



EDF Third Quarter 2016 Sales and Highlights

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EDF Group Sales and Highlights Q3 2016

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Good evening everyone. I am pleased to welcome you all to this conference call. I will walk you through our 9-month 2016 sales, starting with the main highlights over the period, and I will close my presentation with our financial outlook.

As usual, I will leave as much as time as possible for the Q&A session, a session during which Dominique Minière, EDF's Group Senior Executive Vice-President for Nuclear and Thermal generation, will join me to answer the questions you may have on our generation fleet.

Let me start with the key strategic highlights since our previous communication, end of July, on slide 3. As you know, a major milestone was reached in the course of September regarding the **Hinkley Point C project**. On 15th September, following a comprehensive re-examination of the project, the British government gave its green light to the construction of two EPRs at Hinkley Point. EDF, the UK government and our Chinese partners CGN were hence able to sign the final contract for HPC in London on 29th September.

On the **renewable** front, **EDF Énergies Nouvelles** has been very successful in a series of recent tenders. Firstly, in France, where EDF EN's innovative solution of floating offshore wind turbines was selected for a pilot project off the Mediterranean coast, near Marseilles. And then with recent winning bids in Latin America, where solar and wind projects gave a significant boost to EDF EN's activities in the region. As a result, we now have 648 megawatts of new-build projects in Chile, Brazil and Mexico. Together with other projects under development, this represents a total pipeline of 1.4GW in those countries.

These two achievements are key steps in the implementation of the first pillar of the Group strategy, CAP 2030: building a leader in low-carbon generation.

The launch of **Sowee** on 13th October is key in delivering the second CAP 2030 pillar: enhancing customer service. Opening up the world of the connected home, Sowee is an object associated to an app specially designed to manage residential energy consumption, optimise comfort and remotely control everyday connect devices. The launch of Sowee is linked to a dedicated natural gas offer, including a 3-year fixed-price contract and Smart Hub's sensors, which enables control of home's central heating to the nearest zero of degree. Sowee was developed and launched through a dedicated subsidiary in order to innovate with consumers in start-up mode. Sowee's ambition is to serve 1 million homes within 10 years.

In **energy services**, **Dalkia** has recorded a number of commercial successes. Let me highlight two of them. First, the landmark contract for the *Communauté d'agglomération Grand Paris Sud* - a large urban area in the southern part of the Paris region for which Dalkia will manage a large district heating network over a period of 25 years. Dalkia also signed a

7-year contract with *Aéroports de Paris* for providing multi services to their technical buildings.

On slide four, some significant developments as well in Poland, with the exclusive negotiations that we have entered into to **sell EDF Polska assets**. We have received a binding offer from IFM investors for our cogeneration activities in Poland. A separate sales process is also ongoing for our 1.8GW coal-fired plant at Rybnik, for which we have entered into exclusive negotiations with EPH. These transactions are of course subject to the approval of the relevant authorities and to the agreement of the Polish government. On that basis, we expect to finalise the sale processes in the course of 2017. So, this is another significant development in delivering on the disposal plan announced by the Group on 22nd April 2016 under the overall framework of EDF's CAP 2030 strategy.

On the **financing front**, the Group took new steps in ensuring diversified and long-term senior debt, taking advantage of the great financing conditions prevailing at the beginning of October. We issued the equivalent of **€5.4 billion**, in Euro-, US dollar- and Swiss franc-denominated senior bonds, with maturities ranging from 8 to 40 years. This included a €1.75 billion Green Bond to finance not only new wind and solar PV projects but also modernisation and upgrade of our French hydropower fleet. This also included the first ever 40-year Formosa bond. These issuances yielded a 0.9-year extension of the average maturity of our gross debt, which stands at nearly 13 years. This is the first series of issuances launched under the new Group rating of A- and A3, at S&P and Moody's, both with a stable outlook. This shows investor's confidence in EDF's credit.

Lastly, the Group made significant progress on its HR transformation path, which is critical to delivering our CAP 2030 strategic plan. 89% of our managers chose to opt in the new working time agreement, as at end of September. This will enable the Group to adapt its organisation and improve its collective performance. And as recently as last week, EDF signed a new agreement with unions on the adaptation, transmission and development of skills over the next 4 years.

Moving on now to slide 5, to Operating and Financial Highlights since our H1 results and looking first at the key trends in the **EDF group's 9-month sales. They are down 3.1% in organic terms**. This reflects the challenging wholesale power price environment, as well as intensifying competition in the sector throughout Europe. These effects were partially mitigated by the favourable impact of the retrospective 2014 tariff adjustment in France. You may remember that, following the June 2016 decision by the Council of State, the French government issued revised tariff orders for the period ranging from 1st August 2014 to 31st July 2015. This adjustment was recorded in our financial statements at end September with a positive impact on sales of just over €1 billion.

The controls we are carrying out on certain French nuclear reactors and their impact on the availability of the nuclear fleet have obviously been a key element of our operating

performance over the last few weeks. In that context, our **9-month nuclear output was down 19.2TWh**, compared to the same period last year.

We also announced the result of the option to take the interim 2016 dividend in shares. This dividend had been set at €0.50 per share and the scrip option was exercised for 91.8% of the rights.

Let me now move on to the overview of EDF Group sales on the next slide. Over these first 9 months, **sales came out at €52 billion**. Once adjusted for scope and especially forex effects, this represents a 3.1% drop over the same period in 2015. Overall, sales in all segments were affected by low power prices in Europe, as well as intensifying competition in our main supply markets.

Let me elaborate on that by moving on to the detailed review by segment. Let us start with **France**. The 9-month 2016 sales came at €28.8 billion, representing a slight growth of 0.4% versus the same period last year. You can see here the positive impact of the 2014 tariff adjustment for €1,018 million. Sales also reflect the positive impact of changes in regulated tariffs, especially the tariff increase of 1st August 2015. These positive effects were offset by the changes in market conditions, in particular the end of Yellow and Green tariffs and the lower wholesale power prices that carried a negative combined impact of €880 million. In this lower-price environment, the end of certain long-term contracts also contributed negatively.

This is reflected on the next slide that shows the **upstream and downstream analysis for France**. The right-hand side of the chart shows that the end of Yellow and Green tariffs and of some long-term contracts triggered the transfer of sales volumes to the wholesale market for more than 40TWh. The left-hand side shows an increase in hydro output, partly compensating the reduced nuclear output.

Let us have a closer look at nuclear output. **Nuclear generation** was down 19.2TWh, at 287.1TWh for the first 9 months of 2016. This lower French nuclear output reflects the extension of planned outages linked to additional controls, in particular on steam generators concerned by the issue of carbon segregation. Our priority is to demonstrate to the safety authority ASN that the corresponding reactors can operate in a fully safe mode. In that context, we have had to adjust the restart date of certain reactors. Accordingly, we revised last week our 2016 nuclear output target from a range of 380–390TWh to another range from 378–385TWh.

Moving now to the next slide and to French hydro generation. The **hydro output** over 9 months is up 2.8TWh to 34.2TWh. This reflects the more favourable hydro conditions experienced and leveraged until end of August compared to the same period last year, as you can see on the chart on the right-hand side of the slide. Note that hydro conditions in September were lower than last year and in the lower range of the ten-year reference.

Looking now at **the UK** on the next slide. Sales in the segment came to €6.8 billion, down 10.4% in organic terms, i.e. excluding a significant forex impact. Nuclear output came at 48TWh, which is 3.5TWh above the level of the first 9 months of 2015. This reflects the continued high operating performance of the British nuclear fleet. The strong operational result of UK generation activities is mitigated by the impact of lower wholesale power prices. In B2C supply activities, the average number of product accounts reached 5.2 million, down 1.3% in comparison with the end of September 2015.

Let us now move to **Italy**, where sales are down 5.8%, in organic terms, to €8.1 billion. Edison's electricity activities experienced a drop in sales driven by lower prices and slightly reduced sales volumes. While hydrocarbons activities were hit by lower commodity prices, this was more than offset by a strong increase in sales volumes on wholesale markets, as well as to end-customers, both industrial plants and gas-fired power stations.

Moving now to the **Other activities** segment on slide 13, 9-month sales came at €4.6 billion, down 3.8% in organic terms. Dalkia's sales are down slightly under the cumulative effect of less favourable weather and lower gas prices. The change in EDF EN sales is penalised by non-recurring positive items in 2015 with no equivalent in 2016. Generation output recorded a 15% increase. Trading margin at EDF Trading is up 6.3% organically, supported by favourable positions on short term power and gas markets.

Finally, the **Other International** segment on slide 14. Total sales of the segment came at €3.7 billion, down 6.5% in organic terms. Belgian sales were down 9.1% as prices dropped both in gas and electricity. This was partly offset by higher sales volumes to B2B customers. Sales in Poland increased by 6.2% under the positive impact of higher output at Rybnik, as availability grew following the end of modernisation work. Increased heat tariffs and favourable weather conditions supported heat sales.

Brazil sales were up, supported by the annual price review under Norte Fluminense's PPA.

The end of the Figlec concession in H2 2015 penalised sales of the segment over the first 9 months of 2016.

Lastly, let me highlight the elements of our **2016 guidance**:

- Our recently revised EBITDA target of €16–16.3 billion, which includes approximately €800 million of tariff catch-up
- A net financial debt between 2x and 2.5x EBITDA
- 55 to 65% as a pay-out ratio applied to net recurring income, adjusted for the hybrid coupons
- Delivering in 2018 a positive cash flow after dividends, excluding Linky, new developments and disposals remains our ambition.

This concludes my presentation and I am now, with Dominique Minière, ready to take your questions.

Q&A

Alexandra Schlegel (Bernstein): Good evening, three questions for my side. Could you update us on the status of the ASN investigation on Flamanville? Is the end of January 2017 still a reasonable timeline and is there any relationship with the current issues that led to the unexpected stoppages of the reactor? And if yes, could this affect the start date of Flamanville?

And then the second question: can you please update us on where do you see commodity prices in 2017 and how do you expect this will impact you?

And the third question is: in light of the most recent results and the discovery of improper practice at Areva, would you confirm the equity value that you affirmed in the past for 100% of Areva? Thanks.

Kader Hidra, Head of Investors & Markets, EDF Group: Sorry, before we answer the question, we remind our participants that, as a standard market practice, we simply ask you to limit yourself to two questions, please.

Dominique Minière: So, concerning the first question, about Flamanville 3, so as you know, the file was opened with ASN in April 2015. Since April 2015, we have set up some kind of plan to demonstrate that we can operate safely our reactor vessel and reactor vessel head. This plan has led to more than 1,600 samples to be checked and we have finished now all these 1,600 samples and the results are positive. We are finalising today the file that we will send to ASN. We will send this file at probably end of November, beginning of December. ASN has already told us that they will take some months to consider these files because it is a very complex file and we do expect a final answer from ASN in the first semester of 2017 and considering the file, which is very solid, we are very optimistic on a positive response from ASN that we could, in the coming years, operate safely Flamanville 3 with the existing reactor vessel and the existing reactor vessel head.

Alexandra Schlegel: Okay, thank you, that is clear.

Xavier Girre: As regards your two other questions, first, as regards Areva, we are finalising discussions, taking into consideration also the protection that we have always stated to get as regards the quality programme that you referred to.

Secondly, as regards the prices for 2017, as you have seen, the forward prices are quite high for 2017. I would like to stress the fact that, as you know, we have a hedging policy in place that allows us to set forward up to three years in advance but of course we do not disclose at which level. But just as an illustration, in this frame we managed to start the year with a vast majority of volumes hedged. It means that today a significant proportion of our 2017 output is hedged and the average price will reflect only marginally the current 2017 prices, as it has been only two months since 2017 forwards increased sharply.

Alexandra Schlegel: Okay, thank you.

Julie Arav (Kepler Cheuvreux): Good morning. My two questions concern, the first one, the regulatory issues. You mention in your press release that you got the approval from the

EU on the capacity markets mechanism. Can we have a clearer picture on what are the next steps, going forward? I guess the auctions will need to take place shortly. You already have 83GW of capacity which is already certified, so can we have an idea of when and what kind of financial impacts we can expect for EDF?

And the second question is on EDF Polska. Can we have an idea here on the valuation level you are talking about? Thanks.

Xavier Girre: Thank you for your questions. As regards the capacity mechanism, we understand that the European Commission has approved today the capacity mechanism and, as a consequence, this allows the French capacity mechanism to start 1st January 2017 and EPEX will organise the first auction on 15th December for 2017. We have, at this stage, no communication about the potential impact we may have for next year, of course, but you may know that at this stage we have 78GW of capacity certified. Also, not all of them will be monetised, of course.

And second point, as regards EDF Polska, we do not communicate which price we are currently negotiating.

Julie Arav: Thanks.

Kader Hidra: Thank you. We have other questions on the webcast on the internet, so first question from **Ahmed Farman (Jefferies):** "Can you help us understand how the scope and scale of the issue affecting your French nuclear output changed since H1 results? And when do you expect all of the 12 nuclear reactors to be back online after getting safety clearance?" So, that is a question for Dominique Minière.

Dominique Minière: Thank you for the question. So, to be clear also, we are today addressing two kinds of topics which are quite different from the situation we are facing with Areva issues, with some files concerning Areva. There are some technical issues, concerning mainly carbon segregation, as said by Xavier here just before. This is a technical issue that we are addressing today, and there is another issue which is dealing with audits and finally the irregularities that we have discovered in Creusot factory, irregularities which are dealing with pieces which have been forged in Creusot for more than 30 years. So we are addressing today the two issues.

To be clear with you, concerning carbon segregation, we have today 7 reactors which have not restarted after that we have pointed out that we have some carbon segregation on the bottom of some steam generators. On these 7 reactors, we are expecting 2 of them going back and connecting back to the grid at the end of November and 5 reactors for which we expect reconnection to the grid end of December. And concerning the other ones, they will be controlled since December up to mid-January. That is dealing with the carbon segregation issue.

After that, we have another topic which is due to irregularities in some manufacturing sites which are, today, affecting two reactors:

- Fessenheim 2, for which we have now completed a complete file demonstrating that one of the steam generators for which we have an irregularity could be restarted without damage but this file has to be, once again, presented to the nuclear safety

authority and to be analysed by the nuclear safety authority. We do not expect the reactor to be back on the grid before end of March.

- And the other one, Gravelines unit 5, for which normally we should have begun the replacement of one steam generator during this summer. But on one steam generator that we were on the way to put and to replace one existing steam generator, we have discovered that there was an irregularity on one of the steam generators. So we cannot do, for the moment, the operation of steam generator replacement on Gravelines 5. We are looking at several ways to handle this issue. Considering the different ways we can handle the issue, we are now in a position, as we have declared, I think, yesterday, that we will get this reactor back to the grid end of June next year.

So, just to be clear, carbon segregation, I do think, I am confident, we can handle this situation in the coming weeks. Considering the irregularities for the moment concerning only Fessenheim 2 and Gravelines 5: for Fessenheim 2 reactor, we expect the reactor back on the grid end of March and Gravelines 5 end of June 2017.

Kader Hidra: Thank you Dominique. We have two other questions from the web. It is from **Emmanuel Turpin (Morgan Stanley)**. The first question: "On HR transformation, could you please explain how the new HR organisation will help you be more efficient and how much this will contribute to cost savings and what organisational benefits will it bring to EDF?"

And the second question is on the capacity mechanism: "What is your view on the time of implementation and will this bring extra revenues?"

Xavier Girre: Thank you for these two questions. As regards the capacity mechanism, I expect the mechanism to be put in place in January next year and we'll see what will be the financial impact.

Secondly, as regards the HR transformation, we signed a company-wide agreement on the adaptation and the transmission and development of professional skills for the period 2016–2019. And the goal of this agreement is to help people anticipate changes and to develop their employability, particularly for young workers in order also to strengthen their internal mobility. This will be done on the basis of training procedures, digital technologies and we will help, of course, our staff to adapt to our strategic CAP 2030 programme. On top of that, the agreement provides for retirement leave that allows employees from business lines that are not growing to benefit from the transition period between their professional activity and their retirement. So, this will also help our adaptation and both our strategic programme and our financial trajectory.

Sophia Hart (Société Générale): Good afternoon, thank you for taking my questions, I will have two. The first one is regarding the mechanism of ARENH. We are aware that you have an obligation to sell 100TWh to other competitors but could you clarify, in terms of timing, when this is done and how it is done because there are quite a few questions on this at the moment?

And the second question is: when do you expect to give us an update on your nuclear production outlook for 2017, please?

Xavier Girre: Thank you. First, as regards the ARENH, it is important to have in mind that ARENH was established some years ago, in 2011, to allow alternative suppliers to benefit from sourcing economic conditions equivalent to those resulting from the use of its nuclear plants by EDF to supply their end-customers. And today we are experiencing new market conditions with very high prices in late 2016 and the first quarter 2017. And in this context, because of biases in the text currently governing ARENH, alternative suppliers have the option to request ARENH volumes on 16th November at a price of €42/MWh not in order to supply their customers over the year 2017, something they have already done throughout 2016 at more favourable wholesale prices than ARENH, but to sell the volumes on the wholesale market to EDF cost.

In order to prevent this bias of the ARENH mechanism, the government submitted yesterday evening two draft regulations to the *Conseil Supérieur de l'Énergie*, the High Energy Board, to amend the regulations to avoid quarterly and semi-annual speculative behaviour, with two points. First, revision of the ARENH framework agreement, via ministerial order, based on a proposal from CRE. The proposal, approved yesterday, limits the possibilities of termination and will hence prevent speculative arbitrage targeted for the first quarter, which are, of course, the most important. And second point, a proposal to amend the ARENH decree. With the proposal submitted yesterday, it will not be possible to request ARENH volumes on 1st January and terminate on 13th June. And this will prevent speculative arbitrage on the first half-year. So, you understand that these two points are really key for the whole system.

Secondly, as regards nuclear production, we will, except if there are, of course, any news, we will update our view early next year, as we do on a regular basis, except if there are specific points to share with you. And Dominique will complete.

Dominique Minière: Yes, just to go back to this point just to remind you that in September we have reduced our target for 2017 to 390–400TWh. We have done this updating because, as I said just before, we have discovered some irregularities in some files of pieces [of equipment] which have been made in the Creusot factory. So we have already had a look at 400 specific files, and moreover 100 specific files which are affecting and could have an impact on our existing fleet. Amongst them only one file relates to Fessenheim 2, as I said just before, for which we are optimistic to have this reactor connecting back to the grid end of March. But in the meantime, as I said also, we are having a look at all the other files, it means more than 6,000 files of pieces which have been manufactured in Creusot and for which we expect the end of the reading and the screening of these files mid-2017. So considering that we have already one impact on Gravelines unit five, we expect that probably we could have some other impacts on some other units. So that is why we have taken these provisions in September and we have reduced our target of output for 2017, we have reduced it to 390–400TWh and up to now I have no reasons to update more this target.

Sophia Hart: Thank you very much.

Harry Wyburd (Merrill Lynch): Good evening, just one question from me. You look at 2019 baseload forwards in France, they are now close to €38/MWh, which is some way above where they were back in March, at €25/MWh and that is a very material delta in terms of cashflow and earnings. Does this take the pressure off slightly on your capital raise? I am

conscious we have not heard, really, anything on the timing of the capital raise recently, other than that it is due to be happening before the finalisation of the 2016 account. So, could you just update us on the timing of that and comment on whether the improved outlook for baseload power prices in France, beyond the period of the nuclear outages, has sort of changed the urgency level on the capital raise?

Xavier Girre: Thank you. We are still implementing the plan we presented to the market on 22nd April and in this frame, we expect to organise a capital increase before the end of the first quarter next year, as the state communicated also in April 2016. There is no change on our plans.

Harry Wyburd: Thank you.

José López (Millenium): Hello, thanks for taking my question more of a long-term issue, but what is your thought process in terms of when the time comes to do new nuclear builds in France, in terms of the fact that it seems to be the case that minority investors in EDF are asked to be in a position where, if power prices rise, the upside gets a cap because of mechanisms such as ARENH; if power prices fall, the downfall is not capped. So it is a bit asymmetric. I can understand, sort of the argument for the historical fleet but going forward will you seek to make any investment in France in new nuclear build regulated, or subject to some kind of CFD system, like in the UK? What are your thoughts about this? Thank you.

Dominique Minière: I think a good example of how to finance new nuclear builds is, of course, as you said, the example of UK. I mean where the operator takes the risk of construction but in the meantime, the state where this reactor is made takes the risk of selling at a certain price. I think the example of CFD is a very good example for the development of new build in the future, not only in France but probably in Europe.

Kader Hidra: Thank you everyone for attending the call. We will be available for you for any further questions you may have and we will talk to you again in February for the full-year results. Thank you again.