EDF
Thursday, 10th November 2011
17:15 Hrs UK time
Chaired by Thomas Piquemal

Thomas Piquemal

Good afternoon everybody and thank you very much for attending this conference call. I am Thomas Piquemal, EDF Group CFO, and I will provide you now with an overview of our latest developments and quarterly revenue trends.

Let me start with Group highlights during Q3 of this year, and I start on page 2. There are 3 main points to remember from the first quarter and all three are consistent with our commitments shared with you before. The first one is on industrial performance. You will remember that one of our initial commitments was to improve in a lasting way our industrial performance, particularly in respect of the operations of our nuclear fleet. In France YTD output is up 16 TWh, or 5%, compared to the first 9 months of 2010. On this basis we are in the position to raise, for the second time in a row, our targets in terms of French nuclear output, to 415-420 TWh range and we are also able to upgrade our availability factor to a 79%-80% range.

The only concern on the industrial performance remains, as during H1 2011, the poor hydro conditions that continue to weight on hydropower output, which is down almost 10 TWh YTD. Nuclear output was also improving in the UK, +26%, compared to last year. You will also remember that one of our main priorities was to regain industrial control over our businesses and therefore address the issue of our partnerships. In 2010 we severed our relationship with Constellation which actually was not partner to us and we struck an agreement to sell our financial interest in EnBW.

More recently we bought out the minority interest in EDF Energies Nouvelles, as we believed that the competitive landscape was changing and that our renewable business was best equipped being part of the EDF Group to benefit from new business trends. The only remaining partnership situation is in respect of Edison where we found, a couple of weeks ago, a Framework Agreement with our Partner, and this Framework Agreement makes good industrial sense. We are now working on the finalisation of this framework within the extended deadline of the Shareholder Agreement.

Finally, you will remember that we had an objective to strengthen our financial structure and the upgrade of our rating by S&P during the summer is testimony to their thoughts that have been made in this respect. You will also remember that we wanted to actively manage our debt profile in order to better match our long duration assets and some progress has been achieved in this respect during the last quarter, thanks to the successful issuance of a £1.25bn bond with a 30-year maturity. This enables us to further extend maturity of our gross debt to 9.1 years, versus 8.4 at the end of June 2011, while keeping the cost of debt stable, at 4.2%.

Those were the highlights of the quarter and let’s now review sales trends, starting with the Group’s performance summarised on slide 3. You will certainly remember the notion of adjusted figures which we introduced at the end of July for H1 2011 results. We kept the same notion for this 9M sales. Those are like-for-like figures, excluding RTE, EnBW, Eggborough and the UK networks. As you can see on the bar chart in grey, 9M 2010 adjusted sales amounted to €45.9bn and, stripping out currency changes mainly related to the stronger Pound versus the Euro and additional scope effects, the organic growth is 3.2%, or close to 1.5 billion, mainly driven by the French business and to a lesser extent by good sales performance in Italy and the other international businesses.

As you can see on slide 4, the French business posted €27bn sales during the first 9 months, or 4.3% organic increase, compared to the comparable reporting period. Tariffs and prices contributed to a total of €1.1bn to this growth and the second positive effect is additional net volume sold on the wholesale markets for €0.8bn. This positive impact was offset by other negative volumes effect, a combination of milder weather conditions on the negative side for slightly less than €1 billion and also increased volumes sold at ARENH for the very simple reason that ARENH didn't exist before.

As you can see on the table on slide 5, deregulated activities up 6.2%, explained most of French sales growth. As mentioned earlier, this is due to the evolution of the integrated tariffs and higher net sales on wholesale markets and, on the other hand, the regulated business posted a 1.1% sales increase, owing to the impact of milder weather on power volumes on the distribution network. Those are the main figures for the French business.

I would like to walk you through the industrial data and volume analysis, starting with our customary upstream/downstream balance shown on the following slide 6. The bar on the left-hand side shows a 6 TWh increase in the overall generation/purchases activities of the group in France for the first 9 months of the year. You can see the effect of the surge in the nuclear output by 16 TWh, which has already been mentioned, as well as the drop in hydro production, due to poor hydro conditions of -9 TWh.

It is also worth mentioning the decline of fossil fuel output as a result of optimisation efforts. The main feature on the right-hand side is of course volumes sold and the ARENH mechanism, for a total of 15 TWh, during Q3 2011 - those are volumes sold to our competitors since its implementation on 1st July 2011. Those volumes were in practice before that mechanism sold primarily on the wholesale markets. The second feature of this chart is the 24 TWh decline of volumes sold to end customers. This is predominantly explained for 14 TWh by the milder weather conditions which impacted residential customer demand and for also about the same volume other volume decline in market share.

Let's now focus on the French nuclear fleet performance on the next page. As you can see on that page, output was up 5.4% end of September and on a cumulative basis 5.1% as of the end of October. This is a stronger basis of comparison since the turnaround of the performance was already experienced in October 2010 and this is also the effect of planned outages as announced before, which you can see on the next slide, but overall a strong increase in industrial performance in France.

On slide 8 you can see the breakdown of outages during the first three quarters of the year. You will remember that we planned to have 9 decennial visits in 2011compared to 5 in 2010. You will also remember that the majority of those decennial visits were scheduled for the second half of 2011. As you can see, there has been a 264-day in planned outages during this Q3, reflecting the timing, but maybe the most important observation that can be drawn from this chart is in terms of improved management of planned outages and the sharp reduction of the impact of unplanned outages. The figures speak for themselves and this is again testimony to the improved management of the nuclear fleet. This was one of our first objectives 18 months ago.

This improved performance of the fleet enabled us to raise our targets in terms of output for the year, for the second time, and also lift our availability target from 78.5%, to a range of 79-80%, despite a greater number of decennial visits this year than in 2010. As I said earlier, the impact of the improved operations of the French nuclear fleet on the overall performance of the group was partly offset by poor output from the hydropower plant,especially since one TWh of hydropower has a higher Euro value than one TWh of nuclear power.

The chart on slide 9 provides an analysis of hydrological conditions. On a monthly basis, relative to historical average over the 2000-2010 period, you can see on the red line that we were consistently below 2010 and even sometimes below the historical averages. I also have to say that the month of October was one of the worst months ever. Overall we lost almost 10 TWh, compared to 2010, roughly -32% and obviously this offset partly the strong performance of the nuclear fleet.

In the UK, as you can see on the next slide, our business posted sales of €6.2 billion, down from €6.9. The stronger Pound against the Euro translated into a negative €163 million. Excluding those changes, sales declined 7.6% on an organic basis, due to the drop in volumes in the B2C market because of milder weather conditions, but most significantly in the B2B market following market share losses – this is not to the detriment of course of the overall margin of the Group as the main positive factor during this quarter was the increase in nuclear availability which will leave an increase in our overall profitability of our UK business.

You can see what I have just said on the next slide 11, which shows the upstream-downstream balance. As you can see on the left-hand side of the chart, the rising nuclear output combined with the drop of B2B volumes actually meant lower net market purchases. This is of course a positive factor for our UK P&L. On the downstream balance, maybe two additional features worth mentioning; the end of the Legacy contract of British Energy which led to 8 TWh decline in structured sales and the 4 TWh increase in sales to Centrica. There is of course a base effect in this increase as the delivery of power to Centrica only started in April 2010.

As shown on the following slide, sales rose 13.1% in Italy, of which 12.8% was organic growth. Edison posted sales of €4.3bn, up 13.8%. Edison commented its numbers and we'll go through that very rapidly. Both power and gas sales contributed to the growth in revenues. On the power market Edison did benefit from higher power prices and the development of sales on the wholesale market. On the hydrocarbon business sales growth was assured by higher gas prices, although the margins remain under pressure particularly in the gas business. Key to the improvement of Edison's performance is the renegotiation of the long-term gas contract; some progress has been made, thanks to the positive outcome of the negotiations with Promgas in July, but the situation remains nevertheless challenging.

As you can see on the next slide in the next segment, sales increased by 9.2% over the last 9-month period, and this was assured mainly by the good performance of our Belgium operations with sales up 15.8%, thanks to electricity volumes sold to B2C customers and price effects. Other Europe also recorded 6.6% organic growth. ESTAG performance was particularly strong. In Brazil, through our IPP at Norte Fluminense, we also achieved a very good increase in sales, thanks to more exports especially to Argentina.

In our other business (next slide), good performance of EDF trading in particular, but overall in this segment sales are down 2.9% on an organic basis. This is explained by lower sales at EDF Energies Nouvelles posting a 12.3% decline. This is due to much lower sales of projects – revenues were down compared to 2010 which was a record year – nevertheless performance is in line and develops positively. For example organic growth, excluding sales of projects, stood at a healthy 11%, with new projects in our renewable business being commissioned and the FY effect of 2010 projects. As I said in the introduction to this page, EDF Trading posted a 3% growth in sales, thanks in particular to new developments in North America and short-term optimisation of EDF's French fleet. Q3 2011 represents a good performance.

All in all, those numbers on our performance for the first 9 months enable me to confirm our objectives for 2011; EBITDA growth between 4 and 6%. Net financial debt/EBITDA ratio: 2.1-2.3x, including the impact of the Energies Nouvelles transaction and dividend at least stable, compared to last year.

Now, a couple of slides on the Framework Agreement reached on Edison, just to remind you that we reached an agreement on key principles for restructuring in Paris on 27 October. Last week, respective boards of A2A, Iren and Delmi (our partners) approved the guidelines and therefore we extended the shareholder's agreement until the end of November, in order for us to finalise this agreement. There are two aspects to this agreement, first of all an industrial reorganisation and then a shareholding reorganisation.

As far as the industrial reorganisation is concerned, I think I can say that our partners and EDF meet their targets. Our partners wanted to create and to strengthen their exposure to the renewable sector and this is the case as the two hydro plants of Edipower, Mese and Udine, for approximately 660 MW will be transferred to A2A/Iren. Delmi we have the rights to acquire 250 MW of wind power assets in 3 years, payable in Edison shares at fair market value. This was the first stated objective of our partners and through this restructuring this objective is met. As far as we were concerned, our objective was to strengthen Edison and this is the case.

Due to this Framework Agreement, Edison's position as Italy's number two power generator is strengthened. Installed capacity will go from 11 GW to 15 GW, with full control of its assets, a better balance between its gas position and large-scale, gas-based electricity generation, whilst keeping also hydropower for in excess of 1,000 MW. In addition to this industrial strengthening, there is a clearer governance in principle, in order for us to be able to deploy our industrial projects for Edison. We intend to maintain a strong listing of Edison in Italy, a stronger equity story, and we hope to attract and to keep attracting strong Italian shareholders.

On the other side, as I said, there is the reorganisation of the shareholding of Edison; our agreement with Delmi and how the holding works. We intend to proceed with the 50/50 proportional demerger of TdE, resulting in direct ownership of 50% for EDF, roughly, and 30% for Delmi. As you can tell, through this restructuring, we would not buy one share of Edison. We also intend to negotiate according to the principles that we agreed upon, a new shareholders' agreement giving EDF control and granting protection rights to Delmi.

Our partners also wanted to have some liquidity mechanisms. Those liquidity mechanisms are briefly described on page 19. There is a put option granted by EDF on 25% of Delmi's stake; maturity 3 years and price will be determined in 3 years on the basis of a sample of Italian comparables EBITDA multiple, and then there is also an additional liquidity mechanism if we are unable, between 3-5 years, to ensure proper liquidity of the Edison stock on the Italian market. If we are unable to do so, then we will have a put based on fair market value at that time.

As I said, we extended the shareholders' agreement on the basis of this mainly industrial agreement, with a view to finalising our negotiations around those principles by the end of the month of November. During this period of time we'll have discussions with CONSOB and will finalise all the different contracts. We'll also finalise the Edipower debt allocation based on fair market value independent expert assessment and proceed with confirmatory due diligence, especially on one asset that we will buy from A2A, the Gissi plant.

This is a summary of this Framework Agreement with our partners through Edison and my opening remarks tonight, and I am now ready to take your questions. Thank you.