



# **Sales & Highlights 2015 First Quarter**

Tuesday, 12<sup>th</sup> May 2015

## **Sales and Highlights 2015: First Quarter**

Thomas Piquemal

*EDF Group Senior Executive Vice President, Group Finance*

### **Welcome**

Good afternoon everyone, and welcome to this conference call. I will walk you through our first quarter sales, starting with the main highlights over the period. As usual, I will leave as much time as possible for the Q&A session.

### **First quarter 2015: operating and strategic highlights**

Let me start with slide number three. Group sales for the first three months of 2015 are up 1.8% in organic terms. The Group displayed good operating performance, with a strong nuclear output in France, growing by 3.3TWh. Sales also reflect the return to normal weather conditions versus 2014, which saw one of the mildest first quarters on record, especially in France.

During this quarter, we also seized selective development opportunities. Firstly in Belgium, with EDF Luminus announcing, on 24<sup>th</sup> April, the acquisition of a majority shareholding in an energy service company called ATS. In energy services again, Dalkia closed at the end of March the acquisition of the Cesbron group, a recognised expert in commercial and industrial refrigerating in France that will complement Dalkia's service offering to industrial and commercial customers. Lastly, two new geographies for EDF Énergies Nouvelles: the company set foot in Brazil, with the acquisition of a majority stake in an 800MW pipeline of onshore wind projects, and in Chile, where it will build one of the largest merchant solar PV plants in the world.

### **Group sales increase mainly driven by France**

Coming back to the sales results for the first quarter and moving to slide number four. Group sales came to €22.9 billion, up 7.8%. Obviously, forex and scope had a significant impact this quarter. The full consolidation of Dalkia's French activities contributed €833 million to Group sales, compared to the first quarter of 2014. The forex effect was positive at €369 million, mainly due to the Euro-to-British Pound rate evolution.

So, in organic terms, Group sales grew by 1.8%, driven by France, partly offset by the negative impact of market conditions in Italy.

### **Sales in France mainly driven by colder weather compared to a particular mild Q1 2014**

Focusing now on France where sales amounted to €12.7 billion, up 5.1% compared to the first quarter of 2014. The contrast with the very mild conditions met in the first quarter of 2014 had a positive 8.4TWh impact on the consumption from end-customers. Sales also benefitted from the impact of the tariff increase implemented on 1<sup>st</sup> November 2014. This was offset by a slight decrease in electricity sales to end-customers, excluding the weather effect.

As you know, volumes sold under the ARENH dropped compared to the first quarter of 2014. This only had a slight negative impact on sales, since most of those volumes were sold on the market, under spot and short-term contracts, with realised prices that were close to the ARENH price. The impact is likely to be more significant during the second quarter, as short-term market prices tend to be lower over that period.

### **France: upstream/downstream electricity balance**

Moving on to the customary upstream/downstream balance, on the right-hand side you can see that ARENH volumes decreased by 10.7TWh, which were mostly sold on the wholesale market, as I just mentioned, with net sales increasing by 9.2TWh. The remainder helped meet the increased demand from end-customers.

On the generation side, the 1.3TWh drop in hydro output is nearly offset by increased thermal generation.

### **Increase in nuclear output in France thanks to good availability and return to normal weather conditions**

Moving to slide number seven, to focus on French nuclear generation, you can see that over the first three months of 2015 the cumulative output is up 3.3TWh, nearly +3% versus 2014. The fleet continued to display strong availability and output was supported by the return to normal weather conditions.

With a total volume of planned outage days equivalent to that of 2014, we keep pushing with our efforts to control the durations of those outages. In this context, I can confirm today our 2015 target range for nuclear output at 410 to 415TWh.

### **Less favourable hydro conditions in France than in 2014**

Moving to the next slide, as you can see we experienced less favourable hydro conditions during this first quarter, which led to a 10.8% decrease in hydropower output, at 10.7TWh. This is not surprising, as the first quarter of 2014 was still a very high basis for comparison, even though as a whole 2014 was not as good as 2013, which remains a record year in terms of hydro output.

### **United Kingdom: higher nuclear output partly offset by lower B2C product accounts**

Let's now move to the UK, where EDF Energy's sales were stable in organic terms, at €3.2 billion. Nuclear output is up 0.8TWh, which is a strong performance in the context of the situation at Heysham 1 and Hartlepool.

I would like to update you on this. Since returning to service following the boiler spine inspections last year, all reactors have run successfully. Three reactors have run at between 75% and 80% of maximum power, and one reactor – reactor number 1 at Heysham 1 – has run at approximately 55% of maximum power. During the course of 2015, modifications will be made during either existing or specific outages to allow the units to raise power once the appropriate safety case is approved. This will slightly increase the total volume of planned

outages in 2015 versus our previous projections. Three of the units will then be able to run at higher power towards 100%, with Heysham 1 reactor 1 running at higher power towards 75%. A decision will be taken separately as to the repair strategy for the boiler spine defect on Heysham 1 reactor 1. But overall for the full year, we still ambition to increase the nuclear output compared to last year.

Maybe one last comment on the UK: on the B2C side the product accounts average was down 3.8% over the period, but this impact on sales was partially mitigated by higher gas sales due to the favourable weather conditions.

### **Italy: sales decrease due to a lower price environment**

In Italy, sales fell to €3.3 billion, down 8.7% organically, mainly under the impact of unfavourable price effects in electricity. This was partially mitigated by stronger gas sales, driven by colder temperatures, although gas prices were lower compared to the same period in 2014.

Weather also had an impact on hydro output, which is down by one third, but - like in France - starting from a strong comparable basis in 2014.

### **Other International: decline in sales in Poland and Hungary, partly offset by favourable evolution in Belgium**

Let's now move to the Other International segment on slide 11. Sales in this segment were flat, at €1.7 billion.

In Belgium, sales grew by 1.2%, as weather carried a favourable impact on gas demand, mitigated by lower gas prices and by a drop in electricity sales on wholesale markets.

Sales in Central and Eastern Europe were down 3.6%. Poland suffered from the impact of our extensive modernisation programme on the Rybnik plant, and in Hungary lower tariffs drove sales down.

### **Other Activities: increase in sales of renewable and gas**

Moving finally to slide number 12, with the Other Activities segment. Sales came to €1.9 billion. This segment now includes Dalkia's contribution, which was supported by favourable weather conditions during this first quarter. In organic terms, and therefore excluding Dalkia, sales are up 11%. This result was firstly driven by EDF Énergies Nouvelles and the continued growth in its O&M activities. Favourable weather conditions also carried a positive effect on sales by the gas business, as well as on volumes of gas and power sold by Électricité de Strasbourg.

### **2015 guidance and 2018 roadmap confirmed**

This brings the review of our sales performance for this first quarter to an end. But before moving to questions, I would like to confirm today our objectives for 2015 and our 2018 ambition.

As you know, in 2015 we aim for an EBITDA growth between 0% and +3%, a growth mainly skewed to the second half. As was highlighted by Edison in its first quarter communication on Friday, the arbitration on our significant Libyan gas supply contract with ENI is now expected to conclude during the second half of 2015, versus a previous expectation for the first half. Of course, this has no impact on the €1 billion EBITDA guidance for 2015, which Edison confirmed last Friday. During the second half of the year, we also expect a better nuclear output in the UK compared to 2014, when we had to shut down four reactors on the boiler spine issues. So overall, I confirm today our EBITDA growth target on an organic basis between 0% and +3% for the full year.

Beyond the EBITDA growth target, we also continue to aim for a net financial debt over EBITDA ratio between 2x and 2.5x that I confirm today of course, and a pay-out ratio between 55% and 65%.

I also confirm today our 2018 ambition. We are progressing with the implementation of our roadmap to generate a positive cash flow after dividends, excluding Linky, in 2018; an ambition which we are renewing today.

### **Interpretation of IFRIC 21: application to the EDF group**

Before we move to the Q&A session, let me take this opportunity to clarify a technical point on the application of new accounting standard IFRIC 21, which introduces a change in accounting method for certain tax receivables and liabilities. This is an issue you may have heard of from some of our peers. IFRIC 21 is applied by EDF starting 1<sup>st</sup> January 2015, and we will of course release pro forma 2014 accounts for the first half of the year. I would like to state clearly that it has no impact - or very marginal impact - for the full year accounts, as it mainly impacts the accounting of certain tax duties previously spread out throughout the year, but now accounted for on 1<sup>st</sup> January of the year in most cases.

If we look backwards in 2014, the retrospective application to the first half of 2014 shows a negative impact of around €0.8 billion for EBITDA and €0.6 billion for net income. Of course, we will release more details on this end of July 2015, when we release our first half results, and again underlining the fact that it has no impact - or very marginal impact - on our full year EBITDA and net income on a pro forma basis.

So this concludes this first part of this call, and let's now open the floor to your questions. Thank you.

## **Q&A**

**Moderator:** We will start with an internet question that is being asked over and over. So: this first question is related to the consensus expectations. Are you comfortable with the 2015 EBITDA consensus and net income consensus please?

**Thomas Piquemal:** The answer is yes, and I will maybe come back to the calculations that I gave when we announced our 2014 full year results, that I confirm today. Regarding 2015 EBITDA consensus expectations, let me firstly remind you how you should apply the 0 to 3% range on EBITDA growth. If you take the 2014 EBITDA number that we released, which is €17.3 billion, you have to deduct the tariff catch-up and the full year effect of Dalkia. So you

end up with €16.7 billion, to which you apply a 0 to 3% range, which leaves €16.7 to 17.2 billion, and you see that the high end of that range, which is 3%, is consistent with the market consensus.

Regarding 2015 recurring net income consensus expectations, we do not give any guidance on net income, as you know, but your question relates to my views on consensus, and the consensus today is at €4.2 billion for 2015. However, as I have already explained a couple of months ago, most of the analysts include a change in the depreciation policy from 40 to 50 years, with a corresponding impact, which is assumed by the market to be around €450 million in terms of net income impact. I will, of course, not make any further comments on whether or not we are going to change depreciation policy beyond what was said by Mr Jean-Bernard Lévy during our full year results back in February. But if you consider that there is no change, then you have to deduct the €450 million from the consensus net income. Therefore, the range in terms of recurring net income expected by the market, depending on whether or not we will change depreciation policies, is between €3.8 and €4.2 billion, and I can say today that I am comfortable with that range.

**Moderator:** Thank you. We have another question on the Internet from Cosma Panzacchi. Sorry if I do not read all the text of your question, but first question is: Could you please update us on the expected timing for the completion of the analysis of the AREVA dossier? Could you also please update us on the strategic options being explored at this time? And a third question in fact: One of the key challenges were the abolition of the yellow and green tariffs, so could you please give us a better overview on the measures you have been launching to preserve margins on this segment? So: two questions on AREVA and one on tariffs.

**Thomas Piquemal:** On AREVA, and I clearly understand that there are many questions on this topic, I will answer all of them in just one remark today. Well, maybe allow me to make a couple of remarks. Let me say first that it is of course normal, as AREVA is a key supplier for EDF, that we closely follow the AREVA situation. As you know, we will have our AGM next week, and our chairman and CEO Mr Lévy will take this opportunity to answer questions on the AREVA situation. So I will not pre-empt what he could say during the AGM, beyond just saying and re-emphasizing the obvious. In that situation, as always, we will defend EDF's interests.

To that effect, I would like to inform you that, from a Governance perspective, EDF Board has appointed a working group of independent board members led by Colette Lewiner, and including Mrs Laurence Parisot, Mr Philippe Crouzet and Mr Bruno Lafont, in order to follow closely any project that may arise from the discussions between EDF and AREVA. This working group of independent board members will seek to analyse all strategic, industrial, social and financial implications for EDF. Without being a substitute to the work of the Board Committees and to the decision-making process in place at EDF Board level, this group of independent board members will make its recommendations based on its independent analysis. Any decision will be taken in the best interest of all stakeholders. As I said, beyond those remarks and ahead of the AGM of next week, I will unfortunately not take any further questions on AREVA.

On the second question: green and yellow tariffs: how do we adapt to the new market rules? The disappearance of these tariffs is not news for us. We have been adapting and investing in training our commercial forces and investing in our IT system for some time now. You might be aware of the strong effort that we put in renewing ahead of the end of 2015, all our commercial offers. We are quite confident in the fact that we are successful in this context. Of course, in 2016 the change in the markets will also imply changes in the way we look at how the different businesses contribute to the overall margin of our French activities. This entails changes in our management control system. This is currently being implemented and it is, of course, one of our key priorities for 2015. We will update you on that, giving you detailed numbers on how the contribution of our French operations evolve during this first half results, end of July. I remind you that this call is only on the first quarter sales.

**Martin Young (RBC):** Good afternoon to everybody, just the standard two questions. I fear my second might not get answered. The first one, going back on the nuclear lifespan, independent from the decision that you will take around the accounting life: when do you expect to be in a better position to communicate about the actual operating life of the nuclear fleet and whether that will go beyond 40 years?

Secondly, it is on AREVA, so you might not answer it. However, I just wondered if you do come to any transaction, how you might manage what appear to be open-ended liabilities in terms of some of the work that AREVA has had cost overruns on? Thank you.

**Thomas Piquemal:** Good afternoon. I will answer just the first question, although I fully understand why you ask the second one. On the first question, lifetime of the nuclear fleet in France: when will we be able to provide some clarity from an industrial standpoint on the operating life of the fleet? The answer is clearly in the energy transition law that provides for multi-year vision on the energy mix in France and how we will manage the nuclear fleet. Hence the answer to your question is really: by the end of the year, we will have to provide for such a detailed vision, that will be shared of course with the French administration, and that will provide for our detailed views on how we will manage the fleet in the forthcoming years. I think the law is pretty clear on that front.

**Emmanuel Turpin (Morgan Stanley):** Hello, good afternoon everyone. First question on Dalkia: you mention in your comment that this business has been doing quite well, helped by the weather. I was hoping to get maybe more comments on the underlying performance. This seems to be one of the areas of development for EDF in the energy services.

My second question is about the EPR in Flamanville. I read the paragraph you have in your press release. I must say that it is a bit technical but it reads more benign, or less of a concern, than some of the press articles we have read. Could you just spend a couple of minutes explaining to us what the next steps will be, potential timing and possible outcomes? Thank you very much.

**Thomas Piquemal:** On Dalkia on the comparable basis - so not in our accounts, as I said, because in 2014 we did not book Dalkia sales in France. On a comparable basis, the underlying trend is positive as sales increased by 6.2% versus the first quarter of 2014.

+6.2% is roughly €60 million of increasing turnover. This is mainly driven, of course, by weather impact, as the first quarter is a key quarter for the heating period of Dalkia. Among the positive drivers, we also had positive commercial developments. I would say that half of these positive effects were offset by negative drivers in terms of lower heat prices and lower power prices. However, overall the performance is positive on the commercial development front. You also might have seen in my preliminary remarks: I mentioned the fact that Dalkia was seizing selective opportunities to develop its commercial offering in France, and we could also have some opportunities outside of France. The underlying trend is really comparable to what we expected, and positive from a commercial standpoint during this first quarter.

On Flamanville 3, we are working together with AREVA to complete the testing and I do not have any further comment to make beyond that. It is down to the safety authority in France to disclose the timing of its review and advice. In the forthcoming months, we will complete the review together with AREVA of the incremental testing that we have to make to resolve these issues.

**Harry Wyburd (Merrill Lynch):** Hi, good evening, two questions from me. First one is on the UK. Could you just tell us a bit more about why you made those account losses in the UK? Historically you have had amongst the lowest margins and most competitive prices in the UK so I wondered whether the loss of customers could be something to do with trying to increase your margins.

Secondly, a while back there was quite a lot of newsflow on what your potential plans might be for RTE, and I wondered whether you could give us a bit of update on that? In particular, if you were to undertake some kind of acquisition in the near future, whether some kind of disposal of perhaps a minority stake in RTE could provide you with a bit of headroom to do that? Thank you.

**Thomas Piquemal:** On the commercial front in the UK, I would like to emphasise the fact that in 2014 for the first time, we had a positive margin in this segment, and that our strong focus is now on margin. Again, on this particular topic I could give you more colour and more details during our first half results. However, as you know, it is a very competitive environment, a very competitive market. I can tell you that we are focusing on margin only.

RTE is a fantastic hedge for our asset and liability management strategy when interest rates are decreasing. I think that all the investments that we did within the dedicated asset fund, and especially with EDF Invest – whether it be RTE, TIGF or all the other investments that we recently did – achieved very good results to that effect. Having said that, we own today 100% of RTE but we do not control it. There is nothing new in what I say; nothing new in the fact that, for us, it is a financial asset. Are we going to make a decision to move on the RTE share capital? There is nothing under study today, but of course it will be up to the EDF Board and Jean-Bernard Lévy to define and to answer this point in due course.

**Vincent Ayrat (Société Générale):** Good afternoon everyone. I would have just a quick question regarding a comment you made here in your press release on [France]. We see a drop in sales to end-consumers and on ARENH volumes. Could you provide us a bit more



visibility on how the mechanics have been working on this specific issue, access to end-customers and development of competition there?

Question number two would have been related to life extensions unfortunately, so I will probably switch to the hydro concessions. Could you give us some light on what is envisaged in the Energy Transition Bill as it stands of today, regarding the opening of the hydro concessions? What could be the potential exposure, short-term and long-term, for EDF, and how you intend to remediate with this? Thank you very much.

**Thomas Piquemal:** On the changes that we saw during this first quarter due to the fact that competitors did not subscribe as much volume under the ARENH mechanism as they did last year. Of course this is a free option that they have by the regulation, so when the option has no value, they do not exercise it. Market prices, they believed, would be lower than the ARENH price. Therefore they did not exercise the option, or for lower volumes. And fortunately this was not the case, so we were able to sell this incremental volume at prices that were close to ARENH price during this first quarter, even very modestly higher at some point in time. Unfortunately for us, of course, this will not be the case during the second quarter and during the second half of the year. However all of this is of course factored into the EBITDA target that I have confirmed today. The ARENH mechanism is, as everyone knows, to the benefit of the competition. There is a possibility built in the law to review the mechanism in 2015 and, without disclosing the detail of our position today, I think 2015 will demonstrate to what extent this mechanism is unfavourable to EDF.

As far as the hydro concessions are concerned, I will not make any comments beyond what is said by the French government and discussions that are currently taking place at the European level, that do not involve only France but other European countries, which do have significant hydro concessions by the way, in which EDF might be present. I do not think that I have any further information to give you on that front unfortunately today.

**Moderator:** An internet question from Louis Boujard at Oddo. Good afternoon. According to press information, the probability of an upward revision of the ARENH at €44 by July is diminishing. Could you quantify the consequences on earnings, and does it put at risk your guidance?

**Thomas Piquemal:** I think the information was released last Friday that there would not be an increase in the ARENH price during the summer. As I have just said, the confirmation of our guidance today takes that into account, as far as the ARENH price is concerned. Our guidance today assumes the positive effect on the blue, green and yellow tariffs. This is the last year, by the way, for which we will have green and yellow tariffs, and I remind you that there were some reports highlighting the fact that there was a need for tariff catch-up on green and yellow. The last opportunity to complete such a tariff catch-up will be in 2015, given the fact that there will no longer be any green and yellow tariffs next year. Assuming a positive tariff evolution is included in our full year guidance, yes, of EBITDA growth for the year that I just confirmed today.

**Moderator:** Last question. Given the recent rating actions on EDF: can you comment on these rating actions, and could you comment on your rating going forward?

**Thomas Piquemal:** The rating is of course very important to us. We enjoy a very strong rating. It has always been part of maintaining a strong financial structure. And a strong financial discipline has always been part of all the guidances that we have been giving over the last five years. Of course it is key to us. We fully understand the recent remarks by the rating agencies, and we are taking into account the increased volatility in our earnings due to the disappearance of green and yellow tariffs, in the way we manage our cost base. This is a key priority for our 2016 budget exercise, and it is also part of the mid- to long-term strategic reviews that we are currently performing, not only to reach the 2018 positive free cash flow, but also within the framework of the Cap 2030 Strategic Review that was launched by Jean-Bernard Lévy a couple of months ago.

## Concluding Remarks

Thomas Piquemal

Before closing this call, I would like to seize this opportunity to make an important announcement regarding our Investor Relations team. After five years heading the Investors & Markets department, Carine de Boissezon, who is here with me, is moving on to take an exciting position within the EDF Group. Carine was poached by my friend and colleague Simone Rossi to become the CFO of our newly-formed International Division. I wanted to inform you today of this significant change in our team. Carine has done a tremendous job over these five years, completely reshaping our Investor Relation function and the team. I would like to say, and I think I can say, making it a reference in the utilities sector with the wit, energy and dedication I am sure you have a chance to experience yourself. Thank you and congratulations, Carine, and all the best in your new endeavour.

A farewell to Carine, and a warm welcome to a familiar face, Kader Hidra. Kader has accepted to step into the big, high-heeled shoes that Carine is leaving. I assure you it is just an image. Carine has no intention to leave her big and high-heeled shoes behind her. I am pretty sure that with Kader and the team around Kader, we should ensure a smooth transition. Thank you again, Carine.

Thank you to all of you for attending this call. Thank you.

[END OF TRANSCRIPT]