

Nov 10, 2023

Rating and Investment Information, Inc. (R&I) has announced the following:

Electricite de France S.A. (Sec. Code: -)

[Assigned]

Issuer Rating: AA, Stable

RATIONALE:

Electricite de France S.A. (EDF) is the state-owned power utility of France. In June 2023, the French government completed the process of taking full control of EDF by acquiring all the outstanding issued shares of the company. EDF owns and operates all nuclear reactors in France, and has a dominant market share in the country, running the electricity businesses including power generation, distribution as well as the retail and wholesale business of electricity. EDF has a strong business foundation with its extensive operation at home and overseas. In 2022, the French government did an about-face on energy policy, marking a shift from the past policy to reduce dependence on nuclear energy onto the "nuclear renaissance" policy aimed at increasing the electricity supply by utilizing nuclear and renewable energies, where EDF plays a central role as an entity responsible for the implementation. The credit rating of EDF largely reflects the creditworthiness of the French government, given the company's considerably important position in national energy policy as well as the country's high reliance on nuclear power. Nonetheless, EDF has a heavy debt burden and needs a large amount of funds for the renovation and life extension of existing nuclear power plants and the construction of new reactors, making it difficult to make major improvement in its financial profile for some time to come. Taking also into account EDF's exposure to business risks coming from susceptibility to price fluctuation under the wholesale market system of electricity, R&I has assigned the Issuer Rating of AA.

The EDF group's total power generation capacity reached approximately 117 gigawatts (GW) at year-end of 2022, with about 86.5 GW in France. The most part of power generation capacity comes from nuclear power plants, and its power generation covers about 70% of the country's power supply. The most important contributors to group sales and profits are the domestic businesses of power generation and wholesale & retail of electricity. Its regulated distribution business through a subsidiary almost dominates the domestic market with revenues steadily growing. EDF accounts for more than half of the domestic retail market. In the overseas market, the company has a presence as a major energy business operator in the U.K. and Italy, and operates in a wide range of countries including China.

EDF has seen a relatively stable trend of earnings, except for 2020 when the COVID-19 pandemic affected it. However, it faced a sharp decline in power generation in 2022 as a result of nuclear reactor outages for reactors' maintenance linked to corrosion phenomenon. In addition, the government determined to increase the amount of power supply under the system (ARENH) that obliges EDF to sell electricity at a certain price to other suppliers, and limit the increase in regulated electricity prices as a measure against high inflation. Due to those measures, EBITDA of the domestic power generation and wholesale & retail activities turned into a deficit. Despite the relatively strong performance of other segments, EDF also posted a consolidated net loss and its net debt increased significantly. As for the first half of 2023, EDF has recorded considerable improvement in earnings thanks to higher regulated prices and the increased volume of power generation among other factors and will likely achieve its target of net debt-to-EBITDA ratio of less or equal to 2.5x for end 2023.

EDF expects the nuclear power generation to stay on an upward path after hitting the bottom in 2022. Nonetheless, the nuclear power generation volume will likely remain below the pre-pandemic levels at least until 2025, because of outages of reactors due to the renovation programme, or Grand Carenage, aimed at ensuring higher safety and prolonging the lifespan of nuclear reactors. In addition to the costs associated with the major renovations, additional investment costs are expected to be incurred due to an acceleration in renewables, development of distribution network, construction of a pair of EPR reactors in the U.K., etc. So far, the company's capital investment has exceeded its net cash from operating activities. EDF will likely continue to face a heavy investment burden in the long

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>
Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <https://www.r-i.co.jp/en/docs/policy/site.html>.



NEWS RELEASE

term, given that the French government has announced its plans to prolong the lifespan of domestic nuclear reactors to more than 50 years, as well as the plan of constructing 6 to 14 next generation European pressurized water reactors (EPR) and some small modular reactors (SMR).

The move of the government to take full control of EDF indicates the company's strategically important role in the national energy policy. So far, the French government has supported EDF to bolster its financial strength through capital increases and other measures. The government support is indispensable for large-scale capital investment such as the construction of new nuclear reactors. Although specific measures have not been finalized at this time, R&I believes that EDF will likely receive sufficient government support to pursue the goal of national energy policy. Going forward, eyes are on the forthcoming government initiatives including a review of the ARENH system which will expire at the end of 2025.

R&I RATINGS:

ISSUER: Electricite de France S.A.

[Assigned]

	Rating	Rating Outlook
Issuer Rating	AA	Stable

Primary rating methodologies applied:

R&I's Analytical Approach to Government Agencies [Dec 26, 2022]

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>
Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <https://www.r-i.co.jp/en/docs/policy/site.html>.