

EDF

First Quarter 2014 Sales and Highlights

Thomas PIQUEMAL

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Thomas PIQUEMAL

Good afternoon, everyone, and thank you very much for attending this conference call. As you know, we only disclose sales numbers on a quarterly basis. But since I joined EDF, I have tried to organize such calls to of course explain our sales numbers, but also to confirm our objectives and take your questions, and I'll do that in the forthcoming minutes, after having walked you through this short slide pack that you've just received.

So let me start with slide number 3, the key highlights for the past quarter. And unsurprisingly, weather has been one of the drivers of EDF's first quarter sales, especially compared to the first quarter of last year.

As you probably know, Europe has just experienced one of the mildest winters on record. Just to put things in perspective, average temperatures in January were on par with 1988, and only second to temperatures reached in the year 1900.

In that context, Group sales in the first quarter are down 4.2% in organic terms, mostly driven by the evolution in France. But we managed this weather effect, and today I can confirm our targets for 2014, and I can also confirm that we are progressing well on delivering our 2014-2018 vision for cash flows.

During the last quarter we also completed some strategic developments. Two of them were already announced last year, namely Dalkia for which we signed a final agreement on March 25, 2014, totally consistent with what we announced last year. And also consistent with what we announced in 2013, the completion of the final agreement on CENG with Exelon following the NRC approval, a comprehensive agreement including the fact that we received a special dividend of \$400 million, financed by Exelon and paid by CENG to us. We also announced a joint venture in China to build the first ultra-supercritical coal-fired power plant, together with our partner Datang Corporation.

So let me now walk you through the details of our sales numbers. For the first quarter, moving to slide number 4, of course these total sales for the first quarter of 2014 are presented according to the new accounting methodologies, and 2013 is restated. You see on that page number 4, the effect of the restatements of the accounting changes. We now consolidate under equity methods subsidiaries such as Dalkia, CENG, ESTAG and SSE. Those entities represented close to €1.3 billion in our sales figures during the first quarter of 2013.

So from a restated figure of €22.1 billion for first quarter 2013, Group sales fell to €21.2 billion on an organic basis, which is a reduction of 4.2%, driven mainly, as you can see on that chart, by France as well as Belgium and Central Europe, mostly due to unfavorable weather conditions. This was somewhat offset by positive Forex as well as growth in electricity sales in the UK and Italy.

For France, on the next slide, sales amounted to €12.2 billion, down 5.4% compared to the first quarter of 2013. This is mostly explained by the significant swing in average temperatures between the first quarters of 2013 and 2014. Consumption in France being

quite sensitive to temperatures, with 1 degree Celsius corresponding to 2.4 GW of capacity, that swing caused a 14 TWh fall in electricity demand from end customers. Measured against normalized temperatures, the reduction in demand is just under 6 TWh, and the impact on sales of around €460 million, compared as you see here to €1.1 billion if we compare that evolution to the first quarter of 2013. Higher tariffs as well as increased sales on the wholesale market, partly offset the weather effect.

Looking at the customary upstream/downstream analysis for France on the next slide, thermal output experienced a significant drop of 4 TWh, while optimization of the reactors allowed for the nuclear output to stay at a relatively good level. On the sales side, on the right-hand side of the chart, structural consumption of our customer base, after discounting of the 14 TWh weather effect, keeps growing. An increase of 10 TWh in our net wholesale market sales offset most of the reduction in demand from customers linked to the weather effect.

Over the first three months of 2014, on the next slide, the cumulative nuclear output is relatively stable, with a drop of 1 TWh compared to last year. 1 TWh is less than 1%. This is a reasonably good performance, given the fact that the weather effect caused a reduction in production of 2.4 TWh. This underlying improvement in the performance reflects the continued implementation of our strengthened action plan to control the duration of our planned outages. Therefore, I am able today to confirm our target for nuclear output for this year, which is 410 to 415 TWh for the full year.

Moving to the next slide, as you can see, we experienced favorable hydro conditions during the first quarter, which allowed for a 2.6% increase in hydro power output at 12 TWh, on the back of an already good performance last year. Despite this high output level, especially in the context of low demand, water stocks are currently high, offering good prospects for the next few months.

In the UK, next slide, EDF Energy delivered a 3.7% organic growth in sales, at more than €2.9 billion. This performance has mainly been driven by higher realized wholesale market prices. Our B2C segment continued to grow with a 5.5% increase in customer product accounts, but was negatively affected by lower gas sales, as mild weather reduced heating demand. Nuclear output dropped slightly due to more refueling outages and unplanned outages during this quarter. But this is also compared to a record low level during the first quarter of 2013. Therefore, we remain on track to achieve our nuclear generation ambition for the year, which is stable compared to 2013, which was, as you might remember, at a very high level.

In Italy, on slide number 10, sales grew organically by 2.7%, reaching close to €3.6 billion. This reflects a contrasted situation. On the one hand, Edison enjoyed high volumes in electricity sales, especially in the wholesale market; and a continued strong performance on ancillary services. On the other hand, Italy experienced also mild weather, which had a negative effect on gas sales volumes.

Moving now to the other international segment on slide 11, you can see that sales are down, primarily because of Belgium, which had a challenging first quarter with sales down organically by nearly 20%. Both electricity and gas consumptions dropped, with a weather effect for gas. The market is very difficult with an intense competition that puts further pressure on electricity prices. Sales in Central and Eastern Europe are down 13%, driven by the conditions experienced in the Polish market. Sales were affected by lower prices in wholesale power and by reduced heating demand, as there again, average temperatures were high.

Moving now and finally to other activities, sales fell by 11% overall in organic terms. Our renewable business delivered a steady performance, but EDF Trading faced contrasting weather effects with a significant drop in European power trading volumes in the context of reduced demand, which was only partially offset by increased US trading margins, fuelled by increased activity in the gas market. As you know, Dalkia is not recorded anymore in the "other" segment on this chart, according to the application of IFRS

10 and 11. One of the main changes in this segment relates to Electricité de Strasbourg, which was negatively affected by weather, both in power and gas sales.

However, as I said in my introduction, our first quarter performance is consistent with our objectives for the full year, despite this weather effect that we are managing. Therefore, I am able today to confirm all our targets for 2014 and also our 2014-2018 vision. I remind you that for 2014, our guidance is for EBITDA growth, excluding Edison of at least 3%, which I confirm today. As far as Edison is concerned, a minimum of €600 million of EBITDA, excluding any gas renegotiations. Net debt to EBITDA ratio of 2 to 2.5 times, and I can confirm today that we will be close to the lower end of the range. Payout ratio of net income excluding non-recurring items, but adjusted for interest payments on hybrid bonds, of 55% to 65%. And I also confirm our 2014-2018 vision of positive cash flow after dividends in 2018, with specific efforts, of course, on our capex, our costs, and our working capital.

Thank you very much again for attending this call. Now I am here to take your questions.

Questions and Answers

Nathali Casali, JP Morgan (internet question)

So first question is - could you please provide an update on TURPE 4, for distribution? And the second question is - can you please give an update on the publication of the ARENH formula?

Thomas PIQUEMAL

TURPE 4, nothing new on our side, following what was announced at the end of last year and the letter by the ministers. And we'll see if and when and what might be included in the energy transition law.

As far as for the ARENH formula, we got the draft decree with the draft formula as other market participants on which we made our comments. We expect, we hope, that this formula will be published in the forthcoming weeks. The sooner will be the better. I would like to insist on the fact that for us, what is key, is to have a formula that will clearly give a sign of a regular increase in this ARENH price, which today does not reflect the full cost of nuclear. This is for us key, and the sooner it is released, the better. We hope, now that the consultation process is finalized, that it will be released in the forthcoming weeks.

Martin Young, RBC

A couple of questions. The first is - I just wondered what your thoughts were in respect of the recent comments from Madame Royal about modifying the way that prices evolve to mitigate the impact on the consumers in France.

And then the second question is - could you just give us an update on where we are with the ongoing process in respect to the CFD on Hinkley Point, and how confident are you that it will get the green light ultimately from the powers that be in Brussels. Thank you.

Thomas PIQUEMAL

I will not comment on statements by the French government. I will only remind you that a tariff trajectory was announced last year for the Blue customers, residential customers, 5% in 2013; 5% in 2014. It's up to the French government to announce the tariff effect during the summer. And I have of course no comment to make. I would like just to specify that our assumption, our underlying assumption for our guidance is consistent with what was announced last year. What was announced last year also does not include any

possible effects of the decision by the Conseil d'Etat to make it very clear. But no, I don't have any comment to make on any statement by the French Minister.

On the CFD, over the last quarter we had discussions, of course, and we were involved in the consultation process by the EU. That is now finalized. We submitted all our answers in a thick document to the EU. We addressed all the points. We believe that we have a very strong case and yes, we are confident that we are going to get the green light according to plan. In terms of timing, here again, the sooner the better. Commissioner Almunia says that he expected the decision to be made by the end of the year, and I have nothing else to add to that of course. But we feel confident, we believe, in our case, and we believe that the market reform, as drafted and proposed by the UK government, is a reform that will enable us to invest for the long term. And without this reform, without the CFD, without the contracts, without the framework that we've disclosed last year, we believe that this project is not feasible. Therefore, we have a strong case, and over the last quarter, all the different steps that were taken, all the different conversations that we had, and what we did internally on the project side, the discussions with our partners, is fully consistent with what we announced last year.

Benjamin Leyre, Exane

Two questions; first one on the tariff formula. So now that you've had the draft in your hands, I wonder what you can share with us regarding the rate of return that the formula would use, and the kind of tariff trajectory that the current draft would imply.

And second question on wholesale prices in France. In quite an eye-catching manner, power prices on the forwards stand a way above German prices and happen to be above the ARENH. I wonder if you see any fundamental link between the ARENH price level and the French wholesale prices. And if ARENH goes up, could it actually lead to a bit of a link with French wholesale prices? Thank you.

Thomas PIQUEMAL

Well, unfortunately and I can understand you ask this question on the ARENH decree. It has been a long awaited formula and the effect it can have. The only thing I can tell you is that our guidance is consistent with our position and that's also why, on the basis of the information I have, I confirm my guidance today. But no, I cannot disclose the rate of return. I hope that you will appreciate that it is up to the French government to make such an announcement. But again, if I confirm my guidance today, it's because on the basis of the information I have, I feel comfortable.

As far as the German prices, the spread between France and Germany is concerned, well, first of all, we consider that regarding ARENH, the discussion has to be completely disconnected from what is happening on the market. ARENH is the price at which we have to sell to our competitors according to the French law that was passed in 2010. It has to reflect the full cost of nuclear. The audit body, so called Cour des Comptes, wrote a report two years ago. An update will come soon as so we've been audited by Cour des Comptes, we've been audited by the French parliament. We've been audited under different conditions. Everything is on the table. Everything is transparent. 42 €/MWh is not the full cost of nuclear. So the only thing we are asking of course is for the law to be applied.

Now coming back to your question on the different spreads, I believe that German prices are somehow irrelevant when it comes to the French prices, due to the interconnections that are saturated between those two countries, sometimes. And also because of the impact of renewable energy coming to the grid. Because when we talk about the weather effect, of course there is a temperature effect. But also the wind effect in the North Sea. When you see that we have negative prices during one weekend during the month of February in France, I think it highlights the fact that the impact of what is happening on the German market is totally disconnected from any industrial reality. Therefore, no, we do not make any link between the evolution of the French wholesale

prices, that sometimes suffers from the disruptions created by the renewable energy in Germany, with a limit of interconnections, we do not make any link between that and the ARENH discussion.

Emmanuel Turpin, Morgan Stanley

My first question is on the Conseil d'Etat decision. Could you share with us the amount that you will be able to recover over time? And tell us whether you'll be able to recognize this amount in your accounts this year; what do you need to hear or to see published before you're able to do that, if anything?

The second question is on the Exeltium Contract. We read in the press that you had been in discussion with the consortium to reshape the contract. Could you comment on this please? Tell us whether there could be an impact on short-term earnings and whether you'll be able to protect the value to the shareholders for the duration of the contract. Thank you.

Thomas PIQUEMAL

Yes. On the Conseil d'Etat decision and what effect it could have from an accounting standpoint, nothing can be booked unless there is a decision by the French government. And until such a decision and such an announcement of course, we will not record anything in our accounts. Therefore, in my guidance, I do not include any effect of such a decision. Again, sorry to insist. But I'd like to make it very clear.

Now what could be the impact? I don't want to speculate, to give any numbers. I think that some simulations were done by some rating agencies. For example, I read that Moody's published in the middle of April, its views on the announcement by the Conseil d'Etat with some math. These are assumptions and I don't want to speculate and say that we are expecting anything. Again, we've built our internal trajectory based on our own assumptions, which are consistent with the announcement of last year on the tariffs. And we are waiting for the French government this year.

As far as Exeltium is concerned, this is purely a commercial negotiation that we are having with the clients that are together within the Exeltium consortium. As any commercial negotiation, we will make a decision that is in the interest of EDF, that will have to be presented and approved by our Board, and that's how we see any commercial negotiation that we are having with any of our customers.

Myriam Cohen, Alphavalue (internet question)

What will be the impact of the capacity payment in France?

Thomas PIQUEMAL

Capacity payment is effectively a mechanism that was disclosed and announced by RTE, at least the framework of such a mechanism. And by the way, we put in our slide pack in appendix, the details and the summary of such a mechanism that will be put in place relatively rapidly now, so that it can start for the winter of 2016-2017. We believe that it will improve electricity market, because it will put a price and a value on the peak demand, and the peak demand that EDF is today mostly covering. And will also indirectly help the management of such a peak demand with a development of new offerings, new services, and you know that we are increasingly involved in such new offerings.

Now when it comes to the impact, here, I would like to be relatively cautious, and to say that it's very difficult to make again, calculations and speculations, because it all depends on how the value of such peak capacity certificates, first of all, will be priced by the market, but also will be reflected through the tariffs.

As you might know, contrary to other systems like the one that is forecasted for the UK, the suppliers will have to buy certificates; will be in charge of this capacity payment mechanism. And so all the impact depends on the way they will transfer these costs to their customers. Therefore, it's too early to give any impact. More fundamentally, I strongly believe that it improves the power market in France in the long term. And when it comes to the impact, I think that RTE released some calculations and to the best of my knowledge, I think that those simulations are the best that exist today. But again, this is because it depends on how the market will price the certificate and what the suppliers will do with their customers.

Arnaud Joan, Bank of America Merrill Lynch (internet question)

What are the latest political developments on the potential opening of the French hydro concessions and is there still a valid calendar in place?

Thomas PIQUEMAL

I heard the statement from the minister, but we have not been made aware of any new mechanisms. Since the beginning of this potential opening to competition, we've been preparing ourselves. But from our perspective, today, we are not aware of any detailed new mechanism, detailed timetable. And here again, it's up to the French government to announce or to confirm the views on the possible opening of the French hydro concessions to competition. As far as we are concerned, we are ready. We have a strong ambition. We believe that we have a strong market position that can be improved, but nothing new compared to what we already said last February on that front. And we are not aware of the detailed mechanism on that matter, nor of the timing.

Vincent Ayrat, Société Générale

Your CEO, Mr. Proglia, said today that the full cost of nuclear was around 55 €/MWh. In the context of the ARENH and of the convergence of the tariffs, that are supposed to arrive by 2015, what level of tariff increase would this correspond to? So that's question number one.

The second question is on the weather effect, not on the revenues, but if we can get any feel for the impact on EBITDA. And I'm thinking more specifically of France. Demand was down materially, but hydro was exceptional. And you have made exceptional exports. So potentially the EBITDA impact could even be on the positive territory. Do have any comment on that, please? Thank you.

Thomas PIQUEMAL

Again, we don't want to link the ARENH formula to the tariff increase. I fully understand and appreciate why you're asking the question. But for us, tariff increase is set by the French government. The ARENH price has to be set by a formula which reflects the full cost of nuclear. It's not up to us to make the link between the two. And as far as ARENH is concerned, we need to have an increase. We need to have visibility. And we expect the French government to publish the formula with illustrative numbers rapidly.

On the tariffs, we have always been advocating for a tariff rise consistent with, of course, our investment needs in France in all our output fleets. But we disconnect it from the ARENH discussion. It's up to the regulators and to the French government to make the link; not to us.

As far as the weather effect is concerned, it's true that, as I said, there are several weather effects. And if you allow me, I'd like to take a few minutes just to walk you through that. We have the temperature effect, so the volume effect, both in the non-regulated segment in France and in the distribution and in the transport business. So here, when

there are less volumes in the distribution and transport, of course EBITDA is impacted negatively. On the unregulated business, so generation and supply, it really depends on the way we hedge, the way we manage our optimization. And here I have to say that we are quite good in managing the capacity, in forecasting and in optimizing the fleet in France.

The second weather effect is on the trading activities, where when there is lower volume, lower volatility in Europe, we of course have an impact on the trading margin. But during this quarter at the same time, we had the positive effect in the US, where contrary to Europe, winter was very cold and we were able with the teams that we have in the US, to benefit from the volatility there.

So overall, I would say that it's very difficult to give you today, because I'm only commenting on the sales, the breakdown of the weather effect. Overall, I can say that weather effect, because of the impact on the distribution and also on the volumes sold in France, has a negative effect on EBITDA. However, when we built our guidance, we built our guidance based on a normal year. So it's not based on the previous year. And as I said in my introduction, compared to a normalized year, the weather effect is much more reduced. If I remember well, it's 6 TWh, compared to 14 TWh. So when it comes to the vision that we have in terms of EBITDA growth for the year of at least 3% excluding Edison, it is based on a normalized year. So the negative impact that the decreased volume could have on our EBITDA is much lower than when compared to last year.

On the contrary, we have the positive EBITDA effect expected during the year on our regulated business in the French islands. As you know, we have been investing heavily in our SEI/PEI market segments, the regulated generation fleet in the French islands. And they will have an increase in EBITDA there.

At the same time we will have a tariff effect. We also expect at least during the first half 2014, an improvement in the nuclear output in the UK. As far as the full year is concerned, we expect an improvement also in the nuclear output in France.

So all of those reasons explain why we feel confident with at least a 3% increase in the EBITDA at the Group level for the full year, excluding Edison.

Philippe Ourpatian, Natixis

Just one question concerning the hydro level. Your chart number eight is showing that starting at the middle of the year we have a clear convergence with the volumes with, I would say, a normal hydro level. Could you just elaborate where we are today, means in May, two months later; and what is your expectation to versus I would say the normative level of your production? Thank you.

Thomas PIQUEMAL

As you see, you're right that in March we reached the normalized level, and we are today at normalized levels, with a good level of storage. Therefore, we believe that French hydro output will be of course lower than last year, because last year it was very high. But still slightly higher than a very normalized year, but last year we had 42.6 TWh total hydro output in France. This year we expect a lower number, given the fact that we are at a normalized level, and last year we had very high levels at this period of time. But again, this is totally consistent with our forecast of a normalized year.

Benjamin Leyre, Exane

Thank you. Two follow ups. First one is on nuclear waste storage. I wonder if you can update us on the potential increase in the provision that you may have to pass if the cost of storage is revised up.

Second on trading of energy; putting aside the weather impact in Q1 which was quite severe, I wonder, what is the overall trend in the margins that you're making in energy trading at the moment. Thank you.

Thomas PIQUEMAL

Nothing new on the nuclear waste storage. I expressed our views during the hearing in the French parliament, and nothing new compared to what I explained at that time, a couple of weeks ago. Work is still ongoing. We still believe in our industrial case, and I have no information on possible increase in the cost, hence the provision.

When it comes to trading, of course we are exposed to power volumes and power markets. But our trading platform is well-diversified. For example, we are a very big player on the coal trading business, gas trading business. We are diversified geographically, and therefore, except for the weather effect, we are in the normalized trend when it comes to EDF Trading for the profitability this year. But as I said, this weather effect in Europe was partially offset by positive optimization, which is not so much trading by the way. It's to optimize the inefficiencies of the different networks, both on the gas and the power side in the US. Therefore overall, we have a slightly negative weather effect on trading, in terms of margin. But other than that, it's pretty consistent with what we did in the past.

Emmanuel Turpin, Morgan Stanley

A follow-up question on the weather impact. You said very clearly that you feel comfortable with your guidance. You helped us to go through the weather impact on revenues, saying that your budget had been established on normalized weather, and that the milder winter had an impact of only 6 TWh.

I think at the start of the call you quantified that, and I noted €460 million. I wanted to check that figure with you. And looking at slide 6, I wanted to check offsetting factors on the cost side, what we should take into account to assess how we move from this €460 million shortfall of revenues into X million shortfall in EBITDA. I can see here that you generated less fossil-fired electricity, so that's a saving in OpEx. I don't know if you can help us there quantifying that.

You produced a little bit more hydro than maybe you had budgeted. I don't know if my understanding is correct. Is there anything else we should take into account in order to bridge that impact on EBITDA versus budget?

The second question is maybe- I wanted to know whether you had any update on the renegotiation of the gas contracts at the Edison level. Thank you very much.

Thomas PIQUEMAL

Well, it's difficult again, from the outside, I fully understand and I appreciate that, to calculate the weather impact on our EBITDA. Yes I confirm that on a normalized basis, compared to a normalized year, the weather impact in terms of demand in France is 6 TWh, with an impact on sales of around €460 million.

At the same time, we sold on the wholesale market, prices were low, so the effects on margin are modest. But no, unfortunately, I only comment on sales and don't give any breakdown of the EBITDA impact. I can only confirm that, as I said, we expect a 3% organic growth in terms of EBITDA, excluding Edison and that this growth should be widespread during the year and I'm expecting this growth to be regular, during the year over time.

When it comes to gas renegotiations, our numbers do not include the effect of gas renegotiations. We are in the arbitration process for two of them, as you might remember, Gazprom and ENI. Processes are ongoing, different key steps will be taken for one in June, the other one in July in the arbitration process. We could get for at least one of them,

the result of such arbitration by the end of the year. But today, I do not confirm any timing. I put no pressure on our operational managers who have demonstrated their ability to renegotiate or obtain what they were asking for during those arbitration process. And I feel quite confident that they will prevail again. It might be a question of timing, but it has no effect on us. And to make it very clear, I gave you a guidance for the Group excluding Edison, and Edison excluding those negotiations. So that, if some day we see a press release from EDF on the screens announcing some negotiation or arbitration, you could add that to the numbers that you have in your modeling.

Now unfortunately, I think we have to stop there, because I cannot go into any further details on the EBITDA evolution or margin, beyond what I've just expressed.

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