EDF

Third Quarter 2013 Sales and Highlights

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Thomas PIQUEMAL

Good morning to all of you and thank you for attending this call. I know that it is a busy morning today so I will walk you quickly through our third-quarter sales so that we can spend a bit more time with Philippe Sasseigne, who is here with me today. Philippe heads our French nuclear operations and he will talk about our 2013 nuclear output. I will also spend some time providing you with more information on the potential transaction with Dalkia that we recently announced and confirm our full-year target for 2013.

Our performance has been good so far this year, particularly in France and the UK, although it has also been good in Italy with the renegotiation of the contracts that we announced in our first-half results. In France, nuclear output was up compared with last year and hydropower output was up significantly, at +27.7% compared with the same period last year. In the UK, nuclear output is relatively flat compared with last year, although this has been due to planned outages in 2013. Additionally, we benefited from a favourable weather effect in France of 8.5 TWh compared with last year.

During the third quarter, we announced some key steps. First of all, we have the Hinkley Point C project in the UK, where we announced the principles under which the final investment decision will be made and, secondly, we announced that an agreement was in sight with Veolia on our Dalkia partnership, which should be the final step in our efforts to restructure EDF's industrial partnerships.

Coming back to the sales results for the third quarter, total Group sales amounted to €55.2 billion during the first nine months. There was a favourable scope effect because of Italy and the full consolidation of Edison and a negative foreign exchange (forex) effect in the UK. Outside of those two effects, organic growth was positive at +2.9%, with a positive contribution from all our businesses.

For France, organic growth is +3.1%, which is explained by a weather effect that is positive by +8.5 TWh as well as the tariff effects, especially on the energy components of the tariffs, and a decrease in volumes sold, due mainly to the completion of a number of long-term contracts, which were reduced by €385 million during the first nine months of the year.

We then have the customary upstream/downstream analysis. Outside of the increase in hydropower output, which was +7 TWh compared with last year, there was a decrease in structural sales and auctions, but a strong increase in sales on the wholesale market, at +27 TWh, due to the increase in output, particularly in hydropower in France. In the first nine months, hydro conditions were very favourable in France compared with normal hydro levels, where we were up 27.7% compared with last year, even though we were at a normalised hydro level in September and are now in normalised hydro conditions.

I will now give the floor to Philippe, who will talk about our nuclear output in the first nine months as well as the action plans that have been put in place.

Philippe SASSEIGNE

Thank you, Thomas. The increase in nuclear output recorded as of September 2013 is testimony to the progress that has been achieved over the past three years in regaining industrial excellence in the management of our French nuclear operations. However, our efforts are far from complete. As you will see, we will need in particular to continue the in-depth work to change our industrial practices to be able to deliver a sustainable improvement in our operating performance.

As Thomas mentioned earlier, nuclear output was up 0.9% to 297.6 TWh as of the end of September 2013. There has been a steady improvement quarter on quarter of the output of the nuclear fleet. This was down 2.6% in the first quarter, virtually stable for the half year 2013 and up marginally after nine months of operations.

This was achieved despite a heavier volume of planned outages in 2013 compared with 2012, which translated into an increase of 283 outage days in the first nine months of 2013 compared with last year. This was possible because we have been able to bring down significantly the number of days of unplanned outages thanks to our programme of the replacement of large components which we launched a few years ago. We will of course continue to roll out this programme in the future, with the objective of keeping the number of days of unplanned outages at the lowest level as possible.

We have not been as successful so far in the management of planned outages and in particular we are experiencing a high level of outage extensions related to important technical issues at a handful of nuclear plants : Cattenom 4, Chinon 2, Saint-Laurent 2, Gravelines 2, Bugey 2 and Dampierre 1. Altogether, these outage extensions cost us about 400 days of production in September and October. We are containing this extension thanks to a vigorous action plan. However, more time is required to address the in-depth issues related to the management of outages and our priority today is to intensify and strengthen the management of outage duration that we initiated in 2013. This includes in particular the stabilisation of preventive maintenance during outages, improvement in the quality of the preparation and execution of maintenance, and strengthening the control of the restart of operations. The in-depth work that we are currently carrying out with EDF teams and suppliers is ongoing and will show results later than initially expected. This has led us to adjust our full-year nuclear output target to a 405 TWh-410 TWh range.

That concludes my remarks on French nuclear performance and I will be happy to take your questions later during the questions and answers session. In the meantime, I will hand over to Thomas for the rest of the presentation.

Thomas PIQUEMAL

Thank you, Philippe, for that update on our French nuclear operations and I will now resume our review of sales performance and move to the UK. On a reported basis, sales are flat in the UK, but if we exclude the forex effect we can see that organic growth is 4.9%. This growth has mainly been driven by an increase in wholesale prices and volumes sold on the market and there has been a shift in the upstream/downstream balance from structured sales - at -5TWh because of some contracts ending - to volumes sold under commitments made vis-à-vis the European Commission, which increased by 4 TWh in the first nine-month period. In Italy, excluding the scope effect, sales are up by 1.7%. The power business benefited from higher volumes sold on the wholesale market, which offset a negative price effect on the back of a 3.7% drop in demand in the global Italian power market. Gas volumes sold were broadly flat, with two effects. Gas consumption in power plants was down significantly, but this was mitigated by a rise in gas demand from end-customers.

As regards the upstream/downstream balance for Italy, there was a surge in market power sales in the electric business of 6 TWh and a drop in thermoelectric output of 3 TWh. Conversely, there was a drop of 2 billion cubic metres in gas sales to power plants.

In the other International segments, sales were up on an organic basis by 1% at €5.6 billion. This marginal increase in revenue had virtually no effect on margins in most markets. Conditions remain very tough, with prices that are down and a regulatory framework that is unfavourable in most of our markets in this segment, apart from outside Europe where sales picked up, especially in the United States, on the back of a higher nuclear output, even if power prices remain low and weak.

In the other activities segment, sales grew on an organic basis by 3%, driven by a very strong increase in the sales of EDF Energies Nouvelles, at +33%, to €715 million. This is due to higher wind output.

That concludes our review of EDF Group nine-month sales, which have been characterised by a good operating performance in France and the UK. As I mentioned in my introduction, we made good progress in the third quarter in some of the key priorities for the Group in 2013 and I will take this opportunity to provide more information on the potential Dalkia transaction that we announced recently.

I will start by saying that Dalkia is the last complex partnership situation that we inherited when we joined EDF in 2009 that we had to clarify, and there were a number of complex partnership situations that we had to resolve. Our stake in EnBW was sold in 2010; we took full control of EDF Energies Nouvelles in 2011 and of Edison in 2012; we eliminated Constellation’s put option on EDF in 2011; and we reached an agreement in 2013 on CENG with Exelon that provides us with a special dividend and a put option between 2016 and 2022 on our 50% interest in CENG. The closing of this transaction is expected in the first quarter of 2014.

With agreement in sight with Veolia on Dalkia, which we disclosed last week, we should now be able to tick all the boxes on these complex partnership situations. The agreement with Veolia on the principles of a potential transaction on Dalkia would provide us with a solid platform in energy services in France. Dalkia is a leading player in energy services in France, with an impressive network and footprint, a significant number of heating and cooling networks, industrial facilities and collective buildings. It has €4.1 billion in sales and a headcount of close to 13,000 employees excluding Citelum.

You are aware of the key terms of the proposed agreement with Veolia and according to these principles EDF Group would acquire the entire operations of Dalkia in France, with Veolia having the entire operations of Dalkia outside France. From a business standpoint, the French workforce will remain with Dalkia France and EDF will keep the Dalkia brand and will be able to leverage Dalkia knowhow for its international development. I would also remind you that we already have operations in this segment in Italy and Poland and some operations are starting in China. The agreement includes a cash payment from Veolia to EDF of €550 million and would translate into an improvement of Group credit metrics.

In summary, therefore, the proposed transaction would provide EDF with a comprehensive business platform, with significant synergies going forward. Thanks to the agreement, we should be able to reap significant benefits from our future commercial development and achieve the optimisation of supply with EDF Trading and synergies with other services businesses within the EDF Group. Meaningful synergies should be achieved in terms of organisation in the support function areas, the local production of thermal units and thermal renovation offers. Lastly, the agreement should result in the development and optimal use of the so-called *Certificats d’Economie d’Energie*, or Green Certificates, as Dalkia is a producer of Green Certificates.

As I have already mentioned, the proposed transaction will also improve Group credit metrics and here I would like to explain that first of all, starting in 1 January 2014, proportional consolidation will disappear within the EDF Group and when we analyse the effect of the transaction that is proposed with Dalkia we should first of all exclude the effect of this change in accounting policy. Due to the de-consolidation of our joint ventures that are proportionally accounted today, we would lose, as far as Dalkia is concerned, the EBITDA of Dalkia International with an effect of -€0.3 billion. However, we would also lose the financial debt that we have on our books today of €0.6 billion. The transaction effect is positive on those two metrics at roughly +€200 million of EBITDA, which is mainly Dalkia France's fully consolidated EBITDA, with a decrease in that financial debt of €400 million due to the fact that the €550 million of cash received plus the repayment of the subordinated debt that we partially financed within Dalkia International more than offset the debt that was consolidated in the French perimeter that we are taking over.

Overall, therefore, the transaction has a positive effect on EBITDA of +€200 million and there is a reduction in net debt of €400 million. When you combine those two elements of the change in accounting policy plus the effect of the transaction, compared with today's situation EBITDA would remain roughly unchanged but the net debt of the Group would be reduced by €1 billion. That is why I said that this transaction would have a positive effect on the net debt to EBITDA ratio.

Moving to next steps, we have an ambitious timetable where we believe that it is very important if we move forward along these lines to start integrating the businesses rapidly that we have a first phase of confirmatory due diligence in the forthcoming weeks so that we will be able to start the work on the consultation process within EDF, Veolia and Dalkia quickly. Our objective is to start the anti-trust pre-notification process early next year so that following the work on the consultation process and the signing of the legal documentation we will be in a position to notify the anti-trust authorities formally, with a view to closing the transaction in the first half of 2014 at best. This is an ambitious timetable but again we believe that time is of the essence and that we need to start the integration of these operations for the teams as quickly as possible, given that this process has already taken a long time.

Before taking your questions, I would like to say a few words on our financial outlook for 2013. Over the past nine months, we have been actively deploying our Spark cost savings plan and I am in a position today to tell you that we are ahead of schedule. €800 million or 80% of our €1 billion target has already been achieved as of the end of September. As expected when we disclosed our half-year results in July, the programme has gained significant momentum in the course of the last few months and this is particularly true in respect of CAPEX optimisation, which accounts for more than half of the cost savings achieved so far this year. I can also say that the cost savings have been evenly distributed across business units and Group entities.

On the basis of such results at this stage, we are raising our full-year objective by 20% to €1.2 billion and I think that this demonstrates the full involvement and commitment of the EDF teams to reach and even do better than the targets announced, and I would like to thank the whole EDF team for that.

As you will certainly remember, the objective of cost savings of €1 billion was one of our key priorities for 2013 and we have already addressed four of our six top priorities this year: the CSPE issue, which we addressed at the beginning of the year; the tariff equation; and making the right decisions in the UK, where we announced in the last few weeks a significant de-risking of our commitment to delivering a good project for EDF, even though there is more work to be done on this project in the months ahead.

We now have ahead of us the two remaining priorities for 2013. With ERDF, we have two objectives. The first objective is to ensure that ERDF benefits from a stable tariff regulatory framework at a time when we are convinced that the CAPEX investment effort has to be sustained within the networks in France. The second objective is to protect ERDF's value for the EDF Group. The other top priority that we still have to resolve is the

ARENH formula and you will know that after the communication from the French Government the decree is now expected by the end of March 2014.

In conclusion, on the basis of this first nine months' performance and the successful deployment of our Spark programme, I am in a position to confirm our financial targets for 2013, which we raised in July of this year: an EBITDA growth, excluding Edison of at least 3%; a 2013 EBITDA for Edison of about €1 billion; a net financial debt ratio of between 2 and 2.5 times EBITDA; and a payout ratio of net income excluding non-recurring items within the range of 55-65%.

That concludes our presentation and Philippe and I are now ready to take your questions.

Questions and Answers

Patrick Hummel, UBS

Do you already have a view on the nuclear output for 2014? It sounds as if it would be prudent to assume longer outages for upcoming 10-year maintenance as well.

Philippe SASSEIGNE

We will give you all our objectives for next year in February, but what I can say today is that reducing the duration of outages next year and in the following years is a high priority for us. As you have seen, this year was quite good for unplanned outages, although the duration was too long and longer than we expected. Our action plan, which was high priority, will have effect next year and in the following years and we will improve the production next year.

Andreas Thielen, MainFirst Bank

Could you give us a split on savings between CAPEX and the remaining €400 million and an indication of how much should stick in 2014?

Thomas PIQUEMAL

The split between EBITDA and CAPEX for the original programme is well known and is 45% EBITDA and 55% CAPEX. For the increase, it is about 50/50 between EBITDA and CAPEX, which is why we are able to maintain our full-year objective in terms of EBITDA growth and we are offsetting almost completely the slight reduction in our nuclear output, given the fact that the contribution of this output has to be priced at market prices, which as you know are have been quite low in 2013. Overall, therefore, the increase in the Spark objective results in a 50/50 split between EBITDA and CAPEX.

Andreas Thielen, MainFirst Bank

Secondly, will the full consolidation of Dalkia France happen retrospectively as of 1 January 2014 or as of date of closing?

Thomas PIQUEMAL

It will happen as of the date of closing. The numbers that I presented earlier are of course on a pro forma basis based on 2013 numbers and they just give an idea of the impact that both the consolidation and the Dalkia transaction have. However, from an accounting standpoint, the impact on our accounts for 2014 will be as of the date of closing.

Vincent Ayral, Société Générale

Firstly, as regards TURPE 4, can we still expect this review to be over by the end of the year? Secondly, does EDF contemplate accounting for a potential extension of its French nuclear fleet and could this be in the full-year results for 2013?

Thomas PIQUEMAL

On ARENH, the communication by the Government is clear on the proposed timing for the release of the decree. There are a lot of steps that need to be taken to get to the decree but that does not mean that we will not have clarity on the formula before the end of the first quarter, given all the steps that need to be taken. This will have an impact on the next ARENH volume to be sold in 2014 as the campaign is currently being carried out and it will be a case therefore of having visibility the sooner the better. Additionally, this is a key item for us in sharing a new mid-term vision with our investors. However, it is impossible for me to be more precise than that at this stage.

As far as EDF's accounting policy is concerned, I have nothing new to say here. I would just repeat what I already explained when talking about the first-half results that what drives us in EDF is certainly not accounting but an industrial strategy and an industrial vision. This is an industrial strategy that might have a significant impact on our CAPEX programme and a quick question that we might ask ourselves is whether our accounts fully reflect and are fully consistent with the industrial strategy. There is nothing new that can be said on that front and that is all that I can say at this stage.

As regards TURPE 4, our objectives are quite clear. We cannot stay the course in that way where we would need to increase the CAPEX programme within the network. We believe that it is absolutely essential to carry on with what we have been doing over the past three years from 2010 to 2012 and significantly increase the CAPEX programme in the network. We believe that that is necessary.

However, we cannot go on like that with a regulatory framework that is unstable. There needs to be visibility for both EDF and ERDF, so that is our key objective. We hope that we will find a way through this in the forthcoming weeks and that ERDF together with the regulator, the CRE, who are fully empowered to do this, improve the system, which is not satisfactory at the moment given the fact that we lack visibility.

We may or may not be in a position to be able to give you better ideas on this by the end of the year, but that is our objective. We are in the middle of discussions and have made some suggestions and put forward some mechanisms. We believe that our duty is to propose solutions, but, as I said, with the view to ensuring that ERDF benefits from a stable framework so that we can start increasing our CAPEX in the networks again.

Emmanuel TURPIN, Morgan Stanley

Good morning, everyone. My first question is on nuclear maintenance in France. It seems as if the reduction to your 2013 target comes from something that we heard last year as regards the level of planned outage extension. I would therefore like to come back to this and try to understand where this delay is coming from. Perhaps you could highlight one or two examples. You identified this last year, but are these new issues that are leading to the extension of the outage or is it more of the same from last year? What are you planning to do to try to improve the situation? That is my first issue.

My second topic relates to Italy. You were talking about a normative EBITDA of EUR1 billion. Do you see any reason to change this view? As you said, the Italian market is not very strong. Additionally, do you have any update on timing in relation to the long-term gas contracts?

As I understand we are constrained to two questions, I will just ask a third one. Do you have any view on when you would be able to come back to us and explain your mid-term budget? Essentially, therefore, do you have any view on the timing for a capital market date? Do you think that you will have to wait for the new energy law or could it happen before that?

Philippe SASSEIGNE

On your first question, we met this year with the people responsible for our maintenance programmes and the planned outages are similar to last year's. Our main problem in fact relates to the quality of how maintenance is carried out. Our action plan has three key points, as I explained, and the first of those relates to the quality of the preparation and execution of maintenance. We encountered problems in respect of quality that led us to carry out some maintenance operations again, given that we had had problems starting the reactors, which were principally the six reactors that I talked about in my presentation. We are therefore trying to develop a good action plan with EDF teams and suppliers to deal with this problem and I believe that we will have better results in the years ahead, given that this is an in-depth action plan. We are seeing the first results now at the end of this year.

Thomas PIQUEMAL

On Edison, I confirm that the normalised EBITDA level is €1 billion, and that is the number that I confirmed for 2013, by the way. Looking ahead, as we have demonstrated in the past, our most important goal is to maximise the renegotiation of the gas contracts and where we are unable to negotiate we will go to arbitration. We are therefore not in a hurry to get an agreement but are ready to go down to the last stage of the arbitration process. This might take a long time and it will take longer than expected, so there may or may not be an element of volatility with Edison's EBITDA again in 2014. All of this will of course be part of our full-year results and guidance in February 2014. However, this potential volatility is in no way contradictory with the fact that I confirm that the normalised level of EBITDA is €1 billion.

As far as the mid-term vision is concerned, we believe that after what has been achieved over the last four years in restructuring the portfolio of strategic partnerships, gaining control in most of our operations, deleveraging the balance sheet and with a clear long-term strategy already announced, EDF and its investors deserve to have a mid-term vision again, like the one that we presented in 2011. We therefore intend to do this as soon as we can.

However, you know that in 2013 we have had a long list of what we call priorities. Not all our priorities are on the list, but the list that I spoke about this morning contains our top priorities. We are well advanced on this roadmap and on delivering on those priorities. However, we are still missing two elements, and these are elements that we need to be able to share a mid-term vision with you because these two priorities of ARENH and TURPE may have an effect on our CAPEX programme.

At the same time, we are reviewing our industrial strategy and CAPEX programme going forward. As Philippe has just explained, we launched a thorough review of our ability to manage planned outages and this is also linked to the CAPEX that we spend during those planned outages. This of course is down to us, so it would not stop us from sharing a mid-term vision with you in February, for example. However, the two remaining issues on our priority list – ERDF and ARENH – are not dependent on us alone and the only thing that I can therefore say today is that once we have resolved the ERDF and ARENH priorities we will be in a position to share our mid-term vision with you.

Martin YOUNG

Good morning. I have just two questions. Firstly, could you expand a little on what you are looking for from TURPE or in terms of structure and the relationship with the municipalities and whether you think that there could be a negative earnings impact on EDF as a consequence of the negotiations and outcome?

Secondly, turning to the UK, there is obviously a considerable amount of debate on the price of electricity here in the UK at the moment and one of the things that crops up time and time again is the future of the carbon price floor, which is obviously something that you benefit from through the existing nuclear portfolio. What are your feelings regarding the risk of a revision or stabilisation of that carbon price floor and the removal of the large upward trajectory that it is currently on?

Thomas PIQUEMAL

On TURPE, I tried to explain what our objectives were. This is not a question of the impact on our net income as we have integrated tariffs, and it is not a question of profitability or accounting. It is a question of ensuring that there is a stable framework so that we have visibility and can plan on the increase in CAPEX that the networks deserve and that is necessary for operations. It is therefore really an industrial, operational issue that we are trying to resolve and definitely not a financial one.

ERDF is a marvellous operation and it manages a great network, but we lack the stable regulatory environment that ERDF needs to do its job. It is therefore not an impact on earnings or cash flow but on the regulatory framework and visibility. It might have an impact on the value of ERDF within the ERDF net asset value and we are of course defending ERDF's interests in that matter. However, it is not a question of net income.

As far as the relationship with the Local Authorities is concerned, we have made some progress as ERDF announced an agreement with the Fédération Nationale des Collectivités Concédantes et Régies (FNCCR) a couple of months ago. We believe that this is just a start and further discussions will of course be taking place. However, I did not include when I was talking earlier about the regulatory framework. I think that the regulatory framework is a question that needs to be handled by CRE, the regulator, with whom we are of course in discussions today.

As far as the UK debate is concerned, the only thing that I would like to say is that EDF Energy, our subsidiary in the UK, has called for a review of all the costs that are causing upward pressure on bills, such as the Energy Companies Obligation (ECO) programme and smart metering. As an operator in the UK, we welcome the recent announcement on this, but I have no further comment to make. It is for the Government to decide how it wishes to take all of this forward. We are engaged, as always, with policymakers and all parties in addressing this tricky issue, without forgetting the fact that there is a need for investment in the UK. I will therefore make no further comment on that front. I think that we have demonstrated to date that we have a consistent position on those aspects.

Benjamin LEYRE, Exane BNP Paribas

I have two questions. Firstly, can you remind us of the book value of EDF's stake in Veolia in your accounts at the moment and update us on your level of comfort with the current consensus expectations for the recurrent net income for 2013?

Thomas PIQUEMAL

I do not have that information off the top of my head, but it was based on the stock price as of the end of 2012, so that will give you an idea in terms of the shares that we own in Veolia. As far as the market consensus for 2013 is concerned, I can confirm that I am comfortable with the consensus in terms of EBITDA and recurring net income. I have nothing else to say on that. I can confirm that we are confident and comfortable with the consensus for 2013.

From the floor

I also have two questions, one of which is a more detailed question. Could you give us a breakdown of EDF Energies Nouvelles sales between the energy part and asset disposal, given that the DSSA or asset disposal are always included in the reviews?

My second question is more of a strategic one. Could you share with us what your expectations might be regarding the ARENH trend from now until 2015?

Thomas PIQUEMAL

The sales of assets have an impact on EBITDA but not sales within EDF Energies Nouvelles. The increase in sales is therefore really due to the increase in output and not sales of DSSA.

On ARENH, you know that our position is that the fact is that there is a law that was passed in 2010 that contains principles and we would like to have a formula reflecting those principles. As we speak, we are in discussions on this and we are not used to providing details on our discussions. We share our top priorities and objectives with you so that it is very clear what it is that we have to resolve and as soon as we can share something with you on the stability of our business and the strategic vision and strong portfolio of assets that we have, we will do so. However, I am afraid that I cannot share details on our views and what we are requesting when it comes to the ARENH price.

Patrick HUMMEL, UBS

Good morning and thank you for taking my follow-up question. I have a question related to the forthcoming decision on nuclear life and how it is accounted. Is it fair to say that this could potentially lead to higher income tax payments because the accounting earnings would obviously be a positive effect so that cash flows after tax would be worse? In that context, how would you think about dividends going forward? Even if accounting earnings per share (EPS) goes up, cash flows do not, so does it make sense in such a scenario to increase the absolute cash-out dividend-wise or would you possibly revise the dividend policy?

Thomas PIQUEMAL

The dividend policy is very clear for 2013.

Patrick HUMMEL

Yes. I was talking more about 2014 and onwards.

Thomas PIQUEMAL

I assumed that. Unfortunately, you will not be surprised if I tell you that I am commenting on 2013 today and expect to give you detailed answers to those questions in February 2014.

The only thing that I would like to explain from an accounting standpoint, as we are talking about accounting again, is the fact that the liabilities on our balance sheet are calculated as if all the plants will close when they are 40 years old and these liabilities are included in our financial debt as computed by the rating agencies. I would therefore not want to talk about the P&L or income tax effect without bearing in mind what the effect of our accounting policy in terms of accounting the life of fleet has on our liabilities. That is to say that it is a complex issue. If at some point in time there is a change – and again I have nothing to say on that compared with what I said at the end of July – I think that it would require a detailed explanation.

I would just conclude by saying that we are not doing accounting here and what is important to EDF is the industrial strategy. That industrial strategy would then have consequences for our CAPEX programme and our duty would then be to make sure that our accounts are consistent with the industrial strategy. Nothing more can be said at this point and, unfortunately, there is nothing new there compared with what I said at the end of July.

Thomas PIQUEMAL

I would just like to thank you again for attending the call and, as Kader just said, the team here is ready to take any additional questions that you may have. Thank you very much.