



# **Sales and Highlights**

## **Q1 2019**

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Good morning everyone. I am pleased to welcome you to this conference call.

I will walk you through our first quarter sales, starting with the main highlights over the period and I will close my presentation with our financial outlook.

### **Q1 2019 key figures**

Group revenue for the first quarter of 2019 amounted to almost €21 billion, up organically by 1.7% compared to the first quarter of 2018. This growth is mainly attributable to the France-Generation and Supply segment, in the context of favourable market prices, the development of the Group's energy services activities and the good performance of EDF Trading.

On the other hand, revenues were negatively impacted by the decline in nuclear output in United Kingdom due to extended outages of two nuclear plants and also by warm weather, driving a decrease in distributed volumes in the France - Regulated activities segment.

### **Highlights and deployment of CAP 2030**

Before looking at the sales numbers in more detail, let me comment on some of the recent highlights of the Group, starting with the continued development of our renewables activities. First, EDF Renewables launched construction of 1.2 gigawatt capacity in the first quarter alone, reaching a record level of 3.5 gigawatt gross capacity under construction at the end of March 2019, including 1.4 gigawatt in solar.

The second pillar is precisely related to solar activities. We are accelerating in the deployment of the French Solar Plan, with the acquisition, beginning of April, of the LUXEL group, which holds a portfolio of 1 gigawatt-peak, including around 100 megawatt-peak already operating. We announced the acquisition, in China, of a majority stake in a portfolio of 77 megawatt-peak of rooftop photovoltaic assets, which strengthens our presence in distributed solar power in China. And lastly, EDF Renewables was awarded a 20-year power purchase agreement for a 60 megawatt-peak solar plant near Athens.

Further key development in the offshore space: EDF signed agreements to build and operate two offshore wind farms, for total capacity of 500 megawatts, with China Energy Investment Corporation. These two plants will be gradually commissioned by 2021.

Client solutions and energy services are another business activity that saw significant developments, especially in the hydrogen sector. EDF launched Hynamics, a subsidiary offering low-carbon hydrogen for industry and mobility. This development builds on the equity investment we made last year in the share capital of McPhy and will broaden the range of our offers to clients.

Last but not least, on new nuclear projects, the Taishan unit two project reached a decisive step with the end of fuel loading on 16 April 2019.

Looking now on slide five at operational data, nuclear generation in France came to 111.8 terawatt hours over the first three months of 2019, down 1.1 terawatt hours compared to the first quarter of 2018, essentially due to modulation of generation in a warmer-temperature environment. In the UK, extended outages at Hunterston B and Dungeness B contributed to a 2.5 terawatt hours drop in the fleet nuclear output.

Total Group Renewable output was down 4.9 terawatt hours to 15.7 terawatt hours. This was mainly driven by hydro generation in France, with a decline in output of 4.7 terawatt hours, reaching 9.9 terawatt hours over the first three months of the year, linked to lower hydro conditions than in 2018.

Lastly, a quick word on recent transactions that strengthened our financial structure. As announced a few weeks ago, EDF signed an agreement on the disposal of its 25% stake in Swiss power producer Alpiq. Completion of the transaction is expected to occur before the end of H1 2019. Finally, EDF issued in March a €300 million sustainable revolving credit facility, which incorporates a pricing adjustment based on EDF sustainability performance, linked to CO<sub>2</sub> emissions and energy efficiency. This third ESG-indexed revolving credit facility brings to almost €4.5 billion the total amount of sustainability-linked credit facility for the EDF group. It confirms that sustainable finance instruments are core to EDF's financing strategy.

### **Group sales**

As indicated earlier, group sales came to €21 billion, a 1.7% organic growth compared to the €20.4 billion sales for Q1 2018. Let me walk you through each segment in more details, starting with Generation and Supply in France.

### **France upstream/downstream balance**

In order to explain the dynamics in the segment and before looking at the bridge of the sales numbers, let's have a look at the upstream/downstream electricity balance. The left-hand side of the chart illustrates the evolution in hydro and nuclear output I just presented. On the right-hand side, overall sales volumes were down 6 terawatt hours compared to Q1 2018. Sales to end customers fell 9 terawatt hours, mainly due to mild temperatures, erosion of market shares and a slightly lower demand. Volumes supplied under ARENH were up 6 terawatt hours, in line with a high level of subscription by competing suppliers and network operators.

### **France - Generation and Supply activities.**

Looking now at the sales numbers for French Generation and Supply, the bridge shows an organic growth of 2.2% to €8.1 billion. The main positive driver came from higher wholesale market-forward price conditions, which carried a favourable price impact on volumes supplied under market-based contracts, for just over €330 million. This positive effect was offset for €290 million by the decrease in net electricity sales to end customers and on wholesale markets. In the absence of a tariff increase in February 2019, which is expected to materialise only in June, as you know, meaning that around €250 million revenue are missing in Q1, regulated sales tariffs carried a €54 million negative impact, linked to the end of the catch-up component reflected in the August 2018 regulated tariffs change. Although weather

drove end-customer consumption down by 3.7 terawatt hours overall versus Q1 2018, the sales impact was only –€11 million. This is linked to an exceptionally low consumption in January 2018, which had been affected by very mild weather conditions, triggering sales on spot markets at very low prices. Sales of volumes sourced under purchase obligations rose by €100 million under positive spot price effects but this has no impact on EBITDA.

Let me highlight one last supportive element: sales of capacity certificates on wholesale markets, which benefited from the price level reached in the first capacity auction of the year in March.

### **France nuclear output**

As I said, over the first three months of 2019, cumulated nuclear output in France came to 111.8 terawatt hours. The chart on this slide shows the update at end April which we disclosed last week. We can see that output after four months is on par with the same period last year.

### **France hydro output**

Moving to French hydro on the next slide, output fell markedly to 9.9 terawatt hours, down 4.7 terawatt hours versus Q1 2018. As you can see on the right-hand side, generation was affected by challenging hydro conditions versus normal, with an even wider difference compared to the same period last year. In addition, hydro's overall capacity had been highly dispatched at the beginning of 2018, which amplifies the difference in output year on year. April was also very dry, keeping cumulative output on a low trend after four months in 2019.

### **France - Regulated activities**

Sales in French- Regulated activities were down 2.6% in organic terms to €5 billion. The main driver is mild weather conditions, which caused a decrease in distributed volumes by 5 terawatt hours, for an estimated negative impact of €170 million compared to the first quarter of 2018. Additionally, the August 2018 tariff move had a positive impact of plus €19 million. And finally, favourable evolutions of the customer portfolio mix had a positive impact of €17 million.

### **Renewable energies**

Moving to EDF Renewables, where sales were up 2.9% organically to €417 million. Electricity generation was the main driver for this growth. Output was indeed globally stable, at 4 terawatt hours as a consequence of assets sales made end of 2018 and early 2019 but it was more than offset by favourable price effects. Overall, net installed capacity is globally stable at 8.3 gigawatts whereas gross capacity under construction stands at a record level of 3.5 gigawatts. Integration of EnterSolar, an American provider of solutions for decentralised solar energy production, contributes to the development of renewable energy.

Looking at Renewables activities across the group, first quarter sales came to €1.3 billion, down 5% year on year in organic terms. This was first driven by the decline in French hydro output, partially offset by positive price effects linked to commissioning of new capacity enjoying a supportive price level.

**Energy services**

Dalkia's sales were up 7.8% organically to €1.3 billion. Sales were supported both by newly-won contracts and by positive price and index effects. Overall, sales by energy services activities across the group were up 8%. On top of the above-mentioned performance of Dalkia, these numbers reflect the contribution of past investment efforts, most notably Imtech in the UK, acquired in June 2017 and Zephyro in Italy, acquired in May 2018.

**Framatome**

Framatome sales reached €706 million, down 4% in organic terms. Looking at the development in each business segment. First *fuel business*: year on year distribution of fuel assembly deliveries unfavourably affected the first quarter of 2019. This timing effect is expected to fade over the course of the year. On *large projects*, revenue has declined in Taishan, while HPC is ramping up. The *installed base activity* has experienced a slight slow-down in the first quarter of 2019, compared to a strong activity in the first quarter in 2018 in France.

**United Kingdom**

Looking now at the UK, where EDF Energy's sales came to €2.5 billion, down 4.2% in organic terms, nuclear generation in Q1 came to 12.6 terawatt hours, down 2.5 terawatt hours; extended outages at Hunterston B and at Dungeness B contributed to this drop in the fleet output. Overall downstream market context is still challenging in the UK, where supply activity is penalised both by the suspension of the capacity market and by the cap on the standard variable tariffs.

EDF Energy's customers' business is, however, enjoying good resilience. The residential customer portfolio is stabilising in a continued very competitive environment and B2B sales volumes have slightly increased during the quarter.

**Italy**

In Italy, sales were up 1.2% to €2.4 billion, mainly supported by electricity activities. Sales in electricity activities, plus €122 million in organic terms, indeed reflect higher B2B sales volumes and positive price effects. In gas activities, sales were down €109 million in organic terms due to a decrease in volumes sold on the wholesale market, which was partially offset by an increase in volumes sold to industrial customers and by positive price effect.

**Other international**

Sales in the other international segment came to €795 million, up 18.9% in organic terms. In Belgium, revenue increased by €59 million in organic terms, reflecting in particular an increase in electricity and gas prices in all segments, partially offset by a slight decrease in B2C volumes due to a mild climate. Luminus continues to develop in services and renewables activities, with wind power capacity now standing at 448 megawatts.

In Brazil, the contractual price revision of EDF Norte Fluminense's electricity sales at the end of 2018 and the effect of changes in the ICMS tax drove an organic sales increase by €57 million, the latter having no impact on EBITDA.

**Other activities**

Looking now at slide 18, with sales from the other activities segment, sales were up 18.5%, reaching €882 million. EDF Trading's revenue grew by €51 million organically. EDFT's teams were able to take advantage of favourable volatility and price conditions in Europe for electricity and gas. LNG and LPG activities also contributed to this performance in the first quarter of 2019.

Gas business sales grew by more than €165 million in organic terms in a favourable context for the LNG business and better utilisation of the group's regasification capacities.

**Financial guidance**

Moving to our financial guidance on slide 19, please note that the figures I will comment include IFRS 16 impacts and let me remind you that under this accounting standard, lease contracts are recognised as assets on the balance sheet, with corresponding lease liabilities. As an illustration, application of this standard at 31<sup>st</sup> December 2018 would have increased net debt by close to €4.5 billion.

That being said, we confirm the objectives set for 2019. 2019 EBITDA is expected to range between €16 billion and €16.7 billion; we aim to reach €1.1 billion in OPEX reduction compared to the 2015 level. Cash flow, excluding HPC and Linky, is expected to be above €600 million. And coming now to 2019 and 2020 ambitions, total net investments excluding group acquisitions and disposals are expected to be approximately €15 billion per year. Group disposals will be within a range of €2–3 billion over the period of 2019–2020 and the net financial debt to EBITDA ratio is expected less or equal to 2.7 over that period. The dividend pay-out rate will be within a range of 45–50%. The option to receive the payment of the dividend in new shares will be offered to all shareholders. Note that the French government has indicated to opt for this scrip payment for the balance of the dividend due for 2018, as well as for the whole of the dividend due for years 2019 and 2020.

This ends my presentation of Q1 2019 sales and highlights and I now open the floor to your questions.

**Q&A**

**Olivier Van Doosselaere (Exane):** Good morning. If I may, I've got four quick questions. The first one is on revenues from capacity auctions in France. Sorry if I missed a figure but if you could highlight how much you made in Q1 versus last year and what your expectation is for the full year relative to last year from those revenue sources?

The second one: I guess that you expect a 5.9% tariff increase to be implemented on 1<sup>st</sup> June; I think that was already embedded in your guidance. Could you please also highlight what you expect after that – i.e. I think normally the regulator looks at tariffs again in the summer months; I was wondering if you expect another tariff increase, potentially, in

August that could be linked to the regulated part of the bill and maybe also that could include a catch-up for what you didn't receive in the first month of this year on the regulated tariff?

And then a third question, again on tariffs: Mr de Rugy has been saying that he would like to revise the calculation for the regulated tariff from next year onwards and actually we could hear Mr Lévy mentioning in parliament – sorry, in the senate, that actually he thought Mr de Rugy was indeed referring to a wider change that EDF is seeking to achieve on the nuclear French output, with a corridor-model pricing mechanism. I was wondering if indeed you could confirm that Mr de Rugy would be speaking in terms of a change in methodology about the move to that sort of corridor pricing model for the whole nuclear generation output in France.

And then a final question: it's just if you could highlight your expected tax rate for the full year? Thank you.

**Xavier Girre:** Thank you for your questions. First, as regards the capacity in France, we have already got one tender; this year the price of the capacity was €20 per kilowatt. The impact was a positive one, plus €62 million versus Q1 2018. We will have another tender this week and then we'll see of course, how the capacity price is evolving for the whole year.

Second, as regards the regulated tariffs, yes, we expect an increase of the regulated tariff by 5.9% in June. As you know, the government had three months to oppose the increase recommendation and it hasn't. As regards the catch-up, we will see; it's not clarified yet.

As regards your third question, concerning the ARENH mechanism, definitely we consider that it's important to reform the ARENH mechanism because, as you know, it's not a fair mechanism, it's not a symmetric mechanism and also the level of the ARENH price is too low. So this is why we consider that what has been highlighted at the end of November by President Macron in the frame of the presentation of the draft PPE, i.e considering a corridor in order to protect the power purchase of the end-customers and also to give a clear visibility to investors and operators, is very important. So we are continuing to work and to make proposals about that.

As regards the tax rate, – of course you know the legal tax rate in France. For the effective tax rate, we cannot comment on this at this stage of the year and we'll come back to that later in the year.

**Vincent Ayrat (JP Morgan):** So I see we went through the tariff question. I just wanted confirmation: normally, under the regulation, a tariff catch-up is due, isn't it? And the question would be: is there any way for the government to avoid that, or is it binding and does it have to happen by year-end?

Then, on the case of the two main central focuses of the market, which are the regulation and the restructuring, we've seen in the press some dates here: 28<sup>th</sup> May, a strategic board meeting to review the restructuring project at EDF and to be presented to the top 100 managers on 7<sup>th</sup> June and unions on 20<sup>th</sup> June. Could you please confirm that these dates indeed are real, what the press has been talking about, we didn't have any confirmation there. And what – by the year end, will we have a bit more visibility on when this will be presented to the government?

And then the second question regarding what would be the regulation. Where are the works on both EDF and the government? Is it still a live project? How keen are both sides to get this going forward? I think some colour on that would be highly appreciated. Thank you.

**Xavier Girre:** Thank you for your questions. As regards the catch-up mechanism, yes, in principle, this is by law, the delay should be compensated and smoothed to ensure economic neutrality, so we will see how this is done. Second, as regards regulation, we consider it's very important to reform the ARENH and to give visibility to the investments in the nuclear assets and also visibility to the customers, so we are continuing, of course, working on that but I don't have anything more to add as of today.

And as regards the organisation of the group, as you know, this is something that has been asked to EDF, to make some proposals by the end of the year and this is the only date which has to be kept in mind.

**Vincent Ayrat:** Thank you. On the regulation theme you say that it is very important from an EDF standpoint and you continue to work on that. I think one of the questions for the market has been the commitment from the government to get to do it. Could you give us a bit more colour on the written, basically, comments made by the government on this very specific topic and if there is any alignment, or misalignment, of interest, I think this is something of interest. Thank you.

**Xavier Girre:** Yes, I again confirm to you that the first key point relates to the regulatory framework and the exit from the ARENH, which cannot support the needs of the PPE. And as I already said, this has been highlighted by the Head of State in November last year and in this frame we need to introduce a fair and balanced system that both protects the consumer from volatile power prices and ensures EDF receives a decent remuneration for its investments, so this is what we are currently working on with different French administrations.

**Emmanuel Turpin (Société Générale):** Good morning, two questions please. First of all, could you give us a bit more granularity on the UK, as to what impact you expect in the full year for the change in the standard variable tariffs and also remind us of your assumptions for when you expect the capacity mechanism to be reinstated, or recognised in your figures? That's, again, in the UK.

And stepping back at group level, you've confirmed your guidance for the full year. Q1 shows us a pretty negative impact from something that's quite difficult to forecast, or to budget, which is the weather. Hydro in France, also a large negative from UK nuclear production and from memory, we didn't really have any budget in mind that was made public for UK nuclear. Could you, basically, explain to us what makes you feel comfortable to confirm your guidance and maybe whether, looking at the Q1 revenues – whether you feel more comfortable towards the middle or maybe the bottom of the guidance? Or do you think it's still all to play, including at the top end?

**Xavier Girre:** First, as regards the UK, as regards the cap on the tariff, we already gave an indication in February indicating that we assessed the impact of the cap of more or less €130 million in our EBITDA, compared with last year in the UK. Secondly, as regards the capacity mechanism, we have given also our assumption, which is that the mechanism be restored this year. And I think it's important to note that, following the November 2018



decision by the European Court, steps have been taken by the commission to restore the capacity market in the UK and the authorities also approved regulations to allow the capacity market to operate as far as possible during this sensitive period, so we are still clearly expecting that the capacity market can be re-established during the second half of this year.

And secondly, as regards your question on the guidance, I can only tell you that clearly we've confirmed our guidance, as I already highlighted. You're right, I mean the hydro conditions and the mild weather during the winter period are not very favourable but nevertheless, we clearly confirm our guidance for this year.

I can highlight that we have also some positives, for example as regards the trading trend, which is very good, as I already highlighted also, thanks to the good operations in the EDF Trading team and to the favourable market conditions.

**Olivier Van Doosselaere:** Just one, or a couple of follow-up questions: it's more on timing of news flow. I wonder when we can expect the next update, probably more from the regulator on its assessment of the situation at Flamanville and the same thing on Hunterston. You seem to be gradually delaying by a window of two weeks every time your expected restart of the plant. Do you have, actually, visibility that the UK nuclear watchdog could indeed have an imminent decision on Hunterston, please?

**Xavier Ursat:** On Flamanville, maybe a recap for everybody: we have an issue on the weldings of the big steam line on the secondary circuit and especially on the weldings which are in the penetration of the reactor buildings, which means inside the wall of the reactor buildings. Those weldings are great-quality weldings but were not performed following the process it should have followed during the fabrication and direction of the welding on the lines. We had, during the last year, a great number of discussions between ASN, the French safety authority and EDF on this topic and there was, on 9<sup>th</sup> and 10<sup>th</sup> April this year, a meeting of the expert group of the ASN concerned by those topics. This group is made to give position to ASN but the last decision is for ASN, which has to take its own decision and position.

During the meeting, the group advised ASN and EDF to consider the replacement of those weldings and at the same time recognised that the replacement was not that easy, so invited EDF to look at all the solutions that would be considered regarding those weldings which are inside the penetration of the reactor building. That's what we are doing at the time with ASN and we have a great number of technical discussions since the last weeks and probably for the weeks to come with ASN.

A second meeting of the same expert group will take place on 6<sup>th</sup> June and will examine the topic of the other weldings, the ones which are inside the reactor building and not in penetration of the building. For those weldings, we already proposed the replacement, so we see an expert group that could be – that could go quite quickly. ASN will afterwards take its decision in due time. They probably will explain the time frame of their decision, which is expected, of course, after the next meeting of the expert group and I cannot say at this time exactly when they will take the decision; it belongs to ASN. What is sure is that, as we indicated in our last communication about Flamanville 3, as soon as ASN will take its decision and announce it, we at EDF will deliver a complete communication on Flamanville 3 to explain the topic.

**Xavier Girre:** And as regards your question about Hunterston – and I will also add a few words about Dungeness in the UK – I can tell you that during a planned outage of Hunterston B, reactor three, for graphite inspections, starting in March 2018, new keyway root cracks were identified as happening at a slightly higher rate than modelled. While the reactor could have returned to operation, we decided to keep it offline while we work with the regulator to ensure that the longer-term safety case reflects the findings of these inspections and includes the results obtained from other analysis and modelling.

In addition, we brought forward the planned graphite inspection outage on Hunterston B reactor four from 2019 to October 2018. The reactors are expected to return to service on 30<sup>th</sup> June 2019 and 30<sup>th</sup> May 2019 respectively. *[at the date of the Q1 conference call]*

And as regards Dungeness, Dungeness B, reactor 22 was shut down on 27<sup>th</sup> August 2018 for a planned statutory outage and reactor 21 was shut down on 23<sup>rd</sup> September 2018 for common statutory outage work. During these outages, stress corrosion cracking was discovered on some steam pipework and components. Repairs and safety case development are ongoing. The reactors are expected to return to service on 30<sup>th</sup> September 2019 and 15 October 2019 respectively.

**Ahmed Farman (Jefferies):** Just two very quick questions from my side. Could you share with us what is now your current expectation for the nuclear output in the UK currently? And my second question is: could you give us a sense of what would be the benefit of the tariff catch-up for you in terms of EBITDA? Could you just sort of quantify that part for us?

**Xavier Girre:** First, as regards tariff catch-up, I already explained that we'll see what comes from that, so I will not give any figures this morning. Secondly, as regards the nuclear output in UK, we expect around 55–56 terawatt hours this year.

So, if there are no other questions, I propose to close this call. I thank all of you for your attendance for your questions and I wish you a very nice day.