EDF First Quarter 2017 Sales & Highlights

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Good afternoon everyone. I am very 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. As usual, I will leave as much time as possible for the Q&A session.

Strategic Highlights

Let me start with the key strategic highlights on slide 3. Over the last few months, we have accelerated strategic allocation of capital to our renewable activities. We have done so in three ways. First: with the announcement of the contemplated acquisition of a majority stake in onshore wind specialist Futuren. This transaction would complement ideally our activities in several locations and enhance our ability to capture opportunities in repowering, a market expected to grow significantly in the years to come. Second: we announced end of March that EDF Énergies Nouvelles joined the Masdar-led consortium developing the 800MW third phase of a solar park in Dubai, one of the world's largest solar initiatives. Third: we are delivering projects at an intensified pace. We commissioned 189MW of gross solar and wind capacity over the quarter, mainly in India. In the UK, nearly 100MW of wind capacity was commissioned in April; and we initiated construction of 242MW of new projects over the quarter, mainly in the US.

Second, we also announced a significant development in services. With CERN, we signed a landmark contract for the maintenance of CERN's cooling facilities. In Limoges, a 200,000-people city in France, Dalkia signed the extension of the district heating network; and also Cesbron, Dalkia's subsidiary, made the acquisition of a cooling system expert in the French Mediterranean area.

Third point, as regards Nuclear New Build, Flamanville 3 reached a significant milestone with the beginning of the system performance testing for the whole plant, in accordance with the timetable announced in September 2015. In Taishan, a new set of key tests has been started with the goal to load fuel in H2 2017 for Taishan 1 and in H1 2018 for Taishan 2.

Key Achievements in Performance Plan

Considering now key achievements in performance plan…

First, we successfully completed the capital increase during the first quarter, as we had announced. This rights issue resulted in the issuance of 633 million new shares, generating final gross proceeds slightly over €4bn. As you know, the French State had stated its intention to subscribe for €3bn. Market demand reached nearly €1.9bn for the €1bn open to be subscribed. The market subscription rate therefore reached nearly 186%, a clear sign of success of the transaction. The proceeds will support the Group's development over the next four years under the CAP 2030 strategic plan while enhancing its financial flexibility.

Secondly, our disposal programme progressed significantly since 1 January 2017. We finalised the transaction on the 49.9% stake in RTE with Caisse des Dépôts and CNP Assurances. The valuation, at €8.2bn, is fully in line with our initial announcement. With the finalisation of this sale and of the transactions on EDF DEMASZ and on EDF Trading's coal and freight activities, the Group has executed close to two third of its €10bn disposal plan spanning over 2015-2020.

Financial Highlights

Now moving to slide 5, with financial highlights of this first quarter of 2017.

First on the dividend. We had announced a proposed payout ratio of 60% of net income excluding non-recurring items and adjusted for hybrids remuneration. With the rights issue now completed and the number of new shares known, the Board of Directors was in a position to set the proposed terms of payment of the balance of the dividend for 2016. This amounts to a final dividend of €0.40 per share for shares entitled to the ordinary dividend, taking into account the interim dividend of €0.50 per share paid on 31 October 2016. The ex-dividend date would be 6 June 2017 and payment date 30 June 2017. The French state confirmed it will opt for the proposed option to receive this balance in new shares.

Second point on long-term financing, an area where we are active and innovative. This time with a €1.1bn senior bond issuance on the Japanese market in January. This Samurai bond issuance of ¥137bn included two green tranches totalling ¥26bn, which opened the corporate Samurai Green market and confirmed EDF's active participation in the development of Green Bonds as financing instruments of the energy transition. To date, EDF has issued the equivalent of €4.5bn in Green Bonds, confirming its status as a reference corporate issuer. It also included a 20-year tranche, which represents the longest maturity ever issued on the Samurai market, in line with our financing policy to extend and align the maturity of our gross debt with our long-dated assets.

Operating Highlights

Coming now to our actual sales figures for this first quarter of 2017 with our operating highlights on slide 6.

First as regards sales performance in organic terms, Group sales were flat versus Q1 2016. Let me briefly mention three main drivers at this stage:

French Generation and Supply, where sales under the ARENH mechanism contributed to the 1.7% increase in the segment's sales.

Dalkia, where sales grew 15.4% mostly under the favourable impact of higher gas prices.

Lastly Italy, where sales were down 10.4% due to lesser proceeds from derivative hedging contracts, with no impact on profitability. I will come back to these trends.

Secondly, as regards operating performance, nuclear output is down 7.6TWh in France due to additional outages compared to the same period last year. No surprise here, but I will come back to this point in more detail. In the UK, the nuclear fleet continues to perform strongly. Output is up 0.3TWh versus Q1 2016.

Group Sales

Focusing now on the sales results for the first quarter and moving to slide 7. Group sales came to €21.1bn, unchanged in organic terms. The revenue trend is contrasted. Let us quickly move to each segment.

France – Generation and Supply Activities

Starting with Generation and Supply on slide 8, sales amounted to €11.4bn, up 1.7% compared to the first quarter of 2016.

First point, over the first three months of 2017, the colder weather of January drove higher consumption than in Q1 2016. However, this was more than offset by the sourcing costs to meeting this demand and by the leap year effect which was favourable in 2016. Overall, this carried a €171m negative impact on sales.

As regards the second block: the 0.5% reduction in regulated sales tariffs in August 2016 had a negative effect for -€37m.

Third block, intensifying competition in French supply triggered a 3.4TWh reduction in sales volumes. This was offset by increased consumption of our customer base – on top of the weather effect – and by positive price effects as well as more sales on the wholesale market. Overall the impact on downstream market sales is nearly balanced at +€17m.

Fourth and fifth block, the effect of ARENH subscriptions on sales of this first quarter was two-fold. They carried an €849m positive impact corresponding to the sale of 20.2TWh at the ARENH price, which had no equivalent during the same period last year. Conversely, volumes supplied under ARENH mechanically reduced the net volumes sold on wholesale markets. This negative impact, together with the reduction in market sales linked to the lower generation output, amounted to -€895m.

As regards the last block: just one last point on this segment. Volumes sold on the market under our purchase obligations of renewable power benefitted from a higher market price, which carried a €159m positive impact.

France – Upstream/Downstream Balance

Turning now to slide 9, the upstream/downstream balance shows on the right-hand side a shift in volumes from market to ARENH sales. The 2TWh reduction in demand from end-customers reflects the slight erosion of market shares in B2B and B2C.

On the generation side, the increased thermal output partly offset reduced hydro and nuclear generation.

France Nuclear Output

This brings me specifically to focus on French nuclear generation on slide 10. Over the first three months of 2017, cumulative output was down 7.6TWh at 108.5TWh.

Output was affected by the unplanned outage of Flamanville 1, offset by the good performance of the reactors online over the period.

Compared to Q1 2016, fleet availability was mainly penalised by two points. Firstly, by extended outages at Gravelines 5 and Fessenheim 2, linked to Le Creusot manufacturing quality issues. Secondly, by outages linked to the last additional controls on steam generators to address the carbon segregation issue.

However, that being said, I highlight that all 18 reactors whose steam generators were controlled on carbon segregation have been authorised to restart by the Nuclear Safety Authority, ASN. The last reactor concerned was back online beginning of March.

Furthermore, ASN green-lighted EDF's proposed technical solutions that will allow Bugey 5 and Gravelines 5 to restart at the end of June. In addition, we are confident that Fessenheim 2 is in a position to restart during the summer, based on the nuclear safety tests carried out on the steam generator.

Therefore, 2017 output should stay below 2016 over the next few months. But a progressive catch-up is expected over the third and fourth quarters since the corresponding period last year had been affected by carbon segregation controls as well as Bugey 5, Gravelines 5 and Fessenheim 2 outages.

Accordingly, the Group confirms its 2017 target range for French nuclear output at 390-400TWh.

France Hydro Output

Moving now to French hydro output on the next slide. As you can see on the right-hand side, we experienced very poor hydro conditions in January and February compared to the same months last year. Dispatch of hydro reservoir capacity reached a high level at the beginning of the year to meet two consumption peaks. However, over the quarter, output was down 1.5TWh driven by below-normal hydro conditions on average.

France – Regulated Activities

As regards French regulated activities, sales in this segment grew 1.6% in organic terms to €4.9bn. This positive trend was driven by the distribution tariff raised in August 2016 and by a slight increase in consumption due to a higher number of work days compared to the same period last year.

United Kingdom

Looking now at the UK, where EDF Energy's sales are down 1.8% in organic terms to €2.6bn.

Sales numbers in the segment continued to be penalised by lower realised prices on nuclear output.

This was partly offset by the level of the nuclear output, up 0.3TWh at 16TWh, mainly due to the favourable effect of the refuelling schedule compared to the same period last year. Yet, this is another good operational performance displayed by the British nuclear fleet as output in Q1 2016 was already strong.

In supply, EDF Energy's B2C segment continues to show good resilience, with a stable customer base despite the challenging competitive environment.

Italy

In Italy, on the next slide, sales amounted to €2.8bn, down 10.4%.

Revenue is lower than in the same period of 2016 due to lesser proceeds from derivative hedging contracts, with no impact on profitability.

However, demand and prices of gas and electricity were up in comparison with Q1 2016 due to temperatures below the seasonal average and the lesser availability of electric power outside Italy, in particular in France. These offset the falling volume of sales in electricity activities.

In hydrocarbon activities, sales were supported by a growing gas demand and the positive impact of Brent prices on the E&P business.

EDF Énergies Nouvelles

Moving to the Other Activities segment, with first a focus on EDF Énergies Nouvelles.

EDF EN sales were roughly stable in organic terms.

As regards generation: although wind conditions in France and the UK as well as 2016 asset disposals penalised generation sales, this was completely offset by the impact of new net capacity commissioned in 2016 and good wind conditions in US. As a whole, generation reached 3.3TWh during Q1 2017, growing by 4.3%.

The activity level in project construction and commissioning remained high, with 1.8GW under construction and the gross commissioning of 189MW of wind and solar capacity over the period, mainly in India. Gross installed capacity has reached 9.8TWh at the end of Q1 2017 in comparison with 9.1TWh at the end of Q1 2016.

Other Activities

Looking now at the entire Other Activities segment on the next slide. Sales were up 5.9%, reaching close to €2.2bn. The 15.4% increase in Dalkia's sales were driven first by higher gas prices and favourable contract indexations. In addition, weather carried a favourable impact on heat sales volumes.

EDF Trading experienced a 30.6% organic drop in its trading margin over the quarter. It was penalised in Europe by the mild weather conditions of February and March, triggering low volatility and an unfavourable price environment. Lower prices and the weather also affected the coal and Canadian gas businesses.

Other International

Moving finally to the Other International segment, next slide. Sales in the segment were down organically by 2.3%, slightly below €1.5bn.

In Belgium, sales were stable. Gas sales were hit by lower prices and volumes. Lower prices also had a negative impact on electricity activities, only partly offset by higher sales volumes. However, sales benefitted from the continued investment of the Group in both wind capacities – that reached close to 300MW – and in energy services.

Sales were up 1.5% in Poland, mainly boosted by the weather impact and the effect of strong commercial efforts on heat and electricity sales volumes.

Brazil sales were down under the negative impact of the annual PPA tariff review, after a very positive revision in 2016. Sales also suffered from reduced dispatching by the TSO.

Last words on this segment: keep in mind that numbers no longer include EDF DEMASZ activities, as this subsidiary was sold at the end of January.

2017 Targets and 2018 Roadmap Confirmed

Moving now to our financial guidance.

I am confirming our targets for both 2017 and 2018. Let me outline them again.

In 2017, we aim for a nuclear output range between 390TWh and 400TWh.

We target an EBITDA between €13.7bn and €14.3bn at 2016 exchange rate.

We continue to aim for a net financial debt at or below 2.5x EBITDA.

And our dividend policy remains based on a payout ratio between 55% and 65% of net recurring income, adjusted for hybrid coupons.

In 2018:

We aim to reduce the Opex by €0.7bn in comparison with the 2015 level at constant scope, exchange rate and hypothesis of pensions discount rate, and excluding change in operating expenses of service activities.

We aim to reach roughly €10.5bn net investments excluding Linky, new developments and asset disposals.

2018 EBITDA is expected at or above €15.2bn at 2016 exchange rate.

We aim for a positive cash flow excluding the net impact of Linky, new developments, disposals and interim dividend for fiscal year 2018. As you know, we detailed certain key assumptions, underpinning the target and more specifically to factor in the drop in interest rates and its adverse impact on our long-term nuclear provisions. This assumes also at least €36 per MWh for the 2018 volumes that remained to be hedged after end of 2016.

A net debt-to-EBITDA ratio still at or below 2.5x is also in our guidance.

Finally, we are targeting a net income payout ratio of 50% for fiscal year 2018, excluding non-recurring items.

Beyond 2018

Last point for my presentation today: our prospects beyond 2018.

Reductions in operating expenses will continue, with a projected saving of at least €1bn in 2019 compared with 2015.

We will also reach our target of €10bn asset disposal plan initiated in 2015 and targeted in 2020.

Our net income payout ratio excluding non-recurring items will be within a range of 45% to 50%.

I thank you for your attention, and now we are ready for your questions.

Q&A

Kader Hidra (Head of Investor Relations): Just before we take the first question from the phone, as a reminder to our participants, we would like you to simply limit yourself to ask two questions, please. We are ready for the questions coming from the phone. Thank you, operator.

Vincent Ayral (JP Morgan): Yes, good morning. If we restrain ourselves to two questions, I will have one. In France, we had the elections now. We know, our President is Mr Macron. He has talked about the CO_2 floor as part of his programme. We know that this project was shelved under the Hollande government for being discriminatory. Do you think there is a good chance indeed to have a future CO_2 floor in France implemented under Macron? Could you give us a bit of colour on how all of this would work?

Second question, going to the UK: we have seen political intervention is coming to the UK supply on the SVT tariff. Could you give us a bit of colour, what is your position there? Has your recent price increase been a way to position yourself, and where do you see the potential impact in terms of size? Thank you very much.

Xavier Girre: Thank you Vincent for your questions. First as regards the new elected President in France programme, and specifically as regards the carbon floor price. Yes, Emmanuel Macron said some weeks ago that he intends to increase the CO_2 price by setting a carbon floor price. He referred to a level of €100 per tonne in 2030. So clearly, this is at the heart of his programme on energy transition. Now, we will see how it will be implemented. I would like also to say that there are other points in his programme or public statements, including the development of the renewables through investments. Including also: a clear target for energy mix in the long-term, and not specifically stated at the 2025 horizon. These points are positive and clear points.

Secondly, as regards the UK tariff, I think it is important to wait a bit, to have a clearer view on how the cap that has been announced will be implemented. As you know, it is a very important point to see how it will be implemented. What I can say today is that we have a very significant part of our customers which are not at the SVT tariff but which are at the fixed tariff. It is more than 42% of our customers. And as you have noticed, some studies show that we would not be certainly the most impacted company if such a cap is set. This is where we are today.

Vincent Ayral: Thank you.

Emmanuel Turpin (Société Générale): Hello. I will have two questions please. First of all, starting on the supply business in France. Your Q1 statistics showed that there continues to be some market share erosions for you in electricity. Could you come back to us on what measures you are taking to stem this erosion? Maybe update us about the launch of the new services that you had told us about last year? And also: what progress you have made in terms of gas supply. That is on the French supply business.

Moving on to my second question about offshore wind in France: you mentioned the renewed ambition of our new President regarding renewables, which reminds us that you were awarded an offshore wind project in France two years ago. I could not help noticing that decrees were published in the very last few days of the current government, including one that improves the risk profile for offshore wind developers in France, in particular regarding the connection to the grid in France. So that is moving in the right direction. What is the likely timing of your involvement in offshore wind, the next steps that you would expect the new government to come to take, that would allow you to make progress in your investment in offshore wind in France? Thank you very much.

Xavier Girre: Thank you for these two questions. First as regards offshore wind: what is key for both offshore and onshore is an improvement of the processes. Yes, a decree has been taken in order to streamline the administrative processes, and this is something that we consider as a very positive step forward in order to accelerate the development of the renewable energy in France. As regards the project that we are working on, meaning the three offshore wind fields in Saint-Nazaire, Fécamp and Courseulles, we expect the functional closing between the end of this year and early next year for the first project, and first operating dates by 2022.

Second as regards supply in France. Yes, there is still a slight market share erosion, as expected, for B2B and B2C. Our market share is still higher than 88% as regards B2C, and there is no acceleration of the erosion. As regards the B2B market, our market share is higher than 66%, and it is also in line with what was expected. This is where we are today.

Kader Hidra: One question from the internet. It is Peter Bisztyga at Merrill Lynch, and the question is: what is the current status of the investigations into Le Creusot plant, and what is the risk that this may result in new outages at EDF nuclear plants?

Xavier Girre: Thank you for this question. These investigations are going on. They will go on during all 2017 year. And for the time being, nothing specific has been identified for what is called the normal cases. I remind you that there are two cases, what we call the barred folders and the non-barred folders. For the non-barred folders, for the time being, nothing specific has been identified. However, of course we follow that very carefully. And we consider that for the time being, we fully maintain our guidance as regards our nuclear generation, both for 2017 in the range 390-400TWh. For 2018, we have not given any specific figures but we have explained to you that we consider that we will continue to go back to a normal generation level. This is where we are today.

Vincent Ayral: Thank you for taking the question, just a last one. The situation in France is difficult as the NOME regulation is under pressure with low power prices. Beyond a CO_2 floor which could potentially temporarily help EDF, do you know if Mr. Macron would be considering any form of regulatory framework? I am thinking here about life extensions. Is this the type of discussions you are planning to engage with the new government which will be formed? What are your views, and, I would say, your optimism regarding this matter? Thank you.

Xavier Girre: Thank you for this question. Yes, the regulation is absolutely key. And I am very optimistic that we will be in a position to discuss in depth these matters. First, I already referred to the CO_2 question. Second, we consider that it is necessary also, and fair, to reform the ARENH mechanism in order to prevent it from being as biased as it is today. Third, we consider it will be appropriate to discuss a kind of CFD for the future nuclear new builds in France. We could also have some other points, maybe more technical points to discuss. Yes, the period which is now opening will be also a period during which we will have to discuss this point with the new administration.

Vincent Ayral: Thank you. And regarding the CFD, the new build was in the press last week regarding Macron's programme. Would it be possible to envisage anything regarding the life extensions itself? Thank you.

Xavier Girre: As regards the life extension, first it is important to get of course the decision by the ASN which is now the key point. As you know, we are fully working in a perspective of getting this approval not only for the 900MW fleet, but also for the rest of the fleet. There is nothing new as regards this specific point. However, obviously, we will discuss consistent set of regulations with Emmanuel Macron's team and the new government in order to set a right, positive and fair set of regulations for our industry.

Vincent Ayral: Thank you.

Kader Hidra: Thank you. I think we are going to close the call here. Thank you for attending the call and, as always, we are available for any follow-up questions.

Xavier Girre: Thank you very much. Bye bye.