

**EDF**  
**Tuesday, 30<sup>th</sup> April 2013**  
Chaired by Thomas Piquemal

**Thomas Piquemal** – *EDF Group CFO*

Good afternoon everybody and welcome to this conference call. I'm Thomas Piquemal, EDF Group CFO, and I will now present the highlights and sales performance of the Group over the past quarter. As usual I will leave as much time as possible for the Q&A session.

Maybe before going into the analysis of the revenue figures, I'd like to put this quarter into its broader context. As you are well aware we recorded several achievements in 2012 and at the beginning of 2013; in particular in respect of the Group balance sheet. Let me mention first the agreement with the French State in respect of the CSPE receivable and its subsequent allocation to the dedicated asset portfolio. Second, the record hybrid bond issue of €6.2 billion, which perfectly matches our investment cycle and has a positive impact on our ratios from an accounting and rating standpoint. By the way S&P, in its most recent rating review, took into account those two developments in their computation of their FFO to net debt key metrics as of the end of 2012 on a pro forma basis.

As you know also, looking forward, we have four main topics on our agenda, as shown on slide number three. Four main topics on our agenda in 2013; the first one is the tariff equation in France. You all know the issue; the generation component of the tariff has been declining in real terms over the past three years while our maintenance CAPEX in our generation fleet has been steadily increasing. This is, of course, an issue and 2013 will be decisive in this respect. As a matter of fact the French Minister of Ecology, Sustainable Development and Energy, Mrs Batho, has ordered an audit on our cost base and increased transparency which, we hope, will help in that effort.

The second important issue is the ARENH formula. Today we are selling power to our competitors at €42/MWh, well below the cost for producing power out of our nuclear fleet. We need, by the end of this year, to have the formula which will reflect the full economic cost of our nuclear fleet as stated by the NOME law.

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The third item on our agenda is the distributor business model. This is as important as the two previous ones for our operations in France. Take, for example, Linky; this smart metering system represents an investment in excess of €5 billion and it demonstrates to what extent we need an overall solution to increase the consistency between the financing, the regulation and the contractual framework within ERDF in France.

The last key item on our agenda in 2013 is the investment decision regarding the UK New Build Project. Negotiations are ongoing with the UK Government in respect of the Contract for Difference, which would be one of the key steps in that project. Obviously I hope that you will appreciate the fact that, given this negotiation, I will make no comment on this project.

In short, as we already pointed out in February this year, 2013 is a decisive year for the EDF group. That said we had a good first quarter from an operational performance standpoint and also during this quarter, as just announced by Edison and also in our press release, we've just confirmed that we've concluded the arbitration with Sonatrach for the review of the price of the Algerian long-term gas contract. A good operational performance during this first quarter, the renegotiation of the Sonatrach contract; both are in line with our plans for 2013.

In France during this quarter the drop of nuclear output on the back of an earlier and heavier outage program was offset by higher hydro output. Colder weather conditions, on the other hand, had a favourable effect on the network business. In the UK, nuclear output was up 1.6 TWh during this first quarter, as expected, this is ahead of the forthcoming outage program. In the UK also cold weather conditions had a positive effect on gas sales. In Italy power volumes sold on the wholesale markets picked up while gas sales also benefitted from the colder weather. Our operational performance, as I said, during this first quarter was thus very much as expected; let's now see how this translated into sales figures, starting with slide five.

The first quarter sales amounted to €23.4 billion, up 12.1%. As you can see, €1.5 billion out of the total increase in sales of €2.5 billion is related to the consolidation effect of Edison as we started to fully consolidate Edison in our accounts in May 2012. Stripping out this scope effect EDF posted a healthy organic growth of €1 billion, or 4.7%, fuelled by a good top line performance in the main segments, in particular in France and to a lesser extent in the UK and in Italy, as I said.

Let's now go straight through slide number six and review each reporting segment, starting with France. As you can see, the effect of higher tariffs was broadly offset by lower volumes because

of the leap year and the end of some long term contracts, including Eurodif AREVA Enrichment Unit which is now stopped. The main factor of the increase in sales in this quarter has been colder weather conditions. This led to a rise of end customer demand of 6 TWh and translated into a €462 million of additional sales. It also had a positive impact, of course, on networks results.

The upstream/downstream balance of the power business in France is detailed on the following slide, number seven, and if you look at the lower box on the bar chart on the right hand side you will see that the end customer demand rose by 3 TWh, despite the effect of the leap year. Excluding the weather effect, volumes were actually down by 3 TWh on the back of lower power consumption from industrial customers and also some market share losses and, maybe more importantly, the end of the Eurodif contract. We also recorded lower structured sales, as you can see above, due to the end of some long term contracts and the sharp decline of auction volumes as EDF has decided to put an end to this mechanism. Volumes sold under the NOME mechanism were marginally up, as you can see, plus one TWh.

On the bar chart on the left hand side I would like to make two comments; first fossil fuel power output is sharply up on the back of higher darkspreads and then net purchases on markets amounted to 4 TWh, down by 7 TWh year on year, mainly because of the drop in volumes sold at auctions.

Nuclear output amounted to 116 TWh, 3 TWh less than during the first quarter 2012. This is due to the heavier and earlier schedule of planned outages and is very much in line with our overall plan for the full year. As a result, as you can see on slide number eight, we do confirm our target of 2013 nuclear output within a 410 - 415 TWh range.

On the other hand, as you can see on the following slide, number nine, hydro output was strongly up with an increase of almost 35%, or 3 TWh, compared to last year. Hydro conditions are back to their historical average with reservoirs quite full at the end of the winter as in a standard year but as you can see better than last year.

Let's now move to the UK, on slide number ten, where EDF Energy achieved sales of €2.7 billion, up 4.7% year on year. Excluding currency effect, organic growth was 6.8%. This top end performance was driven by higher market prices in electricity and an increase in gas volume sold thanks to colder weather conditions. In addition, nuclear output was up 1.6 TWh, posting another good operating performance ahead of the outage program scheduled later this year. This is also

due to the Dungeness unit that was not on the grid during the first quarter of last year. Our ambition for 2013, in terms of nuclear output, is to reiterate the 2012 record performance.

Sales in Italy almost doubled year on year, that's from the next slide, number 11, to reach €3.5 billion. Organic growth stood at 12.5% thanks to higher power volumes sold on the wholesale markets and favourable weather conditions in the gas business. Yet, sales and margins are still negatively impacted by the decoupling between gas prices and oil prices. This will remain the case until the gas sourcing contracts are successfully renegotiated. As a matter of fact, as I mentioned in my introduction, Edison has just announced the positive arbitrage decision related to its gas contract with Sonatrach, the Algerian producer, with a positive impact of around €300 million on 2013 EBITDA. This impact was included in the €500 million EBITDA target for Edison in 2013.

Let's now look at the Other International reporting segment, on slide number 12. Sales amounted to €2.5 billion, up 5% on an organic basis. This increase in sales was primarily driven by Belgium and the United States. In Belgium, the rise of revenues stemmed from higher sales on the wholesale markets for electricity and gas against a background of fierce market competition in this country. In the US, we benefitted from an increased nuclear output at CENG as well as from higher capacity prices. In most regions of this segment, however, the top line growth did not translate into higher margins.

The performance of the last reporting segment, Other Activities, is shown on slide 13. This segment recorded sales of €1.8 billion, up 3%. EDF Trading reported a 10.9% increase in sales thanks to a better performance in gas and coal/freight business lines. EDF Energies Nouvelles renewable business posted a 5.3% rise in revenues owing to the commissioning of wind mills at the end of 2012 and also a favourable weather conditions in Southern Europe. On the other hand, sales of the other activities within this segment were virtually flat on an organic basis.

This is the end of the short review of our sales during the first quarter of 2013. Before taking your questions I would like to confirm today our financial objectives for this year, which are summarised on slide number 14. EBITDA growth within the 0% - 3% range, a net debt to EBITDA ratio will be between 2 and 2.5 times and a dividend payout ratio between 55%-65%. On the EBITDA target I would like to add two precisions; the first one is that, as you know, this excludes Edison as its EBITDA depends on the timing of the renegotiations of the gas sourcing contracts. The positive decision on the Sonatrach gas contract bodes well for future arbitrage cases and therefore Edison earnings. The second comment on this EBITDA growth is that this EBITDA, excluding Edison, will be concentrated in the second half of 2013 as we expect higher

nuclear output in France during the second half and also the full effect of our Spark cost-cutting program.

This is the end of my introductory remarks, and I would like to thank you very much for listening, and I will now take your questions.

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# Questions and Answers

## **Operator**

The first question comes from Vincent Ayrat. Please go ahead announcing your company.

## **Vincent Ayrat – Société Générale London – Equity Analyst**

Good afternoon. Two questions then. The first one, just want to make things clear; I think it had been clear but I'd like confirmation. On Edison, we had €500 million EBITDA excluding any upside from renegotiation; I'd like to have the confirmation that the €300 million comes on top of this €500 million as a result? That's question number one.

Question number two; I would like to ask about the hydro concessions. An intermediary report was presented to the French Parliament beginning of April; it was clearly against any opening of the hydro concessions. A final report was expected before the end of the month; we haven't seen much in the news so I would like to know if you have any update on that and if you think that it would make sense to add the hydro to the NOME regulation as we have done with the nuclear? Thank you very much

## **Thomas Piquemal**

On Edison I'd like to be very clear. The €300 million is not on top of the €500 million, it is included within that number. What will be on top of the €500 million are renegotiations or arbitrage on other contracts, which are the ones we are already renegotiating or got a positive arbitration on with other suppliers. In our €500 million EBITDA guidance for the full year I explained during the February results that the negative margin that we incur in our gas operations in Italy is extremely significant, higher than €600 million, and so it's net of this €300 million renegotiation. €500 million for 2013 includes the €300 million and demonstrates why we are comfortable and confident in the fact that normative profitability of Edison, EBITDA level of Edison, is €1.1 billion and not €500 million, as we expect for 2013, if we do not get a positive arbitrage or renegotiation in our supplier contracts, excluding Sonatrach.

On your second question, on hydro concessions; we are waiting for the final report. We understand that it will be released in the month, early May maybe, we don't know precisely when. We are ready for the conclusions, whatever they will be, either for market opening or for other solutions, and we wait and see what comes out of this report.

**Operator**

The next question comes from the line of Benjamin Leyre. Please go ahead announcing your company.

**Benjamin Leyre** – *Exane Paris – Equity Analyst*

Yes, thank you, and good evening. Benjamin Leyre, I'm from Exane. Two questions please. The first one is do you expect to have any first communication by the Government on the content or formula for the full economic cost some time over the next few months or will we not hear about it before year end in your view?

The second point, can you please let us know what you've done to sort out your relationship with the French Nuclear Safety Authority in order to feel confident about the nuclear output in 2013? Thank you.

**Thomas Piquemal**

The ARENH formula and the decree should be taken by the end of the year, so there is nothing much I can tell you. We expect to get it, according to the NOME law, by the end of the year.

On your second question, I'll probably refer to some extended outages that we had last year on the N4 and the fact that what created some disruption last year was the fact that we were not anticipating such extended technical reviews. It's much easier when you know that it might happen to schedule that during your outages; that's why we do not expect such disruption during 2013.

**Operator**

The next question comes from the line of Vincent de Blic. Please go ahead announcing your company.

**Vincent de Blic** – *JP Morgan London – Equity Analyst*

Yes, good evening. Vincent de Blic from JP Morgan. Two questions please. The first one is on the French output. Could you give us a range for H1 for nuclear and hydro potentially, also weighting between H1 and H2?

The second question is more general on the French energy debate. A few months into the debate now how do you think things are going and, secondly, what do you think the law, which the Government wants to present to Parliament in October, is going to talk about? Any colour on this would be great. Thank you very much.

**Thomas Piquemal**

On the output, for nuclear output we expect somehow the same output as last year.

On the energy debate; we believe that all this debate is very positive because it enables everybody to discuss a real subject and real topics and adds not only transparency but also ability to exchange views. For example, if I take what is currently being discussed on financing for the renewable, the CSPE, we believe that it goes in the right direction and it gives just an example of why I considered that this debate is very positive now. I cannot comment on what we expect as an outcome, of course it's the French Government, we have communications on that and I have no further comment to make.

**Operator**

We have a follow-up question from the line of Benjamin Leyre. Please go ahead, your line is now open.

**Benjamin Leyre – Exane Paris – Equity Analyst**

Thank you. A couple of small ones please. The first one is can you perhaps quantify the favourable weather impact in Q1 into the lower spot prices in France? I assume this was not in your expectations for your full year guidance at the beginning of the year.

The second small question; can you also reiterate some confidence on your recurring net income expectation for 2013 as seen by the consensus? Thank you.

**Thomas Piquemal**

When you talk about the favourable weather you have to either compare it to last year or to a normal year. If we compare it to last year it is true that it is favourable to a certain extent given the fact that last year, you might remember, we had a cold wave that was quite strong. Last year

I explained to you that the impact compared to a normalised year was of minus €100 million. This year, all in all and also given the fact that average prices were lower than last year and as you know we are a net purchaser during this period of time, the impact compared to a normalised year is positive by €100 million. Therefore the net effect is plus €200 million compared to last year but plus €100 million compared to a normalised year. We build our forecasts and our guidance on normalised years therefore weather effect on our guidance is positive by €100 million. However I am not changing the overall guidance for the year, first of all because we have just finished the first quarter, so I am being cautious, and also, secondly, because we had some other effects here and there, especially in Continental Europe, for example in Belgium, some adverse effects; therefore I prefer to remain cautious and not change my guidance.

I'm happy to confirm that I feel comfortable with the consensus as presented online, both in terms of EBITDA, net income and dividend per share.

#### **Coordinator**

We can go to a question on the web from Michel Debs, Credit Suisse. He's got two questions.

#### **Michel Debs – Credit Suisse London – Equity Analyst**

Could you please tell us if the €300 million impact from the gas contract renegotiation with Algeria is recurring?

Could you tell us about the situation in the Italian market since your communication in February?

#### **Thomas Piquemal**

Losses are not recurring, and we are making losses in this gas business given where the gas prices are. Therefore, yes, we consider that the normalised EBITDA level of Edison, as explained, in our full year results, is €1.1 billion and the difference between €500 million and €1.1 billion is €600 million and will be recovered as soon as we are able to renegotiate or get positive arbitration on gas contracts with Qatar, with Libya and with Russia, Gazprom, either in 2013, most probably in 2014. The fact that Edison is a €500 million EBITDA business is not recurrent given, as I said, the fact that there is a negative margin on the gas business embedded in this €500 million number.

The Italian market remains very difficult as shown with the decrease, as recently published, in consumption, but what is important for Edison is that it's less exposed to combined cycles than before. The hydro performance was quite okay and, as I said, a key channel for us is to renegotiate, in a timely manner, our gas contracts so we are less exposed than others to what is happening there.

#### **Coordinator**

Thank you. We have maybe a last question on the phone from Vincent Ayrat; a follow-up question.

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#### **Vincent Ayrat – Société Générale London – Equity Analyst**

Hi again. I would have a question related to this arbitrage of Sonatrach. It's fairly difficult for us to get a sense on what have been the contractual terms on which the arbitrage decisions are being taken. It would be quite interesting for us to get some colour on that in order to assess the ability of EDF to repeat the past successful performance in this respect. Thank you.

#### **Thomas Piquemal**

I understand but it's not the first contract that Edison is able to either renegotiate or get a positive arbitrage decision on. We already got Gazprom, that was a renegotiation in 2011 and then Qatar and Lybia during the fall of 2012 and now Sonatrach, as expected and as anticipated, and that's the reason why it was included in my guidance for the year. I think Edison demonstrated its ability to get positive decisions or renegotiations. Looking forward, there are still prices to be renegotiated in all those contracts and terms, of course, cannot be disclosed. I think it's quite confidential but the impact is quite significant and we've demonstrated our ability to recover not only the past losses but also to renegotiate the prices going forward as far as this contract is concerned.

#### **Vincent Ayrat – Société Générale London – Equity Analyst**

Thank you. On that, do we have any visibility on the timeline for these contract negotiations? I'm not talking about the outcome but when are these negotiations starting so maybe we can take some assumptions on what is visible in terms of potential upside for this year versus next.

**Thomas Piquemal**

Negotiations are ongoing, but it's a process that ends up with arbitration if there is no agreement within the negotiation phase. If we go through the arbitration until the end of the arbitration processes it's something that can be expected, at the latest, somewhere in 2014 or something like that. If we go to arbitration it will not be resolved in 2013 for the remaining contracts. Now you can make your assumption on whether we will be able to reach an agreement before arbitration or not. For us timing, of course, is important but what is more important is our ability to renegotiate a decent margin. We are taking the volume risk on those contracts, we are not supposed to take a margin risk, and we are selling it at a loss; that's the key issue that we are facing and it's purely written in our contracts that we should be making a decent margin.

The only issue is the timing effect of incurring the losses in one year and recovering it one or two years later. Of course if we can renegotiate it we will do it but first we defend the overall profitability of the group and that's why I clearly expressed, during our full year results, that the guidance that I was giving for 2013 was excluding the volatility of Edison and we feel comfortable with the fact that Edison has normalised profitability of €1.1 billion in terms of full year EBITDA.

**Julie Arav – Barclays Paris – Equity Research Analyst**

Yes, good evening. Thanks for taking my question; I have just one. What do you need to take any decisions to extend the French nuclear lifespan, in your books, from 40 to 50 years? Unless I'm wrong, the last time you said the decision to extend the lifespan of your nuclear plants in France from 30 to 40 years has been taken exactly ten years ago, so could we expect such a decision to be taken this year? Thanks.

**Thomas Piquemal**

The question you're asking is, first of all, a question of consistency between an industrial strategy to invest in our nuclear fleet in France to prepare life extensions and to invest heavily to go beyond a 30 or 40 year lifetime. It all comes to the consistency between this industrial strategy and the way our accounts are prepared and our depreciation period is determined. It's up to EDF to reconcile the two, between the industrial strategy and the accounting presentation. By the way, the decision was made in 2003 by EDF so this decision relies on EDF Board of Directors. Of course I will not comment on possible decisions that could be taken by the Board; it's an ongoing business and I have no announcement to make on that front. What leads us is the industrial strategy, as I said, so first of all let's analyse how much we would have to invest, in

what timeframe, how can we deliver all those investments, and then we will see, if the Board decides to make such a decision, what impact it might have; that's the right order of different steps to be taken. To answer, very precisely, your question; it's a decision to be made by EDF.

**Coordinator**

Next question please from Emmanuel Turpin, Morgan Stanley.

**Emmanuel Turpin – Morgan Stanley Paris – Research Analyst**

Good afternoon everybody. I wanted to come back on the UK please. You stated your ambition for this year to match the high level of production of last year; from memory it was around 60 TWh. Could you remind us what assumption you've taken in your guidance for 2013 regarding UK production; number one?

Number two; you haven't said a lot recently about your hedging policy in the UK, but power prices in the UK have been materially higher than on the continent. In order to be able to anticipate EBITDA contribution could you maybe give us an idea of where you stand right now in terms of your 2013 book and maybe give us an idea also about 2014 forward selling in the UK? Thank you very much.

**Thomas Piquemal**

The objective that we set ourselves, and our guidance is consistent with the ambition to replicate last year's performance for 2013, it was 60 TWh last year, in the UK.

In terms of hedges; we are fully hedged for 2013, 12 months ahead. Our hedging policy consisted of hedging 100% of our portfolio. Now, 2014, according to our hedging policy it's more open, open positions, but I will not give any impact on EBITDA. As you know, I am not commenting beyond 2013.

**Andrew Moulder – CreditSights London – Credit Analyst**

Thanks for taking the question. I just wanted two questions please. On Edison, sorry to just go back on the contracts, but can I just be clear? The Sonatrach arbitration, does that just recover past losses or have you actually managed to change that contract so that going forward you now

have a different mix in terms of the indexations of that contract so that you'll have less losses in that contract going forward?

Secondly, you have, in the past, perhaps given us a little bit of an idea of the guidance in terms of what your net debt is at the moment and I wonder if you're prepared to just give me some idea of where your net debt currently stands? On your net debt guidance for the full year of net debt to EBITDA of between 2 and 2.5 times how are you accounting for the hybrid in that number? Is the hybrid counted as 100% equity when you talk about the 2 to 2.5 times net debt to EBITDA?  
Thank you.

**Thomas Piquemal**

The €300 million impact is for the past. For the future I cannot comment, it's confidential. Unfortunately I cannot give you more colour on that but it is clear that the €300 million is to recover past losses. You can see that, during this first quarter, Edison released a very low EBITDA number because the profitability of the other businesses is offset by the losses on the gas segment, that's why, as I said, this €300 million recovers past losses.

On the net debt guidance I can give you a couple of numbers. First of all, on a proforma basis, as you know, net debt to EBITDA end of 2012 is 2 times. In that calculation hybrid is not included in the net debt number. I do not communicate the net debt numbers end of March. I can give you liquidity numbers, which is much higher, end of 2013. Given the hybrid and also the comprehensive agreement that we reached on CSPE net liquidity is close to €18 billion end of March 2013, so much higher than end of the year.

**Andrew Moulder** – *CreditSights London* – *Senior Analyst*

The full year net debt to EBITDA target, that still includes the hybrid as equity?

**Thomas Piquemal**

Yes.

**Andrew Moulder** – *CreditSights London* – *Senior Analyst*

Okay. Thank you.

**Thomas Piquemal**

Thank you very much, again, for attending this call, and we remain at your disposal here with the team to answer your further questions. Thank you.