2 2010**, when the draft NOME law is due to be discussed by both the Parliament and the Senate and amendments to the draft version are requested. However we do not expect substantially more information than we have at this stage, particularly with respect to the price at which nuclear access will be granted.

- **Key decisions to be taken in the course of 2H2010** through application decrees. These decrees should provide more details that we believe are key to valuing EDF, such as the exact nuclear generation volumes initially released to EDF's competitors; the price of access to nuclear capacity; how industrial tariffs will evolve over the 2011-2016 period.

Valuation

Our valuation and forecasts – hence multiples – are based on our "low base-case scenario", discussed previously in this report and detailed in Figure 14.

Sum-of-the-parts

Given the integrated nature of the Group and its complexity, we value EDF on the basis of a sum-of-the-parts analysis, using a combination of valuation methodologies: discounted cash flow (DCF), valuation multiples, regulated asset bases (RAB) and book values. Importantly for the French generation assets, which represent close to 50% of our operating enterprise value, we use a DCF, running the plants to the end of their lives. Therefore any change we make in our French tariff assumptions directly feeds into the valuation.

Our valuation stands at €47.9 per share and we use this as the basis of our price target.

Figure 18: EDF sum-of-the-parts valuation

	Value (€m)	Value (€ps)	10E EBITDA	09E EV /EBITDA	Basis
Generation	76,098	41.8	6,871	11.1x	DCF of power stations, equates to €1m/MW
Transmission	10,789	5.9	1,402	7.7x	Estimated RAB at 01/01/11 less costs previously over-recovered
Distribution	30,747	16.9	3,069	10.0x	Estimated RAB at 01/01/11 less costs previously over-recovered
France	117,633	64.6	11,342	10.4x	
UK	13,348	7.3	3,208	4.2x	SoP valuation, using DCF for British Energy plants, RAB for networks, operational multiples for supply
Germany	10,119	5.6	1,136	8.9x	SoP valuation, using DCF for generation, benchmarking for networks, multiples for other
Italy	5,210	2.9	782	6.7x	Market value for Edison, 7x 09E EBITDA for other businesses
Other	15,061	8.3	2,494	5.0x	5.0x 09E EBITDA Trading, 7.0x 09E EBITDA Rest of Europe ex Trading
Europe	43,739	24.0	7,621	5.7x	
Rest of the World	1,471	0.8	210	7.0x	7x 09E EBITDA
OPERATING EV	162,843	89.4	19,173	8.5x	
Investment securities	14,164				Estimated BV at 31/12/10 (these are EDF's dedicated nuclear assets)
Associates	4,405				Estimated BV at 31/12/10
Other financial assets	17,046				Estimated BV at 31/12/10 (includes the assets covering BE's nuclear liabilities)
Total financial assets	35,615				
TOTAL EV	198,458				
Nuclear provisions	-33,781				Estimated BV at 31/12/10, adjusted for 60-year nuclear station lives
Pension provisions	-13,907				Estimated BV at 31/12/10
Other provisions	-6,949				Estimated BV at 31/12/10
Net debt	-50,357				Estimated BV at 31/12/10
Minorities	-3,404				Estimated BV at 31/12/10
EQUITY VALUE	**90,059**	**47.9**			

Source: Credit Suisse estimates

Multiples

EDF does not look particularly attractive versus the utility sector on valuation multiples to 2012E: the company is trading broadly in line with the utility sector on EV/EBITDA but at a double-digit premium on P/E, while offering a dividend yield below 4% while the sector is above 5%.

However by 2013, the valuation picture changes, with the company trading at a 11% discount to its peers on EV/EBITDA and at just a 4% premium on P/E. The picture is even more flattering if we adjust EDF numbers to reflect an accounting specificity related to the regulation of the distribution network in France, which puts EDF at a 4% P/E discount to the sector. As a largely nuclear electricity producer, EDF will be little affected by the third phase of CO_2 emissions trading starting in 2013, while the other integrated generators will have to carry the burden of additional CO_2 costs, which will depress their earnings on our estimates.

Figure 19: EDF valuation multiples versus the utility sector under our coverage

	2009E	2010E	2011E	2012E	2013E
EV/EBITDA					
EDF	8.4x	8.1x	7.9x	7.5x	7.3x
Sector	8.3x	8.0x	7.6x	7.3x	8.0x
EDF vs sector	0%	1%	4%	3%	-9%
EV/EBITDA adjusted for third-party financing					
EDF	8.1x	7.8x	7.7x	7.3x	7.1x
Sector	8.3x	8.0x	7.6x	7.3x	8.0x
EDF vs sector	-3%	-2%	0%	0%	-12%
P/E					
EDF	18.2x	17.3x	17.1x	14.6x	14.0x
Sector	13.4x	12.9x	11.7x	10.9x	12.9x
EDF vs sector	36%	34%	46%	34%	9%
P/E adjusted for third-party financing					
EDF	16.4x	15.7x	15.6x	13.4x	13.0x
Sector	13.4x	12.9x	11.7x	10.9x	12.9x
EDF vs sector	23%	22%	33%	24%	1%
Dividend yield					
EDF	3.4%	3.6%	3.8%	3.9%	4.1%
Sector	5.1%	5.2%	5.4%	5.7%	5.2%
EDF vs sector	0.7x	0.7x	0.7x	0.7x	0.8x

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EDF share price as of close on 05/02/10 (€37.62 per share)

Forecasts

Our forecasts are summarised in Figure 20. They are based on our central case scenario, which assumes that a power reform is introduced from 2011 but only results in the introduction of access to EDF's nuclear generation capacity for alternative suppliers, at a price initially set at €41/MWh. We have conservatively assumed that all classes of tariffs (blue, yellow, green) are maintained and that they rise at inflation every year- while recent rises for the yellow and green tariffs have been well above inflation. Making more optimistic assumptions on the evolution of regulated tariffs would make our forecasts rise substantially, as discussed previously in this report.

Given current worries on sovereign default risk in Europe, one key point likely to attract investors' attention at this stage is EDF's high level of debt – which we estimate at €50bn at the end of 2010E. However, two key points need to be highlighted:

- This is not that high put in the context of the group and of the broader Utilities sector, corresponding to 2.8x net debt/ EBITDA while the sector average stands at 3.0x.
- We estimate that the company has limited refinancing needs over 2010E-2011E. As of 30/06/09 (latest reported financials), EDF had €13.5bn of debt with a maturity of less than 1 year (due by 30/06/10); and €13.8bn with a maturity between 1 and 5 years (due by 30/06/14). However within €13.5bn <1-year maturity, €5.6bn corresponded to the bridge loan used to finance British Energy and was refinanced in September 2009; and around €5bn corresponded to the company's commercial programme, which is ongoing. EDF also had as of 30/06/09 €13.4bn of liquidities and €9.4bn of available credit lines – comfortably covering the remaining obligations to mid 2014.

Figure 20: Credit Suisse summary financial forecasts for EDF

in € millions, unless otherwise stated

Key Data	2008A	2009E	2010E	2011E	2012E	2013E	08-09E	09-10E	10-11E	3Y CAGR
Reported EPS (€)	1.87	2.25	2.17	2.20	2.58	2.68	20.5%	-3.4%	1.2%	5.6%
Recurrent EPS (€)	2.36	2.07	2.17	2.20	2.58	2.68	-12.6%	5.1%	1.2%	-2.4%
Adjusted EPS (3d-party financing) (€)	2.85	2.56	2.59	2.62	3.00	3.11	-10.4%	1.3%	1.1%	-2.8%
Net DPS (€)	1.28	1.28	1.34	1.41	1.48	1.56	0.0%	5.0%	5.0%	3.3%
Net DPS payout ratio on recurrent EPS	54%	62%	62%	64%	57%	58%				
Net debt	-24,476	-43,599	-50,397	-54,387	-57,262	-58,263	78.1%	15.6%	7.9%	30.5%
Net debt/EBITDA	1.7x	2.5x	2.8x	2.9x	2.8x	2.8x				

Group Income Statement	2008A	2009E	2010E	2011E	2012E	2013E	08-09E	09-10E	10-11E	3Y CAGR
Revenues	64,279	67,282	70,233	71,929	74,353	77,202				
EBITDA as reported	14,240	17,120	18,217	18,696	20,101	20,794	20.2%	6.4%	2.6%	9.5%
Depreciation and amortisation	-5,713	-6,880	-6,989	-7,170	-7,387	-7,625				
Renewals provision	-526	-529	-540	-551	-562	-573				
Other income and expenses	-90	330	0	0	0	0				
Operating profit	7,911	10,041	10,687	10,975	12,152	12,596	26.9%	6.4%	2.7%	11.5%
Financial result	-3,167	-4,433	-4,920	-5,094	-5,217	-5,353				
Income tax	-1,561	-1,636	-1,903	-1,941	-2,289	-2,390				
Associates	352	263	268	273	279	284				
Minority interests	-135	-136	-116	-150	-155	-183				
Net income from discontinued operations	0	0	0	0	0	0				
Reported net income	3,400	4,098	4,016	4,063	4,771	4,953	20.5%	-2.0%	1.2%	6.1%
Recurrent net income	4,308	3,768	4,016	4,063	4,771	4,953	-12.5%	6.6%	1.2%	-1.9%
Adjusted net income (3d-party financing)	5,196	4,659	4,784	4,839	5,554	5,744				

Group Cash Flow Statement	2008A	2009E	2010E	2011E	2012E	2013E	08-09E	09-10E	10-11E	3Y CAGR
Gross cash flow	7,783	11,592	11,449	12,243	13,093	13,544				
Change in working capital	-211	144	-430	-343	-400	-435				
Cash flow from operations	7,572	11,736	11,019	11,900	12,693	13,109	55.0%	-6.1%	8.0%	16.3%
Capital expenditures	-9,703	-11,684	-11,280	-9,897	-12,196	-10,600				
Acquisitions	-281	-15,823	0	0	0	0				
Disposal	214	116	225	0	0	0				
Other	-6,895	-2,696	-3,125	-3,350	-600	-600				
Net investing cash flow	-16,665	-30,087	-14,180	-13,247	-12,796	-11,200	80.5%	-52.9%	-6.6%	-7.4%
Minority dividends	-90	-90	-93	-95	-98	-101				
Dividends	-2,438	-1,231	-3,544	-2,547	-2,674	-2,808				
Other	1,622	549	0	0	0	0				
Change in cash	-9,999	-19,123	-6,798	-3,989	-2,875	-1,001	91.3%	-64.5%	-41.3%	-26.4%

Group Balance Sheet	2008A	2009E	2010E	2011E	2012E	2013E	08-09E	09-10E	10-11E	3Y CAGR
Total fixed assets	141,132	175,120	183,082	190,034	196,424	201,008				
Current assets	37,958	40,873	41,966	42,690	43,636	44,711				
Cash and marketable securities	21,198	20,000	15,000	10,000	10,000	10,000				
Total assets	200,288	235,992	240,049	242,724	250,060	255,720				
Financial liabilities	-44,542	-62,467	-64,265	-63,255	-66,130	-67,131				
Provisions	-51,058	-57,454	-58,063	-59,296	-60,547	-61,815				
Other liabilities	-41,330	-45,527	-45,134	-45,580	-46,194	-46,906				
Net assets	24,842	31,549	33,101	34,607	36,691	38,847				
Minority interests	-1,784	-3,384	-3,404	-3,456	-3,510	-3,589				
Shareholders' funds	23,058	28,165	29,696	31,150	33,181	35,258				

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 05 Feb 10)*
Edison-Italenergia (EDN.MI, Eu1.00)
Electricite de France (EDF.PA, Eu37.62, OUTPERFORM, TP Eu47.90, MARKET WEIGHT)

Disclosure Appendix

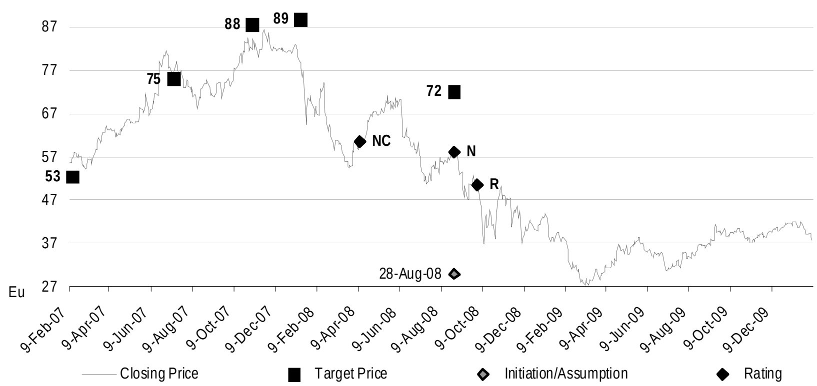
Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for EDF.PA

EDF.PA Date	Closing Price (Eu)	Target Price (Eu)	Rating	Initiation/ Assumption
14-Feb-07	56.9	52.5		
12-Jul-07	76.16	75		
05-Nov-07	81.91	87.5		
15-Jan-08	78.83	88.7		
11-Apr-08	60.5		NC	
28-Aug-08	58.12	72	N	X
01-Oct-08	50.53		R	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Price Target: (12 months) for (EDF.PA)

Method: Given the integrated nature of the Group and its complexity, we value EDF on the basis of a sum-of-the-parts analysis, using a combination of valuation methodologies: discounted cash flow (DCF), valuation multiples, regulated asset bases and book values. Importantly for the French generation assets, which represent close to 50% of our operating enterprise value, we use a DCF, running the plants to the end of their lives. Therefore any change we make in our French tariff assumptions directly feeds into the valuation. This analysis results in a valuation of EUR47.9 per share, from which we derive our target price.

Risks: The key risk to our target price is a different outcome from the reform of the French power market than the scenario we currently use - from our scenario analyses we think this risk is skewed to the upside. Other risks include: operating risk coming from the operation of nuclear power stations in particular (unplanned outages, strikes, etc); acquisition risk - EDF has in the past paid hefty prices for the assets it has acquired; management risk - the company has just appointed a new CEO and a new CFO, which will have to get familiar with their new organisation.

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CREDIT SUISSE SECURITIES (Europe) Limited
Europe: +44 (20) 7888-8888