



EDF Third Quarter 2015 Sales and Highlights

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EDF Q3 2015 Sales and Highlights

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Good morning everyone. Thank you very much for attending this call this morning. I am Thomas Piquemal, EDF group CFO. I will walk you through our nine-month 2015 sales. As you know, we are only disclosing sales numbers on a quarterly basis, but I will also take this opportunity to confirm our guidance for 2015 and take your questions.

Operating and financial highlights

Let me start with the key highlights since our previous communication at the end of July, on slide 3.

Our nine-month sales have shown good resilience in the challenging wholesale power price environment experienced throughout Europe. In organic terms, Group sales are almost flat compared to the same period last year. This is after we exclude the €921 million impact of the 2012 regulated tariffs revision recorded in our Q3 2014 sales, an element with no equivalent in 2015.

Our nuclear fleet in France and the UK continue to perform well, with French nuclear output for 2015 now expected at the upper-end of our 2015 target range.

As you know EDF and CGN signed on 21st October a Strategic Investment Agreement for joint investment in two EPR reactors at Hinkley Point C. Before the final investment decision can be made, a few final steps need to be completed. EDF and CGN have to finalise the long form documentation, based on the Heads of Terms they signed. We are also currently setting out the different components of the financing plan that will be submitted to EDF's board as a basis for FID final investment decision approval. And the investment will be subject to clearance of certain European and Chinese authorities.

Regarding the dividend for fiscal year 2015, the EDF board decided yesterday that an interim dividend of €0.57 per share will be paid in December 2015 and that a payment in shares will be offered as an option. In that context, the French state confirmed it will opt for a payment of the interim dividend in shares.

In line with our financial policy, we took new steps in issuing long term senior debt. As you probably know, we recently issued successfully six US dollar senior bonds, with maturities from 5 to 40 years. This includes a 30-year "Formosa Bond" for \$1.5 billion, as well as a \$1.25 billion dollar tranche, which represents the largest US dollar denominated Green Bond issued by a corporate. Following this series of issuances, the maturity of our gross debt, stands roughly at 13 years and the average coupon at 2.8%, down from 3.1% at the end of June 2015.

On 26th October, we signed a new agreement with the Belgian shareholders of EDF Luminus. As a result, the shareholder structure is slightly reorganised as we will increase our stake in EDF Luminus, with a very limited impact on Group debt, and the shareholder agreement is

extended to 2025. This new agreement will enable EDF Luminus to consolidate its local integration and successfully achieve its ambitions in the Belgian energy market.

Group sales

Moving now to slide number 5, with an overview of EDF group sales. For these first nine months, sales came out at €53.8 billion, a 2.8% overall increase over the same period in 2014. Indeed, our sales benefitted from the favourable evolution of the Euro exchange rates, with a positive impact of over €900 million. They also account for the full consolidation of Dalkia's French activities over the entire period in 2015, with a favourable effect of over €1.5 billion.

In organic terms, sales are down 0.4% - almost flat - compared to last year, excluding the €921 million of the tariff catch-up recorded in Q3 2014. This remains a pretty solid evolution considering the challenging market conditions impacting the sector in Europe.

This results from a good performance in France, with a return to normal weather conditions more than offsetting unfavourable market conditions. In the UK, sales were penalised by lower power prices and lower volumes sold to B2C customers. In Italy, unfavourable trends in electricity activities drove a 6.6% drop in sales.

France

Let's now focus on sales by segment, starting with France, starting on slide number 6. Nine-month 2015 sales came at €28.7 billion, which is an increase of 2.3% after restating for the impact of the 2012 tariff catch-up - which amounts, for this segment, to €908 million.

Weather had a €760 million positive impact, as volumes sold to final customers increased by close to 10TWh compared to the first nine months of 2014 that were penalised by very unfavourable weather. Change in regulated tariffs also carried a positive effect on sales of €495 million.

Sales were penalised by the drop in ARENH sales volumes - in the context of lower French wholesale market prices - and by the end of certain long term contracts.

As anticipated, increased competition in the French supply market and the forthcoming end of Yellow and Green tariffs also carried some negative effect on sales, which are partially offset by gains in market shares on supply of gas to end-customers.

This is reflected on the next slide, slide number 7, that shows the upstream/downstream analysis for France. You can see that low market prices triggered the transfer to the wholesale market of more than 39TWh, previously sold under the ARENH mechanism.

The chart also illustrates the increasing volumes sold to end-customers, which is totally linked to the weather effect.

The French nuclear fleet, shown on the next slide, displayed a good operating performance overall. Nuclear output over the nine months is up 1.2TWh under the favourable effect of our ongoing plan to control the duration of planned outages. If we look at the nature and volume of planned outages remaining until the end of the year, we expect to reach the upper-end of the 410 to 415 TWh target range for our 2015 nuclear output.

Moving to the next slide, the hydro output over the nine months is 3.8TWh to 26.4TWh. This reflects below-normal hydro conditions experienced in the third quarter 2015, which followed on from a first half that was already less favourable than in 2014.

UK

Looking now at the UK, on slide number 10: sales in this segment reached €7.8 billion, lifted by the favourable forex effect. In organic terms, sales are down 5.2%.

Nuclear output came slightly above the level reached over the first nine months of 2014. This reflects a good operating performance, considering the impact of running reactors at Heysham 1 and Hartlepool at reduced load. Sales were penalised by lower realised prices for nuclear power.

The drop in average B2C product accounts to 5.3 million carried a negative effect on electricity sales volumes, which was offset in part by the weather-driven increase in gas sales.

Italy

In Italy, next slide, sales are down 6.6% in organic terms to €8.6 billion. Edison issued a press release last week detailing its quarterly performance. Here of course I am only commenting the sales numbers.

Edison's electricity activities experienced a significant drop in sales, driven by lower power prices and reduced sales volumes on the wholesale market and to end-customers. Hydro conditions have also been less favourable than last year, causing a 1.2TWh drop in output, which was offset by increased generation output from thermal and wind capacity.

Hydrocarbons activities benefited from more favourable weather conditions than over the same period last year, driving an increase in gas sales volume. This volume effect compensated the impact on sales of lower Brent prices. But you may have noticed from Edison's nine-month results that this had no significant impact on its EBITDA. Edison expects a completion of the arbitration on the Libyan gas contracts by year-end.

Other International

Moving now to the Other International segment on slide number 12, where total sales came at €4.1 million, up 1.5% in organic terms.

In Belgium, sales are up 4.1%, as gas volumes sold benefitted from the weather, compensating the impact of lower sales prices. Sales were also supported by the positive evolution in ancillary services, whereas electricity sales were penalised by reduced demand.

Sales in Poland increased by 1.7% as realised electricity prices and heat tariffs are up, and support mechanisms to cogeneration have been renewed. This balanced the effect of lower power sales volumes due to the ongoing modernisation work at Rybnik.

Other activities

Finally, on the Other activities segment, nine-month sales came at €4.6 billion. As indicated at the start of this call, this includes a strong scope effect linked to the first consolidation on this full nine-month period of Dalkia's sales. In organic terms, sales are up by 2.1%.

Dalkia's sales are up, boosted by positive commercial developments and the favourable weather effect, which more than offset the negative impact of lower gas prices.

EDF Energies Nouvelles sales are stable.

Trading margin at EDF Trading is down 19.3%, as the US had experienced a very high level of activity over the same period of 2014 and as price volatility in European energy markets has been rather low since the beginning of 2015.

Conversely, the segment did benefit from the positive impact of weather conditions on volumes sold in the gas business and at Électricité de Strasbourg.

2015 guidance and 2018 roadmap

Lastly, on slide number 14, I would like to confirm the elements of our 2015 guidance that we presented back in February. I think you are now familiar with these targets.

- On Group EBITDA, we are aiming for an increase of between 0 and 3% compared to what we achieved in 2014, adjusted for the non-recurring impact of the tariff catch-up. This, of course, would be a strong performance in a difficult environment.
- We also continue to target a net debt ratio within the range of 2 to 2.5 times.
- And in terms of dividend, we intend to have a payout of net recurring income, adjusted for the hybrid coupons, of between 55 and 65%.

Finally, as with every year, at this point of the year, we updated our medium-term trajectory based under the main assumption of the achievement of our ambition to be cash-flow positive after dividends in 2018 – before Linky –, an ambition that I reiterate today.

This concludes my presentation and I am of course now ready to take your questions.

Thank you very much.

Q&A

Vincent Ayrat (Société Générale): Good morning. First question, on RTE: I see on your press release that you say, if I quote, that the analysis of long term strategic perspective includes its involvement in RTE. Could you give us some colour on that? It has been now a number of years it is deconsolidated in the accounts, so what are you looking at? What type of options, potentially?

Another one, then, would be regarding regulatory developments. Could you make some comments on the CSPE and the carbon? So we have heard a number of lines on both subjects and these could be material positive on the name. Thank you.

Thomas Piquemal: Good morning, again. On RTE, I think that what we put in our press release is self-explanatory. As for any subsidiary of the Group, we are going to - at this point in time - think about the long term strategy of RTE as part of our involvement in the governance of RTE, which is, as you know, specific to RTE, as we own 100% of the shares in RTE but we do not control for regulatory reasons this company. RTE has now a new management team, and of course we will take our share in participating in the development of this long term strategy. I also confirm that from a dedicated assets' point of view, as you know, we allocated 50% of the share capital of RTE in our dedicated assets funds. At a time when interest rates are low, the value of these long term assets - the implied value - is higher than before. This is not at all reflected in our dedicated assets' portfolio value, but of course I think that this increase in value is implied in the current rate environment and due to the very high quality of this asset.

Turning now to your second question, which is CSPE, I do not think that we have any comment to make. Of course, it is up to the French government to make any announcement in that respect. We have several issues that we are, of course, concentrating on. One is to get the repayment for the receivable that we allocated to the dedicated assets funds. The second one is not to create any further deficit, in terms of CSPE and I think that we are making progress on that. The third one is also to make sure that the electricity bill does not support the full taxation for decarbonising the economy. But again, this is up to the French government to make any comments or announcements in that respect.

Harry Wyburd (Merrill Lynch): Hi, morning, thanks for taking my questions. So, firstly, in the UK you mentioned that customer numbers are coming down. I sort of get the sense that you might be trying to boost profitability in the UK to buy business, so I wonder whether you could comment on where margins have come out so far this year, and perhaps even whether you could give us some kind of guidance on what kind of EBIT margin we could expect from that business over the next one or two years.

And then secondly, basically, could you update us on where we are with the accounting life extensions of the French nuclear fleet? Thank you.

Thomas Piquemal: Yes, good morning again. No, we do not comment on the margins in the UK, especially not during quarterly sales' conference calls. The only thing I can tell you is that our key focus point is to optimise our margin and we invested heavily in the past in our IT systems to improve this and we expect good results from those past investments and from our efforts and for brand recognition in the UK.

On life extensions, nothing new. As explained before, we will of course apply the energy transition law that was passed in France. As part of this law, the French government has to prepare a multi-year vision of the energy mix, which is called PPE in France. Once we have this PPE, we will be able to form a management view on the evolution of our fleet, from which will be derived not only the accounting possible evolution, that I am not confirming today, but from which we will derive also our Capex programme. And what is important to us is to have a Capex programme that is consistent with our industrial strategy and with the energy policy that is developed in France.

The accounting methodology is just the translation of this industrial vision, but of course it will have to be based on this multi-year energy mix vision, as provided by the French government. I assume that your question might then be: but when will you be able to have this multi-year vision? Probably beginning of next year, not earlier than that. Therefore I suggest that you wait for our next financial communication, happening in February 2016, for us to provide you with some additional colour on this, if we can.

Harry Wyburd: Okay, thank you very much.

Martin Young (RBC): Good morning to everybody, and my first question relates to the CAP 2030 longer term strategy. I just wondered if you could be so kind as to give us a bit of a hint as to when you will be in a position to communicate more fully on that strategy and put some financial targets around it.

And then the second question relates to the ARENH price. What's your latest feeling on where the ARENH price will land in 2016? And as it stands at the moment, is the ARENH price itself becoming of little relevance to the Group? Thank you.

Thomas Piquemal: CAP 2030 is this major exercise, launched by Jean-Bernard Lévy when joining EDF, implemented throughout the Group and involving - I would say - all the EDF teams and I think it is very impressive, the way it has developed. The purpose of this project is really to define a long term strategy. As far as I am concerned, of course I consider that it is important to highlight the key financial parameters of this long term strategy, but this is not the key purpose of this exercise. And I consider that by reiterating today our 2018 ambition - which is, of course, tougher to achieve compared to one year ago given the fact that prices are down - but by confirming this ambition today, our intention is to share with you the fact that we have a key and core point in our mid-term financial trajectory to which we stick. And I think, sorry to say that: from a financial standpoint, it is more important than giving a 2030 financial target. But again, I fully understand and appreciate your question, I was just sharing with you the way I look at it.

As far as ARENH price is concerned, it is very relevant to EDF. We are strongly advocating in favour of an increase in the ARENH price. Of course, the current forward curve and the price that we can see for 2016 show that power prices in France, according to those power curves, will be below the ARENH price next year. But the ARENH price is very relevant for the good tariff formula and also because, according to the law, this ARENH price has to reflect our full cost of nuclear, which is not the case today. Therefore, our explanations to all the constituencies on the fact that this price has to increase continue as before.

Do we expect anything to happen? This is another story. Of course it does not depend on us, and all of this is of course subject to EU review.

Martin Young: Thank you.

Anne Azzola (Morgan Stanley): Good morning, thank you for taking my question. It relates to the ongoing audit on nuclear provisions that the French government has been running. I was wondering if you have any indication on the timeline scale for the release of that report and whether we should expect it before you close your full-year 2015 accounts. Thank you.

Thomas Piquemal: Good morning, again. This is an important question because there are a lot of tentative agitations around this topic and of course our responsibility is to provide you and provide the market with maximum transparency on this matter. This is what we try to do in our financial statements, and of course we take this audit as an opportunity to improve this level of information on this important topic.

This audit was launched by the French government, following, by the way, Cour des Comptes' recommendation. Of course I cannot release this report, which was, as I have just said, launched by the French government, it is up to the French government to decide to release this report, and I cannot give any further comments on if, or when, the French government will decide to do it. The only thing I can tell you is the fact that we had, at EDF, the preliminary conclusions of this draft report, in fact, when we closed our first half financial statements. And my primary responsibility is, of course, to make sure that our financial statements reflect all significant information, especially when it comes to estimates on our provisions and balance sheet items.

If I had had, at that point in time or today, any indication that our decommissioning costs for generation II of our running fleet had to be revised in one or the other direction, given the very detailed work performed by the two auditors hired by the French government, or if I had had any information on the fact that the provisions had to be changed, I would of course have changed the provisions, or informed the market about it, which is not the case.

Anne Azzola: Thank you.

Vincent Ayrat: I would just come back on what you said: that the ARENH has to be cost reflective.,Yet, the liberalised market price does not have to. Then the question that comes is: do you foresee any change in the regulation? Do you think some change is needed and if so, when can we expect such a change? Thank you.

Thomas Piquemal: Yes, we have some comments to make on this ARENH mechanism, the NOME law and by the way, there is a provision in the law providing for review of this mechanism in 2015 and we have some comments to make, which are not going to be new to you. The fact that this is a free option given to our competitors, who have not invested; the fact that when power prices are below the ARENH price, of course we sell at this power price and not at ARENH price, so as I said, it is a free option given to our competitors, which is something that is not I would say, very appropriate, neither to the French market, nor to EDF, as a key provider of power output, with a necessity to invest in the long term.

So, yes, we have comments to make. We are making those comments in the schemes set forth by the law, but unfortunately I cannot answer your second question, which is to know if and when we expect any changes regarding this mechanism. The only thing I would add is to say that we have to launch a significant Capex programme to extend the life of our nuclear

fleet. This industrial vision was, in principle, confirmed by our board beginning of the year and as you know in our industry, we need to have long term vision and low volatility to be in a position to invest.

Thank you very much and again, with the team here at EDF, I am fully available to take any further questions offline as well. Thank you very much.