EDF First Quarter 2016 Sales and Highlights

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Good afternoon everyone. It is my pleasure to welcome you to this conference call. I will walk you through our first quarter sales starting with the main highlights of the period. I will then open the floor for a Q&A session.

First let me start with slide 3. As you know, the first three months of 2016 were marked in Europe by power prices at historical lows especially in France, stiff competition and generally mild weather. In this context, the Group sales for the first three months of 2016 were down 6% in organic terms. The nuclear fleet displayed good availability in general. But the weather effect on demand led to a lower nuclear output in France, down 2.1TWh. Sales also reflect the evolution of the market environment, with the end of Yellow and Green regulated tariffs in France, and a lower average number of product accounts in the UK.

Since our last communication on 16th February 2016, when we released our full-year 2015 results, we have continued to seize strategic development opportunities. Firstly at EDF Énergies Nouvelles with the agreement for the acquisition of groSolar, a company specialised in the design, development, sale and installation of solar photovoltaic plants for utilities, corporations and industrial operators in the US. This transaction will enable EDF to offer this segment of commercial and industrial customers an ever-expanding range of competitive, decentralised and low-carbon solutions in the US. EDF EN also signed several PPAs over the period, including one with Southern California Edison for a 111MW solar PV project.

Another key development for EDF Énergies Nouvelles - which we announced this morning - was the signing of the strategic partnership with Enbridge for the French offshore wind projects. Through this agreement, Enbridge - which substitutes Dong - acquires a 50% stake in Eolien Maritime France, the company controlling the future three offshore wind farms. EDF Énergies Nouvelles and Enbridge will be co-owners at 50/50% of EMF. This is another decisive step towards strengthening the development and efficiency of our renewables assets portfolio in France and it fits perfectly with our CAP 2030 strategy.

EDF has also achieved important milestones in its strategy to develop low-carbon energy. In India, end of January, with MoUs and agreements signed in three important areas: nuclear, renewables and sustainable cities. As well as in Egypt, in April, where MoUs were signed for developing low-carbon energy.

Let me highlight one last development: the acquisition of Studsvik's facilities in the UK and Sweden dedicated to nuclear waste management and decommissioning activities, as well as a development agreement with the company in this growing market. Closing of this acquisition is expected in Q3.

If we go now to slide 4, indeed one of our major announcements over the last few months was the presentation to the Board, on 22nd April, of the Group's long-term financial perspectives and our action plan to reinforce EDF's capital structure. Let me outline the key elements of this plan:

- First, net investments on the current scope of activities - which means excluding Linky and excluding new developments net of disposals - will be optimised by close to €2 billion in 2018 compared to 2015. As a result, net investments over this scope should reach €10.5 billion in 2018.
- Second, cost reduction measures extended to 2019. As you know, the Group already reduced costs by around €300 million in 2015 compared to 2014. Beyond these reductions already achieved last year, we had announced a cost reduction objective of €700 million in 2018 compared to 2015. The reduction objective is now extended to at least €1 billion in 2019 compared to 2015.
- Third, the disposals plan initiated in 2015 to contribute to financing new development investments is strengthened to €10 billion over the 2015-2020 period. This includes up to 50% of RTE's equity capital, thermal power generation assets outside France and minorities stakes.

Beyond this action plan, the EDF Board was also presented a project to increase the company's equity capital. This includes a proposed option to pay the dividend related to fiscal years 2016 and 2017 in shares as well as a proposal to submit to the Board of Directors, by the closure date of the 2016 accounts, subject to market conditions, a capital increase project via a rights issue for an amount of around €4 billion. You may have seen that the French state announced its intention to opt for a scrip dividend for fiscal years 2016 and 2017 and to subscribe €3 billion into this capital increase.

Coming back now to the sales results for the first quarter and moving to slide 5, **Group sales** came to €21.4 billion, down 6% in organic terms. All segments recorded lower sales in a low market price environment. Sales were also hit by generally mild weather at the beginning of the year in the western part of Europe, and by intensified competition in several markets. Let me review sales in each segment in more detail.

Starting with **France** on slide 6. Sales amounted to €12.1 billion, down 4.8% compared to the first quarter of 2015. Over the first three months of 2016, temperatures were on average 0.8°C above those of the same period last year. This carried a 3.8TWh negative effect on the consumption of our end consumers, and overall a €320 million negative impact on sales.

The tariff increase of 1st August last year carried a €140 million positive impact. However, sales were generally penalised by market conditions, with an overall negative impact of €442 million. This includes a negative €278 million related to the end of Yellow and Green regulated tariffs. Sales were also hit by the increasing share of generation volumes sold on the wholesale market at lower prices, as sales to end customers fell and no volume was sold under the ARENH mechanism.

Going now to slide 7, you see the **upstream/downstream balance.** On the right-hand side, you clearly see a shift in sales volumes, with volumes previously sold to end customers and under the ARENH essentially transferred to the market.

On the generation side on the left of the slide, output from our nuclear, thermal and hydro fleet dropped overall by 3TWh, while volumes purchased under feed-in tariffs increased by 2.3TWh, illustrating the growing importance of renewables generation in the mix.

Slide 8, let me focus specifically on **French nuclear generation**. Over the first three months of 2016, the cumulative output is down 2.1TWh or -1.8% versus 2015. With the milder weather conditions experienced over the period, dispatching of the fleet was reduced. Taking into account the impact of this mild weather as well as the steam generator handling accident at Paluel 2 and its consequences on the outage duration of the reactor, the Group decided to adjust its 2016 target range for nuclear output to 408-412TWh, from 410-415TWh initially.

Moving to slide 9, as you can see on the right-hand side, we experienced more favourable hydro conditions in this first quarter than last year. This allowed us to keep the output equivalent to the same period last year, at 12.3TWh, while reducing the use of water stocks which were comparatively lower at the beginning of 2016.

Let us now move to **the UK**, slide 10, where EDF Energy sales are down 9.8% in organic terms to €2.9 billion. The British nuclear fleet continued to display good operational performance with a stable output at 15.7TWh.

However sales were penalised by the mild weather and by continued stiff competition, especially in the B2C market where the average number of product accounts was down 4% to €5.2 million.

In **Italy** on slide 11, sales amounted to €3.1 billion down 4.3%. Sales in the electricity activities were mainly impacted by falling wholesale power prices and by the 0.3TWh drop in hydro output.

Sales in hydrocarbon activities were up, benefitting from increased sales to industrial customers and increased activity on wholesale markets. This was partially offset though by the impact of lower Brent prices.

Moving now to the **Other International** segment on slide 12, sales were down organically by 7.2% at €1.5 billion.

In Belgium, sales decreased by 9.6%. Gas sales were hit by reduced prices. The positive impact of growing electricity sales volumes was partially offset by lower prices.

Sales were up 6% in Poland, with heat sales supported both by higher prices and growing sales volumes as network connections increased. Sales also benefitted from increased availability in power generation capacity, in particular after significant maintenance outages in 2015 in the CHP units.

Brazil sales were up under the positive impact of the annual PPA tariff revision and increased dispatching by the TSO.

Finally, sales in the segments no longer include the Figlec concession in China which ended in 2015. The impact is €70 million.

Moving finally to **Other activities**, slide 13. Sales came to €1.8 billion, decreasing by 9.4% in organic terms.

Dalkia's sales are down 7.7% organically under the combined effect of mild temperatures and lower heat and power prices.

Sales at EDF EN are up 0.5% as its generation assets benefitted from good wind conditions.

EDF Trading experienced a 35.5% organic drop in its trading margin over the quarter. This is due to the wholesale price evolution and the negative impact on trading volumes of mild weather and low volatility.

The mild weather also hit gas and electricity sales at Électricité de Strasbourg, the storage activity provided support to the gas business.

Moving to the last two slides of this presentation today, with our **prospects for 2016**, which is our guidance, and 2018, which is our roadmap. I am confirming our targets for 2016. Let me outline them again:

- We target an EBITDA between €16.3 billion and €16.8 billion at constant exchange rate;
- We continue to aim for net financial debt at between 2.0x and 2.5x EBITDA;
- Our dividend policy remains based on a payout ratio between 55% and 65% of recurring net income adjusted for hybrid coupons.

Last point from my presentation today: our **2018 ambition.** Our roadmap is to reach a positive cash flow after dividends in 2018, on a scope excluding Linky and new developments net of disposals. This ambition remains unchanged.

Slide 15, this slide shows key drivers of our **2018 roadmap**.

They include first our ability to control our net investments, including major projects such as Grand Carénage and Flamanville 3. As I said at the beginning of my presentation, we intend to reduce Capex excluding Linky and other new developments by nearly €2 billion in comparison with 2015 to €10.5 billion in 2018.

Second, our ability to improve working capital requirement is also key, with a roadmap aiming at improving it by €1.8 billion by 2018 in comparison with 2014.

Lastly, of course, the Opex reduction is also a key driver of this roadmap.

This concludes my presentation. Let me thank you for your attention and open the floor now to your questions.

Q&A

Questions from the internet

Ahmed Farman (Jefferies): With the new action plan, do you expect to keep your current credit A rating? The second question is on CO_2: on the unilateral carbon price proposal, when do you expect further clarity from the government? And could you help us understand what a €30/tonne carbon price floor would mean for power prices and consumer bills?

Xavier Girre: First, as regards our rating: as you know, we are under a negative watch by both S&P and Moody's, like many of the European utilities. They will decide in the next days about our rating, so I think it is too early to tell. It is also very important to have in mind that we really care about our rating and we have of course constant discussions with rating agencies.

Second question, as regards the carbon price, we have taken notice of the announcement made by the President François Hollande about the unilateral set up of a carbon floor in France. We consider it is a very positive step forward. This could have a significant impact from an environmental point of view, of course. If it is significant enough, it could reverse gas and coal in the merit order. This could also have an impact even, if it is limited, on the price of electricity. It is important to note that the impact on the bill for the end consumer would be in any case very limited.

Andrew Moulder (CreditSights): How significant is the decision on Brexit for EDF, and would an exit cause you to re-evaluate Hinkley Point or even your current UK business?

Xavier Girre: It is very important to have in mind two points. The first one is that, as regards the global EDF business, EDF is a key operator in the UK. EDF has clearly been in the UK for more than ten years a key operator. As a consequence, EDF plays a key role in the energy mix in the UK.

Second point as regards Hinkley Point: Hinkley Point is based on a regulated agreement, in particular for the energy price which is called the CFD, the "Contract for Difference". This is a contract, and being a contract, it cannot be changed. It is something which is not dependent on a change in policy.

Questions on the phone

Cosma Panzacchi (Bernstein): Thank you for taking my two questions. The first one is again on the carbon price floor. Assuming that it is really €30/tonne and assuming that it is a tax that will be proposed at the end of this year, considering the fact that more or less 7% of the French power production is actually thermal, would it not be fair to imagine a maximum impact on the power prices of approximately €2/MWh, and also to imagine that that would have mostly an impact starting from 2018 on EDF accounts, also considering your hedging policies?

The second question regards Areva. According to your original plan, you should by now have already identified other partners, negotiated their shares and signed the agreement in the case of Areva NP acquisition. The acquisition should in theory be completed by H2 2016. Could you please update us on whether the timeline is still realistic given the fact that Areva is still entangled in its TVO litigation, and whether the €2.7 billion price tag is still a fair valuation for Areva given how the share price of the company has moved?

Xavier Girre: Thank you for these questions. As regards Areva, discussions are ongoing and I will not say more today.

As regards the carbon price floor, we do not comment upon assessments of the impact on the electricity price. It is obviously clear that unilateral decisions only taken on the French basis will have quite a limited impact. In the long term it could have also more significant impact. However, we will neither confirm nor comment upon these evaluations.

Kader Hidra (EDF IR): Cosma, just as a reminder: on the valuation of Areva, we already said that it was €2.5 billion. I think I heard €2.7 billion.

Harry Wyburd (Merrill Lynch): Hi there. I will give the carbon price floor a rest for now. Two questions from me. Firstly, aside from a carbon price floor, are there any other measures being proposed or considered which secure EDF for more stable power pricing for the nuclear fleet in the long-run? I know in the press there have been some suggestions that there was a concept of spinning out the new nuclear fleet into a special purpose vehicle and giving that a regulated power price. Is that something that you think is workable, particularly in the context of any EU hurdles to doing something like that?

Then secondly, the final investment decision on Hinkley Point has now been delayed until September. What are the key hurdles you need to jump over there in order to get that signed off? What are you waiting for effectively?

Xavier Girre: As regards the power price, what has been announced today only focuses on the carbon price floor and nothing more. You know that there are also some debates as regards the capacity mechanism, the target of which being to give remuneration to the assets which are necessary for the global balance of the system and which are not used on a regular basis.

As regards HPC, we have started consultation of the Working Council so this is ongoing. For the rest, the contracts are ready. They are in their definitive form, so we will be in a position to submit a decision to our Board once the consultation of the Working Council is completed.

Martin Young (RBC): Good afternoon to everybody and just the two. The first one relates to the cost reduction programme that you have elaborated, and obviously slightly increased in the announcement of last month. If we stack that up against some of the cost reduction efforts that have been undertaken or are underway from your immediate peer group, the EDF plan does look a little bit light in terms of its ambition. I just wondered why you do not feel that you can go significantly further at this stage, given the competitive pressures which you have quite clearly highlighted today in the presentation.

Then the second question gets back to the formation of power prices in France. You yourselves have used a slide from the CRE relating back to price formation in 2014, where we see about 9% of the price being set by gas, 13% being set by domestic coal generation and hydro being somewhere in between the two, about 23%-24%. Is it right to think that about 40%-45% of the wholesale power price formation in France is being driven either directly by gas or coal or indirectly through the optionality pricing of hydro in the mix? Extending that, if you had a €24/tonne delta on carbon moving from the current fixed to €30/tonne, that maybe the difference movement on the power price would be somewhere in the region of €6-7MWh. Thank you.

Xavier Girre: Thank you. As regards the power price in France, the power price is set on the marginal cost of the energy which is coal. And, of course, it depends on the balance between the demand and supply. However on many occasions, this price is set at the gas price and at some occasions at the coal price. This is why the carbon price floor which could switch this merit order could have quite an impact on the electricity price.

As regards the cost reduction programme, I really do not consider that a €1 billion bottom line between 2015 and 2019 is a light programme. First, it comes after already €0.3 billion cost cut in 2015, in comparison with 2014. It is an ongoing process. Secondly, we definitely want to both reduce costs and maintain competencies in order to develop our energy mix in both nuclear and renewables. It is important for us to find the right equilibrium. €1 billion in 2019: once more it is bottom line. It is something that we shoot for at least. As we said, it is a minimum of €1 billion and we are clearly dedicated to that.

Vincent Ayral (Société Générale): Good afternoon. I will not go on the CO_2, there have been many attempts. It would be interesting to know if you may have a teach-in for investors. If you cannot comment on the impact, at least educate us potentially on the impact of the CO_2.

Regarding the capital increase – that is my question number one. Here we have a temporary fix of the balance sheet that benefits the credits. It is at the expense of the equity investors' dilution, but we will need a proper regulatory reform after that. This is a temporary thing. When we listen to the parliament hearing, it seems that there are some discussions ongoing between EDF and the government - which is great. Do you have any type of colour you could provide us on the type of schemes you are potentially discussing there? I know one of my competitors and colleagues talked about a spin off the nuclear asset in a different division. That is one example. There are a number of other ways to potentially solve the equation. It would be great if you could give some colour there.

Then the second question I would have is coming back to the cost reduction. We are talking here about an Opex reduction. However, I would like to be sure that here, we are talking about cost savings and that few costs are excluded. Just to understand how I should model that. We know commodity prices have been going down, so there is a mechanical effect on the fuel cost. What is the cost saving? Is this €1 billion a proper cost saving, including fuel? Thank you.

Xavier Girre: Thank you for these two questions. First, our cost base excludes fuel. It is clearly our Opex base. To give you the figure, for 2015 this Opex base was €22,055 million and it is clearly on this basis that we shoot for at least €1 billion cut in 2019. This Opex base once more was at the level of €22.35 billion in 2014. Clearly, this excludes fuel. This includes, on the other hand, staff costs and other operational costs.

As regards your second question, we are not at all considering any kind of spin-off within the Group. We are developing and implementing our strategy of what we call CAP 2030, being an integrated utility dedicated to any kind of low-carbon powers. Clearly, our global plan, including the capital increase, including also a scrip dividend to which the state has already opted for, will help us to finance this global and integrated strategy.

Vincent Ayral: My question was not whether we will have a spin-off or not. It was more what type of solution are you potentially contemplating regarding the regulatory fix after the elections? Thank you.

Xavier Girre: As regards the regulatory matters, there are clearly two points which are on the table and which the government has already commented upon, which are the carbon price floor and capacity mechanism. As of today, there is nothing else on the table.

Questions from the internet

Julie Arav (Kepler Cheuvreux): First question is: when do you expect the PPE on nuclear to be published? Is 1st July still a deadline and will it trigger EDF's Board decision to extend the depreciation line for the nuclear fleet? Second question is: what regulatory evolutions are needed and discussed with the French government to secure sufficient returns on the Grand Carénage programme in France?

Xavier Girre: The second question is the same. We have already answered. As regards PPE, we understand that the government is considering publishing a PPE for 1st July, and on the basis of this PPE, we will consider the extension of the lifetime from an accounting point of view of our nuclear fleet. We have of course discussions about that. We have also received some questions by the ASN - the safety regulator - and we have answered all the questions that have been asked about this matter. This is where we stand today.

James Sparrow (BNP Paribas): The first question is: do you think the measures proposed will be sufficient to prevent a more than one notch credit rating downgrade if you proceed with Hinkley Point? How confident are you that the latest issues at Areva Le Creusot plant will not be too serious?

Xavier Girre: As regards the Le Creusot announcement that has been done by Areva, of course we take them very seriously. We are waiting for the assessment of the situation, which is currently being done before commenting about the implications of this announcement.

As regards our rating, I will not comment upon what we expect from the rating agencies. However, I would like to highlight that our action plan is a comprehensive one. Clearly, we have set pressure on costs, on Capex. We have also built a comprehensive disposal programme, and some clear actions to reinforce our balance sheet, to which the state has already announced its intention. I consider that this comprehensive action plan is appropriate to enable us to finance our investments that are, once more, necessary for the next years. This action plan is appropriate to finance these investments, even if we are downgraded and even if the market conditions were not as positive as they are today.

Question from the phone

Philippe Ourpatian (Natixis): Good evening to all of you. I have just one question. It is mainly concerning the French dam. The decree has been published on the French official journal. Could you just update us about first the diary, secondly the hypotheses which are included in the CAP 2030 based on the possible loss of market share and capacities regarding this French dam opening process? Many thanks.

Xavier Girre: This decree has been published on 30th April. First, it is a decree that has been taken in the frame of the law of last year about the energy transition. This decree opens some opportunities as regards the regroupement of concessions in the same valley. It enables to combine the concessions. Second, it enables the creation of hydroelectric semi-public companies made up of a shareholder-operator chosen by tender and a public partner. Third, it opens possible extension of certain concessions in return for work required to achieve energy policy objectives. We consider the decree quite positive, consistent with the goals that are pursued.

Sofia Savvantidou (Exane): Have customer losses in France and the UK been in line with your expectations, and can you tell us a bit on the trends in supply margins in those two countries?

Xavier Girre: Yes. Of course we have faced a key event at the end of last year, which was in France the end of the Yellow and Green tariffs for enterprises. We had to structure and to propose to our customers new offers. We have convinced more than 70% of them to sign new offers with us, which we consider a very positive achievement. The beginning of the year is also quite positive both in B2B and B2C according to our expectations.

As regards the UK, where we face also stiff competition: as I have explained, we have lost some volumes. However, this is also in line with our expectations in the frame of stiff competition and quite significant price pressure in this country.

Questions on the phone

Vincent Ayral: Yes, I would like to try to focus a bit on the positive there. I know this set of results shows a lot of organic growth in the negative territory, but are there any elements where you actually are surprised versus your planning and budgeting so far? That would be question number one.

Regarding that, we see that you understandably decreased your French nuclear target to reflect the extended Paluel 2 outage. I understand your maximum theoretical UK output is much certainly higher than last year. Could you give us a generation target for the UK or an idea of what we can expect on this side of things? We know that there are difficulties with commodity price evolution, and we saw a negative organic growth in all the divisions there. I am wondering: what are potentially the positive surprises that you have seen when basically building this Q1 numbers, as it were?

Xavier Girre: As regards the market trends and our top line trend for this first quarter, clearly it is not a surprise. We had expected that, due to the market conditions and due in France to the specific circumstance of the end of these Yellow and Green tariffs. Once more, there is no bad surprise there, and this is why we are in a position to confirm our 2016 guidance.

As regards the nuclear output, we have slightly reduced our perspective for 2016 nuclear output in France due to this accident in Paluel 2 which will extend the duration of the outage of Paluel 2, which will not come back in 2016. As regards the UK, we are really perfectly consistent with our first quarter 2015. We do not give guidance or perspective for our nuclear output in UK but, as you can see, this is month-after-month an improvement. The beginning of the year was slightly hampered by mild weather but the operational performance is very good in the UK.

Harry Wyburd: Could you just say whether you are comfortable with the consensus on your website for net income, which is recurring net income pre-hybrid of €3.6 billion-3.7 billion for 2016?

Kader Hidra (EDF IR): Harry, the website has been updated. It is not €3.6 billion-3.7 billion now. It is €3.5 billion, just for your information.

Harry Wyburd: Okay. Are you comfortable with €3.5 billion then?

Xavier Girre: You asked me to comment upon your consensus. This consensus is based for most of the analysts on a change in the depreciation policy from 40 to 50 years for the entire nuclear fleet, with a corresponding impact which is assumed by the market to be around €450 million on our net income impact. There is also a second hypothesis which is taken by the market and most of the analysts, which is a level of capital gains of around €500 million in 2016[1]. Taking into consideration these two hypotheses: yes, I feel comfortable with the consensus.

I thank you for your attention. It was my pleasure to welcome you to this conference call. I hope you got what you expected from our company, and it will be our pleasure to meet you in our next calls. Thank you.

[1] This refers to the performance of the dedicated asset fund contributing at the financial income level.