

Engie Call

Moderator

Good morning, ladies, and gentlemen and welcome to the conference call organised by Engie, with Ms Judith Hartmann, Executive Vice President and Chief Financial Officer, and Mr Paolo Almirante, Chief Operating Officer. For your information, this conference is being recorded. I now hand over to Ms HARTMANN.

Judith HARTMANN, Executive Vice President and Chief Financial Officer

Thank you. Good morning everyone and thank you for joining us today on short notice. I am here today with Paolo Almirante, our Chief Operating Officer. We decided to host this call to give you more details about the nuclear outages and more precisely about the ones we announced last Friday and then to answer your questions. Since we are on roadshow this week, it was important to start off by ensuring that all of you have access to the same level of information.

Before developing the nuclear topic, let me just highlight that excluding nuclear, our net recurring results are still benefitting from growth, as we had already pointed out in the first half. I will give you further details on these positive elements. We are confirming the net income guidance at the low-end of the range.

Let us now focus on nuclear and the update of the availabilities. Paolo, the floor is yours.

Paolo ALMIRANTE, Chief Operating Officer

Good morning everybody. Let me give you an update on the technical issues and the current availability forecasts for our nuclear power plant in Belgium. Last Friday we announced a review of unavailability schedule for Tihange 2 and Tihange 3, which I will come back to later.

Let me start with an update on the first generation units. For Doel 1 and Doel 2, a planned outage linked to the 10-year lifetime extension is currently taking place, as was presented in the July call. During this work, we detected a leak in a pipe in the Doel 1 backup cooling water system. Following that, an inspection was also carried out at Doel 2 which has the same design. Foreseeing these elements, we had to revise the outage schedule for these units. Based on the latest information available, to repair these pipes it was necessary to extend the unavailability of Doel 1 from 8 October to 31 December and for Doel 2, from 1 October to 10 December. Tihange 1, which is the third unit of the first generation, will have regular maintenance during one month in quarter four of this year, which is as originally scheduled.

Let me now address the second generation units, Tihange 2, Tihange 3, Doel 3 and Doel 4. These units were built 10 years after the first generation and are designed with a second bunker in the non-nuclear part of the plant. We went through this in previous calls, but I want to emphasise that this bunker protects second-line safety equipment, which is only used if there is a problem with the first-level systems. In October 2017, Electrabel noted a deterioration in the concrete of the ceilings on the Doel 3 second bunker. In some operational conditions, these buildings are subject to intense steam pressure, which degrades concrete over time. The repairs have been carried out at Doel 3 and the unit was restarted on 21 July, after approval from the nuclear authorities. Following the findings at Doel 3, we decided to proceed with inspections of the second bunkers for the other three reactors; Tihange 2, Tihange 3 and Doel 4.

Let me give you more detail on each of these units. Tihange 3 was initially found with degradation on the concrete roof, however more detailed inspections also detected some gaps between the original design and what was effectively built. Moreover, and despite analyses that are still in progress, it seems necessary to intervene at the level of the walls as well, not only the roof. This was not originally expected. As a result, the outage schedule for Tihange 3 had to be revised and extended from 30 September to 2 March next year.

At Tihange 2, the original assessment was made based on the information available with the unit in service. At that time, it was only considered necessary to partially repair the roof. After the inspections carried out from the end of August, when the unit was stopped for the outage, it was concluded that much more work was needed, including extensive repairs of the walls. As a result, to carry out a large repair of the building, like the works done at Doel 3, the outage schedule was extended from 31 October to 1 June next year.

For Doel 4, as for Tihange 2, the original assessment was made based on the information available with the unit in service. When the unit was stopped for the outage in the middle of August, the inspections have so far confirmed the initial planning.

In summary, each secondary bunker inspected has different characteristics and shows different levels of degradation. The inspections performed in Tihange 2 and Tihange 3 revealed the need to carry out more expensive repairs than originally expected, which has resulted in significant extensions of the outages; seven months for Tihange 2 and five months for Tihange 3. For Doel 4, the works are progressing as expected and calculations are being made to confirm our assessment, under the supervision of independent experts.

Considering the information available, Electrabel has revised the availability of the units impacted by the concrete degradation. As usual, this planning is subject to the authorisation of the nuclear safety agency. Because of the impact caused by these outages, the availability of the nuclear fleet in Belgium is expected to be around 52% in 2018 and 74% in 2019; this corresponds to an output of 22 and 33 terawatt hours respectively.

I will now hand over to Judith to give you more granularity on the financial impacts.

Judith HARTMANN

Thank you, Paolo. Several changes have been made to 2018 net recurring income forecast since we published our guidance in March. Following the calendar revisions announced Friday, the full-year impact of outages on nuclear is now estimated at approximately negative EUR 600 million, compared to our guidance in March.

On the other hand, in 2018 we will benefit from significant upsides to initial expectations. These upsides have already largely materialised in the first six months of the year. The performance of our Energy Management activity is significantly better than initially forecast, with an upside of roughly EUR 150 million. If you remember, a significant part of this improved performance was already booked in the first half. This included notably the opportunities captured in Q1 during the cold snap, for around EUR 150 million, but also the positive impact from the further optimisation of the management of our gas assets, for another EUR 50 million. On top of that, we will also benefit from additional renegotiations of some long-term supply contracts following the action plan announced back in June.

Our generation business is also performing very well, with a better than expected contribution of around EUR 150 million. We had already mentioned that we managed to settle some claims, but we are also benefitting from the dynamic management of our gas lead in a favourable market environment. Third, better than average hydro and weather conditions had already had a EUR 50 million positive impact at the end of the first half.

Finally, there are some other elements totalling a positive EUR 150 million. EUR 50 million coming from operations, notably networks and about EUR 100 million coming from negative foreign exchange, as well as improved financial results and further tax optimisation. Part of this optimisation was already booked in the first half, where our effective recurring tax rate was already very low at 25%. Compared to 2017, we now expect to benefit from around EUR 300 million for the whole year, mainly coming from the recognition of deferred tax assets, of which roughly EUR 100 million was already booked in the first half. For the full-year 2018, we now expect a tax rate below 24%, which will of course normalise in 2019, to an expected rate of around 30%.

As a result, the positive dynamics recorded in many businesses helped to offset these nuclear headwinds to a large extent. You will note that the volatility in earnings

experienced in 2018, both on the upside and the downside, comes mainly from our merchant exposure and tax [inaudible]. On the 90% of EBITDA regulated and contracted, performance is expected to be roughly in line with initial forecasts.

Of course, there are still some risks and opportunities up to the end of the year: for example, in Brazil currency and hydrology; and in Belgium, of course, the calendar of the Doel reactors that Paolo just mentioned.

Finally, I would also like to point out that a Board session of the ONDRAF, the Belgian National Agency for Radioactive Waste and Fissile Material, is expected to take place soon. During the session, the ONDRAF will review the fee charged for the management and storage of such waste. One of the outcomes of this revision might be an increase in the estimated costs, together with delays in the payment schedule for the various expenses. These changes will have to be taken into account by the Nuclear Provision Commission during its next review, scheduled to take place in 2019. It is likely that the related adjustment of the Group's nuclear provisions would be recorded as non-recurring items, depending on their materiality. We already gave some details on this in our first-half financial report and the statements there are still relevant.

I would like to conclude by reassuring you that the teams are highly engaged. On the nuclear side to get the works done, but also the colleagues who are working on finding offsets to the financial headwind. This underlines the fact that the Group is agile, active in the management of its assets and committed to higher requirements.

We are now ready to take your questions.

Questions and Answers

Moderator

Ladies and gentlemen, if you would like to ask a question at this time, please press star one on your telephone keypad. Please ensure that the mute button on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing star AQ.

Vincent AYRAL, JP Morgan

A couple of questions. You managed to offset the impact of the nuclear outage on the guidance for the net income this year, yet it does not seem to be the case for the EBITDA. Beyond the better tax rate, are there any provision write back or exceptional items that we should be aware of in order to understand the discrepancy between your impact of the offset at EBITDA and net income level? When we look at the EUR 250 million EBITDA impact, that is about EUR 50 million per month of outage for a one gigawatt reactor. That is materially above the EUR 30 million to EUR 40 million range you used to communicate, which I suppose is due to higher power prices. As such should we assume the same for 2019, that is an impact of around EUR 350 million? If that is the case, is there any offset we should expect in 2019?

Judith HARTMANN

Thank you for these questions, Vincent. Indeed, some of the offsets we have mentioned are impacting the net income line and not the EBITDA line. We have mentioned the most important impacts, which are of course the tax line, where I was very precise, and some of the financial costs, so that is also a positive, for a much smaller amount. On your question regarding the very strong impact of nuclear on EBITDA and net recurring results for that matter, you are right it is because of a mix of the prices, which are now really increasing. This is really main factor, but there was also an effect where we had to buy-back some electricity given that we are now short on production.

I would like to say a few things about 2019. One is that we are expecting higher production. With the current calendar for 2018, 52% and 74% next year, so right now I do

not really see a case where we could be as low in availability next year as this. Then, of course, prices will be higher. We put the achieved prices we have in our models in the appendix and you obviously have access to public information on price development. That should be a positive. Clearly, some of what I mentioned when I was talking about the tax line, is not going to repeat in 2019. However, as I said, in terms of nuclear production we should have a better outcome financially than this year.

Vincent AYRAL

Just to finish on this one, regarding the offsets for 2019, you said that the tax would normalise. We have a draft budget being presented in France, which would show a reduction of the tax rate from 33% to 32%. When you are talking about a normalised 30%, is this taking this tax rate decrease into account?

Judith HARTMANN

It is taking into account the reduced tax rate you have just mentioned. The reason this year is lower is mainly related to the details I mentioned when I was going through the presentation. All of what you have just mentioned is baked-in in terms of reduced tax rate, which is obviously very positive news in France.

Wanda SERWINOWSKA, Credit Suisse

Two questions from me. The first one is why are the new dates you have indicated of when the plants will come back on line, because it is not the first time you have postponed it? Second, how much of the offset mentioned by you is going to be repeatable in 2019?

Paolo ALMIRANTE

The reason for the postponement of some of the dates is very dependent on the inspections we make. Most of these bunkers have different geometries and some of the dates were based on the original planning with the information available, with some units that were not even out of service. When we started the inspections in this complex environment, we detected impact deterioration on the concrete which must be repaired. In close cooperation with the authorities in Belgium we have to make new plans to accommodate these repairs.

Judith HARTMANN

On the offsets for this year, I would again mention a few things that cannot be expected at the same level next year. There are about EUR 300 million of DTAs, for tax assets and I would add to that parts of the Energy Management upside related to cold snaps, which might or might not happen depending on market conditions. It is not easy to assume that it will just happen again next year. I would say that those are some of the topics I would like to mention. On the other hand, we have a very big headwind this year on foreign exchange that we are absorbing and not really even talking about. As I mentioned already, the nuclear production and the respective prices should be positive for next year.

Wanda SERWINOWSKA

Could you remind me what the Energy Management impact was? EUR 50 million this year?

Judith HARTMANN

Yes, about EUR 50 million on the cold snap.

Carolina DORES, Morgan Stanley

I have three questions. From my understanding we need to in a way lower the EBITDA range by around EUR 400 million or EUR 500 million. Does this make sense versus your

initial budget? My second question is, how much the outages will increase your capex? How much will the outages cost on your budget? Third, I have a question on [inaudible] seven, just for clarification. We have the nuclear hedges for 2019, which is as of July, before the outages. Do the volumes that are 76% hedged represent a normal year, or is that just over the 33 terawatt hours that you expect to produce next year?

Judith HARTMANN

Great question, Carolina. On the EBITDA range, if you take into account some of the things I have mentioned on tax and financial results will not translate into EBITDA, so we are expecting to be slightly below the indication we gave at the beginning of the year, with the impact of the nuclear production. On capex for the outages, it is actually quite limited, in the dozens of millions but not anything very significant at the scale of the company, because they are big works but not very sophisticated technically. In terms of your question on 2019, our hedging policy is that we do roughly a third, a third, a third every year, so we around 80% hedged for 2019 after the announcements of last week.

Olly JEFFERY, RBC

I have three questions. The first one is regarding the outages on Doel 4, which has not been extended beyond the end of this year. Can you explain why you feel you will be able to return that reactor on the current scheduled timeline. Second, I am aware with that reactor and some of the others that you need approval from the AFCN. Can you explain once you get approval from the AFCN and the greenlight, how long it takes to do the work you have planned? Will you give any indication to investors once you have approval from the regulator to carry out those works? Last, on 2019 again, I was interested in what the impact is going to be from the non-recurring elements of offset this year. Are you comfortable currently with where you see 2019 net income consensus, after taking into account these additional outages.

Paolo ALMIRANTE

In relation to Doel 4, the inspections have demonstrated that the deterioration of the concrete is much less than most of the other units. As such, we are in the process of carrying out repairs and most are already progressing very well. Now, we have to make calculations of the structure and demonstrate to the authorities that the repairs are effective, and the unit can return to service. We are in parallel progressing both, finalising the repairs and preparing the calculations to demonstrate that they are effectively implemented. We will then decide on the greenlight with the authorities. For now, we believe that the plan is accurate.

Regarding how long it will take to get the greenlight on T2 and T3, the work progresses in parallel. It is a nuclear power plant and the process is complex, so when we carry out the inspections and detect defects we have to provide a design solution for the repair, which is approved by independent advisors to the nuclear authorities. Then we start implementation of that design solution and after that is confirmed as effective, calculations and visual inspections are made. It is an interactive process that goes in parallel with the works. Of course, it takes time, but the two parties are working together to minimise the downtime of this unit, while of course making sure that whatever is implemented is fit for purpose and that the solutions are appropriate.

Judith HARTMANN

On your question on 2019, obviously I am not giving guidance for 2019 here. What I can say is that the production which is lower given what we have just said, should be offset by higher nuclear prices and a little bit of impact on generation, as we had this year. Therefore, improved nuclear load factor, higher achieved prices, as well as some contribution from the capex.

On the consensus, I expect people are updating their models as we speak, but it is not far from what we are looking at for next year.

Sofia SAVVANTIDOU, Exane

I have just one question. You have given us the cumulative impact of the nuclear outages this year versus your guidance, but I wonder if you would be able to tell us the actual net income of EBITDA contribution you expect from the Belgian nuclear plants in 2018? Also, on a normalised year, what sort of output should we expect, once all the outages are done and with full availability? Could we forecast at today's power prices with normalised output, what sort of profitability that would mean? I am just trying to get a feel of the delta, assuming this is the low point, how much extra earnings could we expect in 2020, or 2021?

Judith HARTMANN

Thank you, Sofia. Of course, it is a very good question. As we mentioned, availability this year is very unusual. We knew going in that there was a lot not only of normal maintenance, but also related to the 10-year life extension and so it is obviously not the kind of availability we have had in the past or that we expect for the future. Next year when we talk about around 73, that is already much more normalised; in fact, in a normal year it should be that or a little higher. If you want to assume something in your model, I think that the 75, 80 range in a normalised year is certainly something that we are going to be working on and in the past, it was the case for most years, except for 2015 which was actually higher than that. That is what we are working towards and then you can calculate with the prices on what the expected outcome of this is. Certainly, there is big pressure this year, but let us not forget that this is high terawatt, no CO₂ production and we are expecting these plans to continue to produce for the next few years. We do not disclose details on the full P&L for nuclear, but like I said, this normalised availability is something you should take into account.

Emmanuel TURPIN, Societe Generale

I would like to follow through on the question from Sofia and your answer on load factor. Did you say that a normalised load factor going forward should be between 75% and 80%? Did I hear that correctly?

Judith HARTMANN

What I mentioned was 2019, with the current calendar at 74% and a normalised range of between 70% to 80% is certainly the right kind of production, with higher prices as we all know what is going on in the market.

Emmanuel TURPIN

That sounds a bit low to me, knowing the excellent track record of nuclear production in Belgium, except from recent years with extended outages. Doel 1 and Doel 2 will be done and unfortunately, we do not have any work for life extension in mind at this stage. What explains the load factor not being higher, at 85% or 90% in Belgium, let us say, two years from now as the plants burn as usual? I was just wondering if there was any public information that you are aware of and can point to, to explain that shortfall? My second question is on the room you may still have left on your thermal fleet, to maybe make a bit more money in the last few months of the year. You have shown on the bridge, that generation should add EUR 150 million, compared to previous expectations and part of that is already in the bag. I wondered how much spare capacity, spare volumes do you have left to potentially beat that number if the market remains tight and if spreads get better in winter? My last question is, taking into account everything you said this morning, and looking more at cash, net debt, and EBITDA equation, where do you see your net debt to EBITDA going at the end of the year?

Judith HARTMANN

On the load factor, you are right that in the past it was more like 90%, so everything else being equal, there should be a normalisation in 2019. As we just said, the calendar is what it is with the 74%, and over time this should normalise. That is all I can say. Obviously, we

will keep you updated on these things. On generation, I definitely see that it could go much higher for this year. As I mentioned, there are really three elements on generation and why it is so positive. Of course, benefitting from additional production, which we already mentioned in H1, that we put back online some gas plants earlier than expected, given the outages and nuclear benefitting from higher prices. We also had some claims that the team has negotiated and have now been signed, that will be in our Q3 results. On 2019, there is roughly 30% still open on generation. On your question on cash or net EBITDA, there is no change to what we said. We will be below the two and a half times and there is no risk to that number.

Olly JEFFERY

My first question was just a clarification. Sometimes in talking about load factor, you mention availability, so I just wanted to ask whether you raise you mentioned was availability of load factor? Second, with regard to the recent lifetime extensions you have had on the plants that are going through the maintenance work. Are you guys comfortable with the extent of additional outages you guys put in to get that work done? Or, is that still a relatively tight timeline even given the extensions?

Paolo ALMIRANTE

On the first question, we normally assume that the nuclear plants will run at 100% load factor when they are available, so you can consider that availability and load factor would be the same. Regarding new extensions, as I said before, we are assuming these extensions based on the information available. This is a very complex kind of inspection. You understand that it is not easy to remove layers of concrete to expose the steel and during this work we have to make different measurements for corrosion in the steel and on the stability of the concrete. It is necessary to take time to expose and remove parts of the concrete to take the samples; second to do the calculations; and third to come up with a design solution. Then that design solutions must be implemented, rechecked and after that confirming that it is fine with the authorities and we can proceed. The work in itself is not complex, but all the processes you need to follow are. To give you a feel for why we have come back with extensions, as soon as we detected that they needed much more work than originally planned, we needed more people and time to carry out the work, because space is limited. On average, it takes six weeks to accredit any person to go enter the site, so it is a long process. Originally, we did not expect the extension of the work that we found after the inspections. We are now confident in our planning, especially for Tihange 2 and Tihange 3. The case of Doel 4 is simpler than the others, but we still need to confirm all the work we are doing. Nevertheless, this is the best we can provide, and I can assure you it is in our interests to reduce the downtime as much as possible.

Judith HARTMANN

Thank you very much for calling in. I think it was important to give this update and I would like to thank you for your time. Again, to reiterate what we just said. The teams are heavily engaged in work on the closing all these different topics and also heavily engaged in making sure that we find a potential upside, as there are. As you saw, there is some really good news in some of the businesses. With that, I would like to conclude and wish you all a great day.