KPMG

CORPORATE FINANCE

Project EMILIO

Limited review and pricing analysis of the contract "Contrat de droit de tirage entre Sorégies et Endesa France"

27 October 2009

ADVISORY

DRAFT

This document is a working document for discussion purposes only and is currently submitted to usual internal reviewing procedures

AUDIT ▪ TAX ▪ ADVISORY

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27 October 2009

Private & Confidential

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Project EMILIO: assistance in a limited scope review and pricing analysis of the contract "Contrat de droit de tirage entre Sorégies et Endesa France"

Dear Sir,

In accordance with the terms of reference set out in the engagement letter dated 28 September 2009, we have pleasure in providing you with the conclusions of our work set out in the attached report.

Our report aims at summarizing our diligences, the assumptions retained and the pricing analysis of the scenarios for the valuation of the contract "Contrat de droit de tirage entre Sorégies et Endesa France" dated 18 December 2007.

Our report is for information of the addressee only and should not be quoted or referred to, in whole or in part, without our prior written consent, except as specifically provided in our engagement letter.

Yours faithfully,

Olivier Schwab
Engagement leader

Mark Wyatt
Consultation partner

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Glossary of terms

CCGT	Combined cycle gas turbine
C_s	Specific consumption
CSS	Clean spark spread
ELD	Enterprise Locale de Distribution
E.ON	E.ON France
€	Euro
Existing Model	The valuation model developed by KPMG as part of the PPA La SNET and provided to E.ON on 21 April 2009
HCV	High Calorific Value
KPMG	KPMG Corporate Finance
LCV	Low Calorific Value
m	million
Management	La SNET and E.ON France management team
MOU	Memorandum of understanding
Persons	The persons from E.ON France, E.ON Energie AG and La SNET interviewed by KPMG, ie Mr. Philipp Ulbrich, Ms. Pauline Gaget, Mr. Antonio Haya, Mr. Fransisco Munoz, Mr. Philippe Gouillard and Mr. Philippe Boulanger
PPA	Purchase Price Allocation
SAEML	Société Anonyme d'Economie Mixte Locale
SNET	Société Nationale d'Electricité et de Thermique (previously Endesa France)
Sorégies	Sorégies Vienne
Sorégies Contract	The contract "Contrat de droit de tirage entre Sorégies et Endesa France" signed on 18 December 2007
Sorégies Entities	Sorégies Vienne and Sorégies Deux-Sèvres (now Séolis)
SPV	Special Purpose Vehicle
Valuation Date	30 September 2009

Limitation of our engagement

- KPMG Corporate Finance ("KPMG") has been appointed by E.ON France SAS (the "Client", "E.ON France" or "E.ON"), to assist them in the limited review and pricing analysis (hereafter the "Pricing Analysis") of the contract *Contrat de droit de tirage entre Sorégies et Endesa France* dated 18 December 2007 (the "Sorégies Contract" or the "Contract").

- Our report will only be valid within the aforementioned context and should not be used for any other purposes. More particularly, our report does not provide any guidance for the Pricing Analysis of the Sorégies Contract at any dates other than 30 September 2009.

- This report is prepared on the basis of the information provided to us by the Client or certain persons (see details in Appendix 1) from E.ON, E.ON Energies AG and La SNET (together the "persons"). We have relied on the information and material supplied to us by the Client or the Persons which we have not audited nor verified in any way. If any of the information provided to us is not correct or if there are material omissions in the information provided to us, this could affect the outcome of our analysis and that effect could be material.

- The purpose of our report is exclusively to provide information on the Contract Pricing Analysis but should not be seen as recommendation or rejection with regard to any potential transaction. Any decision by the Client regarding whether or not to proceed with a transaction shall rest solely with the Client.

- Neither our Pricing Analysis nor our report are to be construed as a full and independent valuation or an opinion as to the fairness of an actual or proposed transaction or a solvency opinion, but, instead are the expression of an indicative price range which might be discussed between a hypothetical willing buyer and a hypothetical willing seller in an assumed transaction. For various reasons, the price at which the Sorégies Contract might be sold in a specific transaction between specific parties on a specific date might be significantly different from the value range as expressed in our report.

- The valuation considerations which are described in our report are common valuation practice for which we believe we have substantial knowledge and experience. The services provided are limited to such knowledge and experience and do not represent audit, advisory or tax-related services that may otherwise be provided by other KPMG or other affiliated entities.

- Part of the information will be prospective and thus uncertain, which is inherent to any forecast data. As a consequence, actual results may significantly differ from the forecast information that will be used.

- This report is prepared solely for internal use by the Client and for the purpose detailed above. It is confidential to the Client and it is given on the understanding that it is not communicated, in whole or in part, to any third party without KPMG's prior written consent.

Context of our engagement

E.ON France requested KPMG assitance in the preparation of a limited review and pricing analysis of the Sorégies Contract.

Context

- The Sorégies Contract was signed on 18 December 2007 between Endesa France (now La SNET), the third player in the French power generation sector, and Sorégies, a local electricity distributor.
- Beginning 1 January 2010 and ending 31 December 2034, it settles the conditions at which Sorégies (the Buyer) will be able to dispose a part of the power generated by a Combined Cycle Gas Turbine plant ("CCGT") of La SNET (the Seller).
- For internal considerations, E.ON France requested KPMG's assistance in the preparation of a limited scope review and pricing analysis of the Sorégies Contract.

Our approach

- We have conducted our engagement in two phases:
  - Phase One consisted in:
    - discussing with E.ON France about the assumptions to be retained in a limited number of scenarios for the valuation of the Sorégies Contract (the "Scenarios");
    - providing methodological assistance in the valuation of the contract based on the Scenarios using the valuation model developed by KPMG as part of the Purchase Price Allocation ("PPA") of La SNET and provided to E.ON on 21 April 2009 (the "Existing Model").
  - Phase Two consisted in:
    - reviewing the Sorégies Contract;
    - conducting interviews with the Persons;
    - reviewing the correspondence between Sorégies, La SNET and E.ON based on the information provided by E.ON;
    - performing limited spot checks to verify the mathematical accuracy and formula applications of the Sorégies Contract in the Existing Model;
    - issuing a report summarizing our diligences, the assumptions retained and the Pricing Analysis of the Scenarios.

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Overview of Sorégies (1/2)

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Sorégies is a key local electricity distributor in Vienne.

SIEEDV holds a majority share (c. 83%) into Sorégies capital.

Sorégies has participations in several local electricty distributor (« ELD ») in France.

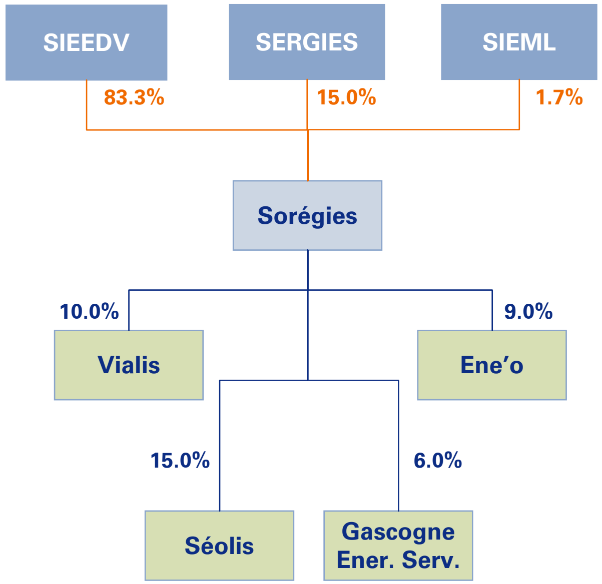
Shareholding structure

- Sorégies was created on 3 November 2003 under the French legal form of a Société Anonyme d'Economie Mixte Locale ("SAEML").
- The company is owned by:
  - Syndicat Intercommunal d'Electricité et d'Equipement du Département de la Vienne ("SIEEDV");
  - SERGIES (a company engaged in decentralized energy production);
  - Syndicat Intercommunal d'Energie de Maine-et-Loire ("SIEML").

Subsidiaries and holdings

- Sorégies holds:
  - 15% of Séolis (formerly known as Sorégies Deux-Sèvres) that is engaged in electricity distribution in Deux-Sèvres,
  - 10% of Vialis (electricity and gas distribution in Haut-Rhin)
  - 9% in Ene'o (electricity services provider)
  - 6% in Gascogne Energies Services (electricity and gas distribution in Gascogne)

Sorégies – Shareholding structure



Source: Sorégies website and annual reports

Overview of Sorégies (2/2)

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Sorégies is active in three main areas:

- Electricity distribution

- Gas distribution

- Other services

Recently, it has developed its activities in Vendée, Indre et Loire and Maine et Loire.

The access to electricity production capacity is one of the main strategic objectives of Sorégies.

Business description

- Sorégies is engaged in three main activities:
  - Electricity distribution (€149m revenue in 2008),
  - Gas distribution (€8m) and
  - Other services (€23m).
- The **electricity distribution** business ensures the development and the operation of the public network in Vienne, the linkage and the access to the public network as well as the validation and transmission of the energy metering to the users.

  In 2008, Sorégies was responsible for the supply in electricity of 269 towns for approximately 135,000 customers.
- Sorégies provides **gas distribution** services mainly in Vienne but also in Vendée, Indre et Loire and Maine et Loire. Two ways of supplying are proposed:
  - Distribution linked to the natural gas network
  - Distribution from a collective propane reserve

  Sorégies had c. 6,300 clients and sold for more than 156 GWh in 2008.
- The **other services** in which Sorégies is engaged are the following: public lighting, urban cartography and services to private individuals, professionals and local authority.

Coface rating

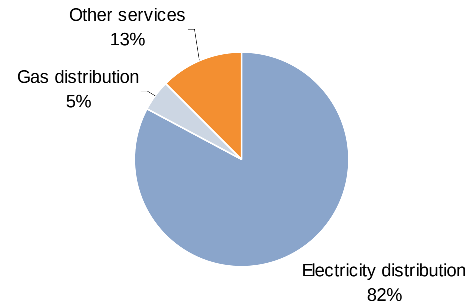
- Regarding its solvency, Sorégies obtains a 12/20 rating from Coface (stable over the past few years). This rating measures the ability of a company to honour its commercial commitments. A 12/20 rating shows an average risk for Sorégies.
- Regarding its credit rating, Sorégies currently benefits from a @@@ Coface rating which represents an improvement compared to its ratings before 2005. This rating measures the credit risk for the company. Sorégies is considered by Coface as a low credit risk profile company.

Sorégies – Key figures

Sorégies - Key figures			
€m	2007	2008	07/08 growth
Net sales	150,2	179,7	*20%*
EBIT	8,5	6,5	*(24%)*
Net income	5,5	4,7	*(14%)*
# Employees	323	316	*(2%)*
Total assets	405	463	*14%*
# customers (electricity)	132 932	134 670	*1%*
# customers (gas)	5 942	6 283	*6%*

Source: Sorégies website and annual reports

Sales breakdown in 2008



Source: Sorégies website and annual reports

Sorégies rating - Coface

Source: Coface

Overview of the pricing mechanism

The Sorégies Contract is supposed to enable Sorégies to get access to the electricty production of a combined cycle gas turbine from La SNET.

The pricing mechanism of the Contract is split between:

- a fixed investment fee and;

- a variable fee.

General information

- The contract *Contrat de droit de tirage entre Sorégies et Endesa France* was signed on 18 December 2007.
- It is supposed to begin on 1 January 2010 and end on 31 December 2034.
- The contract settles the conditions at which Sorégies will be able to dispose a part of the production of a CCGT from Endesa France (now La SNET).
- Under this contract, Sorégies can nominate on a hourly basis, a power of 0 MW or strictly 200 MW.

Pricing and payment

- The price to be paid by Sorégies to La SNET can be split as follows:
  - A fixed investment fee which takes into account the investment cost of the production unit. This fee is split into two payments:
    - The first one is required even if Sorégies renounces to its right to dispose the contracted power. It amounts €25m and was paid and to La SNET on 1 January 2008.
    - The second one is to be paid by Sorégies when the nominated power is delivered. It amounts to €128.3m and is due on 1 January 2010.
  - A variable fee composed of:
    - A fixed operating fee which takes into account the operation and maintenance costs of the plants;
    - A proportional fee which takes into account variable costs and which is linked, among others, to the price of gas and to the proportional operating cost that comprises various charges (including water, process additives, etc). The proportional fee is calculated via the following formula:

$PP_j = CE + (R_{Dégradation} \times C_s) \times Ppgaz_{j-1} \times [1 + F_{Surcout} \times (R_{défaillance} + R_{Ecarts})]$ *where:*

CE	*Proportional operating costs*
$Ppgaz_{j-1}$	*PEG Nord gas price published on D-1 in €/MWh*
C_s	*Specific consumption*
R_{Ecarts}	*Expected gap in % linked to technical limits*
$F_{Surcout}$	*Multiplying factor reflecting the gap between the proportional price and the theoretical price*
$R_{Défaillance}$	*Expected unavailability in % of the production unit*
$R_{Degradation}$	*Factor reflecting the specific consumption deterioration*

    - A start-up fee paid at each time Sorégies nominates 200 MW.
- As part of this contract, CO_2 emission rights will be allocated through an exchange system of quotas between the two companies.

Key milestones

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Four main phases were identified in the Sorégies Contract history:

- First contacts between La SNET and Sorégies;

- Exclusive negotiation;

- Discussions on certain amendments to the Contract;

- Latest developments.

12 February 2007
Engagement offer sent by La SNET to Sorégies

27 March 2007
Exclusive negotiation offer sent by Sorégies to La SNET

1 August 2007
Signature of mutual Memorandum of understanding

17 & 18 September 2007
Due diligence organised by La SNET for Sorégies

18 December 2007
Signature of the Sorégies Contract

August 2009
Discovery of an ambiguity in the units used in the Sorégies Contract

16 September 2009
Meeting between La SNET and Sorégies with discussion on potential adaptations to the Sorégies Contract

24 September 2009
Indicative pricing of the option performed by Morgan Stanley

2006 – Mar 07:
First contacts between La SNET and Sorégies

Mar 07 – Sept 07:
Exclusive negotiation period

Aug 09 – Sept 09:
Discussions on certain amendments to the Sorégies Contract

Sept 09 – Oct 09
Latest developments

First contacts between La SNET and Sorégies

First discussions between La SNET regarding the Emile Huchet project started in 2006.

Initially, the discussions aimed at creating a SPV in which Sorégies would have a 25% ownership.

Key dates

- First contacts between La SNET and Sorégies date back from 2000. At that time, Sorégies already had the project to get an access to electricity production in order to anticipate the liberalisation of the French energy market.
- In 2006, Sorégies Vienne and Sorégies Deux-Sèvres (the "Sorégies Entities") were supposed to merge their activities and, called for a joint tender related to the access to electricity production capacity.
- On **12 February 2007**, an offer was prepared and sent by La SNET to the Sorégies Entities. This offer consisted in an acquisition right granted to them in a new electricity production project. According to this offer, they would get an access to the electricity production of two CCGT on the Emile Huchet site located in Saint Avold, with a maximum access of 200 MW.
- In March 2007, Sorégies Entities renounced to their merger project. As a consequence, the offer jointly sent by La SNET was cancelled.
- However, on **27 March 2007**, Sorégies Vienne ("Sorégies") sent an exclusive negotiation offer to La SNET on its own behalf. This proposal regarded:
  - The participation of Sorégies in the capital of an electricity SPV led by La SNET;
  - The drawing right contract settling the conditions at which Sorégies will be able to dispose a part of the electricity production;
  - The acquisition by La SNET of a 10% share in Sorégies equity.
- Simultaneously, a 3-month exclusive negotiation period started on the basis of this offer.

Objectives for each party

- The objectives of the discussions between La SNET and Sorégies Entities were the followings:
  - La SNET aimed at developing its electricity production capacity in France. Indeed, the company was targeting to build and manage new production units (CCGT), representing 2,800 MW. This potential partnership with the Sorégies Entities was an opportunity to start the development of its production capacity and share the cost of production.
  - The interests were two-folded for the Sorégies Entities: (1) it was an opportunity to improve its visibility among the local distribution players as a new generation actor and (2) it was also a way to get a secure access to electricity production in anticipation of the market liberalisation.

Exclusive negotiation period (1/2)

First agreements were signed in the form of MOU in August 2007.

In September 2007, a due diligence session was organized by La SNET in which some business plans have been discussed.

We understand that La SNET had an option to acquire a 10% share in Sorégies capital ended in January 2009 and was extended to June 2009.

Overview of the exclusive negotiation period

- The exclusive negotiation period (the "Period") between La SNET and Sorégies lasted between March 2007 and July 2007.
- We understand that the main individuals involved in the negotiation process were Mr. Haya, Mr. Boulanger, Mr. Laclergue and Mr. Bissie on La SNET side, and Mr. Viou, Mr. Loisel and Mr. Delagrandanne on Sorégies side.

Signing of two MOU

- The exclusive negotiation period started in late March 2007 with the preparation by La SNET and Sorégies of two distinct memorandum of understanding ("MOU") regarding:
  - Sorégies investment in the SPV capital increase which was supposed to enable it to get a 25% ownership in the new production units. The value of the project was estimated between €570m to €580m.
  - The acquisition by La SNET of a 10% share into Sorégies equity. This participation was estimated between €18m and €22M.
- On 1 August 2007, both MOU mentioned above were signed by both parties.

Due diligence session

- In September 2007, a two-day due diligence session was organized by La SNET for Sorégies.
- On 17 September 2007, La SNET, represented by Mr. Boulanger, performed a macro-presentation about the new electricity production capacity in France.
- On the next day, some sensibility analyses were tested on La SNET business plans with Mr. Laclergue.
- La SNET reminded Sorégies of the fact that those business plans were prepared for its own industrial plan and that the assumptions used may not fit with Sorégies business plan.
- Moreover, La SNET insisted on the non-committing and non-contractual aspects of those business plans.

Change in the structuring of the transaction

- By the end of 2007, due to the acquisition process led by Enel on Endesa, it appeared to La SNET that the creation of a SPV was not possible anymore. Therefore, an alternative solution was proposed to Sorégies:
  - The preparation of a mere drawing right contract for Sorégies without any access to the capital. This contract (the Sorégies Contract) was signed on 18 December 2007.
  - The grant from Sorégies to La SNET of an option to acquire a 10% share in its equity.

Exclusive negotiation period (2/2)

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In September 2007, a due diligence session was organized by La SNET in which some business plans have been discussed.

Some business plan elements were provided by La SNET to Sorégies during the negotiation period.

Specific comments on the 16 May 2007 and 12 June 2007 meetings held during the Period

- In the context of those negotiations, there was some discussions about the gas price index to be taken into account for the strike price calculation such as PEG Nord, NBP, APX NL and Zeebrugge (cf document 8 named *Meeting report – 16 May 2007*).

  There is no mention on high calorific ("HCV") and low calorific value ("LCV") units in the meeting reports.
- Based on the meeting reports, it seems that Sorégies asked for and received some numerical data regarding the strike price calculation and the business plans prepared by La SNET.
- 16 May 2007 meeting:
  - It is mentioned that La SNET sent some documents to Sorégies detailing the prices calculation of the drawing right contract. We have not been provided with any documentation related to this topic.
  - During this meeting, Sorégies asked for some numerical elements in order to prepare simulations aiming at valuing the project profitability. We have not been provided with any documentation on this topic.
- 12 June 2007 meeting: it is mentioned that La SNET will provide Sorégies with some business plan elements. An excel sheet was sent to Sorégies in June including certain elements used for the preparation of the business plan. We received this document from Mr. Boulanger (cf document 10 named *Business plan elements sent by Endesa France to Sorégies during the negotiation process*). Based on our discussions with Mr. Boulanger, we understand that, despite the fact that it is not clearly mentioned that the efficiency refers to the LCV or HCV, this precision is indirectly given through the information of the CO_2 emission (365 g/KWh).

Specific comments on the business plan presented during the due diligence session

- We have been provided with the business plan (cf document 11 named *business plans used during the negotiation process between Endesa France and Sorégies*) used during the due diligence session for discussion purposes only. Based on a limited and preliminary review of the model, our comments are presented below and should be further discussed with La SNET, E.ON Engergie AG or E.ON.
  - We note that the number of working hours per year mentioned in the sheet "Work", line 41 is different from the one used in the sheet "Operations", line 8. However, the impact on the valuation seems limited.
  - In the sheet "Operations", line 19, the calculation of the gas costs takes into account the conversion HCV / LCV. However, the adjustment factor is not presented in the sheet "Operations", but in the sheet "Work", line 43. Therefore, it is not directly readable from the sheet "Operations".
  - In the sheet "Operations", line 21, it seems that the CO_2 costs do not take into account the conversion HCV / LCV.
  - The Real Efficiency factor presented in line 43 of the sheet "Work" is changing over the next years and slightly different from the one mentioned in the appendix of the contract. However, the impact on the valuation should be limited.
  - The IRR analysis is based on an estimate of capital expenditure. Taking into consideration 25% of the forecast investment gives €117m, an amount significantly lower than the fixed investment fees paid by Sorégies (€154m).

Amendments to the Contract

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An ambiguity appeared in the Contract regarding the gas unit to be used (HCV or LCV)

Based on our discussions with Management, we understand that both interpretations are possible and that both parties are acting in good faith.

Both parties seem to favour a friendly term solution to the current situation.

Discovery of an ambiguity in the Contract

- In August 2009, in the context of the preparation of amendments to the Contract, it appeared that there was an ambiguity regarding the effective gas price as the gas units are expressed in form of "MWh gas" without any explanation whether the gas is measured in HCV or LCV.
- Based on our discussion with Management, we understand that both parties are acting in good faith and both interpretations are possible:
  - The heat rate used for the strike calculation is expressed as MWh gas / MWh electricity without any further explanation. However, the appendix 10 of the Contract determines the heat rate to be used is 1.7286 MWh gas. This multiplying factor is reflecting the LCV basis, but it is not explicitly mentioned in the wording of the Contract.
  - The gas price used in the strike formula is referring to "PEG Nord" that is expressed as HCV on Powernext.

E.On interpretation

- According to E.ON, based on industry practice, the gas price has to be expressed under the LCV reference.
- Furthermore, E.ON mentioned that even if the contract does not clearly mention the unit used, a simple calculation reveals that the specific consumption ("C_s") is expressed in LCV.
- Last, E.ON believes that, even on the LCV basis, the project is still profitable for Sorégies since the market environment has improved since the signature of the contract.

Sorégies interpretation

- According to our discussions with Management and to the presentation named *Dispute with Sorégies on exercice price of 200 MW drawing right* (document 25), it seems that Sorégies does not agree with E.ON interpretation about the necessity to adapt the "PEG Nord" price, as the increase of strike price would reduce significantly its gross margin.
- Moreover, based on our discussions with Management, we understand that Sorégies claims that this different interpretation would affect its negotiations with the banks regarding the financing of the project.
- Indeed, during a meeting held on 2 September 2009, Sorégies claimed that the changing of units would imply a €4-5m loss per year and therefore, the bankruptcy of the company within 10 years.

Latest developments

E.ON proposed to Sorégies some alternative that could be acceptable for both parties (based on discussions with Management).

Morgan Stanley prepared an indicative price of the option for E.ON.

2 September 2009 meeting

- On 2 September 2008, we understand that 3 alternatives were considered:
  - The utilisation of the contract with the gas price and the specific consumption respectively expressed in HCV and LCV. This alternative was refused by E.ON.
  - The contract cancellation. Both parties confirmed their will to avoid this alternative but agreed on the fact that it should not be excluded.
  - Amendments to the contract with the HCV unit and gather all the solutions that could enable to recover the equilibrium between both parties
- We understand that both parties favour a friendly term solution to the current discussions. They want to avoid the dissolution of the contract and prefer to proceed with its adaptation. However, E.ON decided to contact a legal advisor (CMS Bureau Francis Lefebvre) in order to analyse the legal options that could permit to reconsider the existence of the Sorégies Contract.

16 September 2009 meeting

- On 16 September 2009, a meeting was held in order for both parties to analyses the possible amendments to the Contract mentioned during the meeting held on 2 September 2009. E.ON exposed to Sorégies that, despite the conversion from HCV to LCV, the contract remains profitable due to the market environment improvement since December 2007.
- E.ON has updated the business plan, using the central scenarii of Poyry reports (July 2009) regarding the electricity price evolution forecast in France. It appears from this update that:
  - From 2010 to 2011, the clean spark spread ("CSS") from the BP is lower than the one performed during the negotiation period in 2007;
  - In 2012, they are equivalent;
  - From 2013 to 2034, the CSS from the new BP is higher.
- E.ON insisted on the fact that EH 7 & 8 project is one of the cheapest projects on the current French market.
- We understand that Sorégies pointed out the fact that an annual margin of €18m still needs to be secured in order to cover the amortisation of the installation and the financial costs. E.ON proposed its help to reveal the market value of the option by contacting Morgan Stanley.

Market value of the Contract – 24 September 2009

- On 24 September 2009, Morgan Stanley prepared for E.ON an indicative price of the option for 2010, 2011 and 2012. The pricing was done for 100 MW (half of the capacity) and revealed the following results:
  - Mar-10 to Dec-10: €8.1m
  - Jan-11 to Dec-11: €10.5m
  - Jan-12 to Dec-12: €10.6m
- We also understand that this pricing was on the high end of Sorégies expectations. Due to its limited size, Sorégies would certainly needs E.ON to serve as an intermediary in order to cover the counterpart risk.

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Context

Six scenarios have been taken into account in our limited pricing analysis.

The valuation work was undertaken on a stand alone basis and as a going concern.

Pricing of various scenarios

- Several scenarios have been performed by the Client to estimate the Fair Value of the Sorégies contract as of 30 September 2009:
  - one scenario with inputs estimated by Poyry "High", reflecting peak prices ;
  - one scenario with inputs estimated by Poyry "Low", reflecting base prices ;
  - one scenario with inputs estimated by the Client (internal model).
- On each scenario, a sensitivity analysis has been performed to reflect the value of the contract :
  - according to Sorégies understanding of the contract ;
  - according to La SNET understanding of the contract.

KPMG model

- The value analyses rely on the model engineered by KPMG and modified by E.ON that was sent by Eymeric Malcor on 21 September 2009 (cf documents 26 to 32).
- Different macro-assumptions reflecting the different scenarios have been applied to this model.

Premise of value

- The basis of the Pricing Analysis is defined as Fair Value, i.e. the "*price at which the subject properly would change hands between a willing buyer and a willing seller when the former is not under compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts*".
- Our valuation work have been performed on a "stand alone basis" and under "going concern" assumptions.
- The upfront payment of €26m received by La SNET in 2008 has not been taken into consideration.

Diligences

- We have performed a limited review and pricing analysis of the Sorégies Contract as of 30 September 2009.
- Our work has consisted in performing limited spot checks to verify the mathematical accuracy and formula of the Sorégies Contract in the Existing Model.

Review of the model used to estimate the Fair Value of the contract as of 30 September 2009

Six valuation scenarios have been transmitted to KPMG for limited spot checks review.

Our major comments are about the inclusion of the data for February 2010, the update of the inflation rate and the costs of transport gas.

The models provide an estimate of the Fair Value of the Contract as of 30 September 2009 from La SNET perspective, that may be different from another group's perspective, notably because of the treatment of taxes.

Comments following the review of the models

- **Please note that the upfront payment of €26m received by La SNET in 2008 has not been taken into consideration.**
- We observed in the sheet "Data hopes (monthly)_2010", line 42, that the sums do not take into consideration data for February 2010. The impact is different according to the scenarios : from La SNET perspective, taking into consideration this month would imply a decrease in value between 0.3% and 5.7%.
- We understand that the estimate of the inflation in the future has been updated, from 1.9% to 2.0%. This could be observed in the sheet "Interface Hopes", line 6. However, the inflation on wages and the inflation index have not been updated in the sheet "Fwd assumptions", line 50 and 52. From La SNET perspective, updating all inflation rates would imply an increase in value between 0.2% and 5.4%.
- In the sheet "Interface Hopes", line 25, the Transport Costs Gas has not been updated. We understand that this element needs to be updated if planned running hours change.
- We understand that the model has been modified by the Client in order to take into account the arrangement with the Tax Administration regarding the upfront payment of €128m in 2010 : under this arrangement, La SNET will pay taxes relative to this cash flow over the next 25 years. It has to be highlighted that this adjustment may only be valid from La SNET perspective.
- From La SNET perspective, the cash flows associated to the contract are negative after 2011. As a result, a tax loss is created, and should the contract belong to a group making sufficiently high profits, this tax loss can directly lower the tax to be paid. The model values the contract under this assumption. It may not be relevant from the perspective of other entities. This item may have a significant impact on the valuation results (further details on the next page).

Sensitivity analysis

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The tables opposite present the sensitivity analysis to the different comments on the models described in the preceding page.

Sensitivity analysis on the Fair Value of the Contract based on February 2010 data update as well as the inflation rate update

In €m	Poyry_haut_PCI(1)	Poyry_haut_PCS(2)	Poyry_bas_PCI(3)	Poyry_bas_PCS(4)	SNET_PCI(5)	SNET_PCS(6)
Concluded Fair Value per Management (A)	**-164.0**	**-106.8**	**17.3**	**38.5**	**-42.6**	**-5.3**
Fair Value taking into consideration data for February 2010	-164.4	-107.1	17.1	17.1	-43.0	-5.6
Fair Value taking into consideration both data for February 2010 and update of the inflation rate (B)	**-164.1**	**-106.8**	**17.4**	**38.7**	**-42.7**	**-5.3**
Differential in % between (A) and (B)	**- 0.1%**	**0.0%**	**+ 0.6%**	**+ 0.5%**	**- 0.2%**	**0.0%**

Sensitivity analysis on the Fair Value of the Contract based on an increase in transport cots gas as well as tax effects

In €m	Poyry_haut_PCI(1)	Poyry_haut_PCS(2)	Poyry_bas_PCI(3)	Poyry_bas_PCS(4)	SNET_PCI(5)	SNET_PCS(6)
Concluded Fair Value provided by Management (A)	**-164.0**	**-106.8**	**17.3**	**38.5**	**-42.6**	**-5.3**
Impact of an increase in Transport Costs Gas of 10% *	-161.0	-103.3	21.2	42.7	-40.0	-2.4
Fair Value not taking into consideration tax effects *	-282.1	-194.7	-5.3	27.1	-97.5	-40.0

**: taking into consideration both data for February 2010 and update of the inflation rate*
(1) Scenario reflecting peak prices and using LCV unit
(2) Scenario reflecting peak prices and using HCV unit
(3) Scenario reflecting base prices and using LCV unit
(4) Scenario reflecting base prices and using HCV unit
(5) Scenario reflecting La SNET estimations and using LCV unit
(6) Scenario reflecting La SNET estimations and using HCV unit

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Appendix 1 - Interviews conducted

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We have conducted interviews with six persons within E.ON and La SNET in the context of our engagement.

- During our engagement, we conducted interviews with the following persons:
  - Mr. Antonio Haya, E.On France, Corporate Development Manager (8 October 2009)
  - Mr. Francisco Munoz, La SNET, Head of Energy Management (8 October 2009)
  - Mr. Philippe Gouillard, La SNET, **[title to be confirmed]** (8 October 2009)
  - Mr. Philipp Ulbrich, E.ON France, Head of Controlling (8 October 2009)
  - Ms. Pauline Gaget, E.ON France, **[title to be confirmed]** (8 October 2009)
  - Mr. Philippe Boulanger, E.ON Energie AG, Country Manager France (12 October 2009)

Appendix 2 - List of documents received

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All the documents received and presented below have been gathered in a zip. folder that has been provided along with this report.

#	Document name	Type of document	Document date	Received from	Received on
1	Meeting report - 23 jan 07	WORD file	23-janv-07	Philippe Gouillard	16-oct-09
2	Engagement offer sent by Endesa France to Soregies Vienne and Sorégies Deux-Sèvres	PDF file	12-févr-07	Philippe Boulanger	02-oct-09
3	Exclusive negotiation request sent by Sorégies Vienne to Endesa France	WORD file	27-mars-07	Philippe Boulanger	02-oct-09
4	Non Disclosure Agreement	WORD file	27-mars-07	Philippe Boulanger	02-oct-09
5	Meeting report - 27 Mar 07	WORD file	27-mars-07	Eymeric Malcor	07-oct-09
6	Meeting report - 24 Apr 07	WORD file	24-avr-07	Eymeric Malcor	07-oct-09
7	Meeting report - 10 May 07	WORD file	10-mai-07	Eymeric Malcor	07-oct-09
8	Meeting report - 16 May 07	WORD file	16-mai-07	Eymeric Malcor	07-oct-09
9	Meeting report - 12 Jun 07	WORD file	12-juin-07	Eymeric Malcor	07-oct-09
10	Business plan elements sent by Endesa France to Sorégies during the negotiation process	EXCEL file	na	Philippe Boulanger	02-oct-09
11	Business plans used during the negotiation process between Endesa France and Sorégies	EXCEL file	28-juin-07	Philippe Gouillard	19-oct-09
12	Meeting report - 3 Jul 07	WORD file	03-juil-07	Philippe Gouillard	16-oct-09
13	Signed MOU - Sorégies participation to the project company capital increase	PDF file	01-août-07	Philippe Boulanger	02-oct-09
14	Signed MOU - Endesa France access into Sorégies capital	PDF file	01-août-07	Philippe Boulanger	02-oct-09
15	Meeting report - 6 Sept 07	WORD file	06-sept-07	Eymeric Malcor	07-oct-09
16	Presentation "Plan de nouvelles capacités en France"	POWER POINT file	17-sept-07	Philippe Boulanger	02-oct-09
17	Internal email from Philippe Boulanger describing the new setup (from SPV to drawing contract)	E-mail	19-nov-07	Philippe Boulanger	02-oct-09
18	Meeting report - 7 Dec 07	WORD file	07-déc-07	Philippe Gouillard	16-oct-09
19	Drawing right contract	PDF file	18-déc-07	na	Already available
20	Meeting report - 5 May 09	WORD file	05-mai-09	Philippe Gouillard	16-oct-09
21	Meeting report - 2 Sept 09	WORD file	02-sept-09	Philippe Gouillard	12-oct-09
22	Meeting report - 16 Sept 09	WORD file	16-sept-09	Philippe Gouillard	12-oct-09
23	Presentation "Valeur de l'option Soregies"	POWER POINT file	16-sept-09	Philippe Gouillard	16-oct-09
24	CO2 quotas allocation - French Ministry of Ecology and Energy	PDF file	20-sept-09	Philipp Ulbrich	30-sept-09
25	Presentation "Dispute with Sorégies on exercise price of 200 MW drawing right"	POWER POINT file	21-sept-09	Philipp Ulbrich	30-sept-09
26	3 scenarii results overview - 30 Sept 09	EXCEL file	21-sept-09	Eymeric Malcor	06-oct-09
27	Scenario 1 - Poyry haut PCI	EXCEL file	21-sept-09	Eymeric Malcor	06-oct-09
28	Scenario 2 - Poyry haut PCS	EXCEL file	21-sept-09	Eymeric Malcor	06-oct-09
29	Scenario 3 - Poyry bas PCI	EXCEL file	21-sept-09	Eymeric Malcor	06-oct-09
30	Scenario 4 - Poyry bas PCS	EXCEL file	21-sept-09	Eymeric Malcor	06-oct-09
31	Scenario 5 - SNET PCI	EXCEL file	21-sept-09	Eymeric Malcor	06-oct-09
32	Scenario 6 - SNET PCS	EXCEL file	21-sept-09	Eymeric Malcor	06-oct-09
33	2010-2013 price evolution (Snet & Poyry)	EXCEL file	21-sept-09	Eymeric Malcor	09-oct-09
34	CO2 quotas allocation	E-mail	21-sept-09	Philipp Ulbrich	30-sept-09
35	CO2 quotas allocation	EXCEL file	21-sept-09	Philipp Ulbrich	30-sept-09
36	Legal analysis by CMS Bureau Francis Lefebvre	WORD file	22-sept-09	Pauline Gaget	01-oct-09
37	Sorégies business plan - Sept 09	EXCEL file	23-sept-09	Philippe Gouillard	12-oct-09
38	Morgan Stanley - Option indicative cotation	E-mail	24-sept-09	Philippe Gouillard	15-oct-09
39	Email from Antonio Haya regarding alternative measures	E-mail	25-sept-09	Philipp Ulbrich	30-sept-09
40	Presentation "Présentation Sorégies - Business Plan"	POWER POINT file	29-sept-09	Philippe Gouillard	12-oct-09
41	Meeting report - 30 Sept 09	WORD file	30-sept-09	Philippe Gouillard	12-oct-09
42	Coface - Rating Sorégies	PDF file	na	Guillaume Bouny	08-oct-09
43	Presentation "Time & intrinsic value of option fee for generation asset"*	POWER POINT file	na	Philippe Gouillard	16-oct-09