Annual Results 2017

Friday, 16th February 2018

Jean-Bernard Lévy

Chairman and Chief Executive Officer, EDF Group

Good morning everybody, happy to have you here. Welcome, you will be attending a presentation of our annual results for 2017. I will share it with Xavier Girre, our Chief Financial Officer.

Our results are in line with our expectations. We saw a fall in wholesale market prices across Europe in 2015 and 2016 and we knew that 2017, hence, would be a challenging year, and indeed it was.

In terms of profit margins and in terms of nuclear power output, 2017 marked a low point. Nevertheless we have stayed the course and we are laying the ground for the future with very strong execution of our performance plan, our acceleration in the renewable energy business, with the acquisition and integration of Framatome and with the development of new solutions for our customers, just to name some of our major initiatives.

We are, we remain, a profitable group and for the first time in many, many years our debt levels dropped in 2017. They fell by €4.4 billion. And I would like to take this opportunity to thank the teams who have, with a lot of energy, achieved these positive results. And also my gratitude goes to our shareholders for their renewed show of confidence.

As we said previously, 2018 will be a year of rebound in our performance. This rebound will be based on solid foundations that have already been laid. Market prices have risen again and we will have raised nearly €9 billion in additional equity by the middle of the year thanks to the capital increase in 2017 and to the dividend payout in shares for the financial years of 2015, 2016 and 2017.

We are ahead of schedule in our plan to reduce operating expenses by €1 billion per year. We are also progressing faster than we expected with our €10 billion asset disposal plan. This means that we can begin the year with a clean slate and with good prospects for EBITDA growth in 2018.

As you are well aware, the energy world is changing fast. We have all the assets we need to meet the new challenges more successfully than our competitors. I especially refer to our talents, the men and the women working for EDF. I refer also to the full range of technologies and to the trust placed in us by our clients. We are determined to grow our business even further as we outlined in CAP 2030 with the three key priorities of

1. innovation, supporting our customers;
2. carbon-free power generation based on renewables and nuclear energy;
3. and expansion outside Europe.

And in order to meet these numerous challenges, we are engaging in close dialogue with all of our employees in France through a quite remarkable initiative called *Parlons Énergies*.

In these early months of 2018, as I was saying earlier, we are significantly stepping up the pace in our renewable energy business. We are launching EDF's Solar plan, "*Le Plan Solaire d'EDF*", we will be moving into the energy storage business and we are gaining market share in renewable heating and cooling solutions. We are multiplying our efforts in all of these areas.

Following Framatome's recovery, we have now incorporated it into our group. We have launched a number of innovative products for our residential customers. We are substantially increasing the number of technological innovation projects, as well as innovative energy applications around the world.

Let me now move on to the key figures for 2017. 2017 key figures: Group sales amounted to €69.6 billion, with EBITDA standing at €13.7 billion. As you are now aware, we reported extraordinary gains in 2016 due to a tariff adjustment. This aside, sales are slightly up whilst EBITDA is down by 10%. The change in EBITDA is due to declining market conditions in our key countries, as well as to a low point in our nuclear and hydro output in France.

The actions that we set in motion three years ago to reduce our debt levels are now reaping results. After flattening out in 2016, the Group's net financial debt significantly dropped, indeed, by €4.4 billion in 2017 particularly owing to the successful asset disposal plan and capital increase. Net debt now stands at €33 billion with a net financial debt to EBITDA ratio of 2.4x, in line with the initial guidance range of 2.5x or lower.

Net income Group share has grown considerably, taking into account the gains reported following the disposal of 49.4% of RTE assets. The Group's net income excluding non-recurring items has dropped and Xavier Girre will walk you through these details a bit later.

As I was saying earlier, 2017 was a record year in our renewable energy business. I'm happy to say that our installed solar and wind capacity increased by 23% and the output levels of both these energy sources, wind and solar, reached a record level of 13.8TWh, up by 13%.

I would like to highlight, among the major achievements, our growth in Brazil with the commissioning of the first two units at Pirapora (284MW), Latin America's largest solar plant, as well as the rapid progress being made in the construction of the Sinop dam (400MW), due to be commissioned at the end of 2018.

Also to highlight EDF's involvement in the construction of the world's biggest solar plant, probably, or the largest one in the world, in Dubai as part of a joint venture with Masdar (800MW).

Facilities are being commissioned in India and in North America, and last but not least, we have recently commissioned the Blyth offshore wind farm and we have started the construction of our West Burton B energy storage site, 49MW, very large storage capacity - both of these projects are in the UK.

In addition to the new growth areas – I have just mentioned a few of them – we are consolidating our position on the European renewables market with significant and targeted acquisition. We acquired Futuren with a wind energy portfolio in France, Germany, Italy and Morocco. We acquired OWS, a company specialised in the operation and maintenance of offshore wind farms in Germany in order to build our skills across the renewable energy value chain. We have also currently developing wind projects, as you know, in the UK and in France.

With regard to EDF's Solar plan, which we recently announced and commented, I would just like to point out, to insist, that the financial commitment required from EDF Group is factored into our financial trajectory. Thanks to funding through joint ventures, EDF's financial contribution to the Solar plan will amount to roughly €200 million a year over 15 years, so this is reasonable. As we currently invest about €2 billion in renewables around the world, this is well in our hands.

With these projects, we believe we will be able to achieve and maybe even exceed our initial goal of doubling our renewable energy capacity by 2030. And furthermore, we believe EDF's Solar plan will help drive the growth of a robust and competitive solar business.

On the next slide, which is more towards our customer solutions and energy services, I would like to say that we have indeed seen a drop in our B2C market share in France but we have responded with a range of new products reflecting our innovative spirit and our commercial creativity. Specific examples include the launch of our new Sowee smart station and the gradual expansion of the Sowee-associated product ranges and applications, such as the interactive charging station that can be controlled from the SOWEE smart station for electric vehicles, such as the electrical power supply and control of electrical heating systems. So that is the wider range for Sowee.

We have also recently launched the *Vert Electrique* renewable energy power supply range for our clients, and following on from our residential customers, we have also launched very successfully a self-consumption pilot scheme for local authorities which is called "*Notre Soleil Et Nous"*, expanding from "*Mon Soleil Et Moi*".

We also have also readjusted our marketing costs and while the situation in France is indeed moving in this direction, in the UK and in Belgium we have maintained our market positions. In Italy we are strengthening our position with the acquisition, shortly to be completed, of a 500,000-customer portfolio in Italy acquired from Gas Natural Fenosa.

In the B2B segment market share has remained quite strong, around 65%, with a lot of win-backs from customers who have come back to us because we have a better offer, and this helps to minimise portfolio erosion.

In the energy services area, Dalkia recorded a 6.1% organic growth in sales in 2017. Dalkia won quite important contracts in the areas of construction, in the health area, in industries, as well as with municipalities, of such new heat networks and innovative solutions as the one in Charleville-Mézières with the group Peugeot.

On international markets, Dalkia is also strengthening its position in the UK with the acquisition, together with EDF Energy, of Imtech, quite a significant company specialising in electrical engineering which will complement EDF Energy's own business.

Our service-oriented subsidiaries have also achieved impressive results, such as the renewal of Fenice's contract with Fiat and the major Citelum contract in Mexico City which I want to mention particularly.

And last but not least in Africa I would like to highlight the success of our solar package – off-grid solar package in *Côte d'Ivoire*, Ivory Coast, with now more than 10,000 solar kits already sold which means over 50,000 people can now access electricity due to this off-grid solution. We will now expand this package into Ghana.

A few words on Framatome. As you know, the domination of the transition period in the restructuring of Areva, I think, marks the refounding of France's nuclear industry. Furthermore, just a few weeks ago at the end of January, the French ASN, the nuclear regulatory agency, granted its approval to the Le Creusot plant for Le Creusot to resume its manufacturing operations. This confirms that Framatome has regained control over its core activities.

With 50 years of history behind us, this means Framatome, as a newly founded company, can also build on significant achievements amassed all around the world, whether it's North America, Asia or Europe and will now develop its core business, including the manufacturing of large components, the supply of fuel assemblies to dozens of customers around the world and the sales of instrumentation and control systems also to many clients well beyond the borders of France. And Framatome's order book now amounts to €14 billion, which is in line with projections.

I will now say a few words about our nuclear operating performance. In 2017, nuclear power output was slightly down in comparison with 2016. This shortfall, which was well flagged earlier on, is due to highly atypical unplanned outages resulting from unforeseen technical issues, to some – not a lot, just to some, maintenance outage overruns lasting a bit longer than expected but finally, to the very unusual and unexpected temporary shutdown of our Tricastin plant, which was demanded quite surprisingly by the French nuclear regulatory authority. In order to offset the decrease in the output, we took some steps to optimise our maintenance schedules and we have made full use of our energy mix by optimising the management of our hydro capacity inventories, but nevertheless, as you can see, the output was less than we had expected earlier in the year.

In 2017, I would also like to say that the *Grand Carénage* refit programme has been managed very successfully. We have replaced a number of large components in the fleet, we implement the safety improvements during the ten-year regular outages and we upgrade the instrumentation and control systems on several 1,300MW reactor units. And in addition, all "DUS" programmes, the blackout diesel construction, are now underway in each of our stations.

In terms of nuclear power output, 2018 is off to a good start with 53 or 54 reactors, in line during the month of January. Let me also say that once again the UK nuclear fleet performed very well despite being slightly down on its record output achieved in 2016.

Let me now end this presentation with a few words on our performance plan. I am very proud to say that our performance plan is ahead of schedule and this can show that EDF can really transform itself and adjust to the new market situation. I think, as the management team has been very active in changing what had been the previous cost trends in EDF, I would like to thank also the management team altogether for having really moved the needle quite significantly from what we used to do to what we now do. So we have seen in 2017 an excellent progress in the execution of our performance plan, intensified efforts at cost reduction and great management, I have to say, of the asset disposal plan.

We have achieved our target of reducing operating expenses by €700 million when compared to 2015. This is one year ahead of our schedule and in 2018 we will be continuing in this trend and have set ourselves a new goal of reducing operating expenses by an additional €100 million in addition to the previous target.

We are also ahead of schedule for our asset disposal plan. To date we have exceeded 80% of completion for the asset disposal plan and we believe the plan will reach completion by the end of 2018, which would be two years ahead of the initial target that we had set two years ago.

We have also achieved and even exceeded our target of optimising the working capital requirement one year ahead of schedule. Cumulative working capital optimisation over the period of 2015–2017 now stands at €1.9 billion against an initial target of €1.8 billion but not by 2017, by 2018, so it's more and it's earlier.

A slight rise of 1.3% in net investment as compared with 2016 reflects our higher rate on investment in renewables in 2017, which is fully consistent with our strategies.

I will end up this first part of the presentation and will now give the floor to Xavier Girre. He will give you a more detailed presentation of our results for 2017 and after Xavier's presentation we will both be really happy to respond to your questions.

Xavier Girre

Group Senior Executive Vice-President - Finance

Thank you Jean-Bernard. Good morning. I am very happy to walk you through our financials for 2017.

Let me start with a **review of our performance compared to our guidance**. As you know, last October we stated that the Group remained focused on delivering the lower-end of our initial guidance. We achieved that goal, in particular through strong achievements in our performance plan. EBITDA stands slightly above €13.7 billion and net financial debt at 2.4 times EBITDA.

Yesterday, the Board proposed a dividend of €0.46 per share, representing 60% of recurring net income, in line with the 55–65% guidance. As announced, shareholders will have an option to receive the balance of the dividend in new shares that will be issued at a 10% discount to the reference price.

Let us now have a look at the Group's 2017 operating performance. As you know, 2016 EBITDA included the positive effect of the adjustment in 2016 of the 2014 tariffs. Excluding this €872 million item, year-on-year, EBITDA performance is down 10%.

Let me now enter into details of this evolution.

Looking first at non-regulated activities in France. EBITDA stood at €4.9 billion, down 7.9%, excluding the positive impact in 2016 of the tariff adjustment. This was driven by four main items.

- First, generation. Jean-Bernard walked you through the key items that affected French nuclear generation in 2017. Output was down nearly 5TWh to 379TWh. In addition, hydro output reached a low point under the impact of the worst hydro conditions since 2011. The overall EBITDA impact was just over –€0.5 billion compared to 2016.
- Second item, wholesale market activities. EDF had to procure power on the market to meet the request for ARENH volumes. Market purchases were also needed to address strong customer demand driven by the cold spell in January in the context of reduced availability of the French nuclear fleet. These transactions took place in periods of market

tension with high prices. Compared with the numbers we presented in July, the year-on-year impact was partly offset by the fact that similar transactions took place in Q4 of 2016 to cover reduced nuclear output at the time. The estimated combined effect on 2017 EBITDA is –€311 million compared to 2016.

- The third driver is focused on downstream margins, which were penalised by price effects as lower average market prices were reflected in newly signed market-based supply contracts. Market share erosion also caused a reduction in supply volumes. The estimated combined impacts were –€341 million.
- Fourth item, regulated tariffs. They had been reduced in August 2016. Their increase in August 2017 has a positive impact only on five months in 2017. The net effect is an estimated -€363 million overall.

These items were mitigated by two factors.

- Firstly, by the capacity mechanism. Capacity certificate prices came to €10/kW in the auctions. Pass-through to end customers and sales in capacity auctions generated an overall positive EBITDA impact of €580 million.
- The second mitigating factor: the strong cost reduction efforts delivered by French generation and supply activities under the performance plan. This delivered €494 million savings in OPEX compared to 2016.

Let's now focus on two key points:

1. our cost-cutting plan that we are delivering ahead of schedule and
2. our French nuclear generation trend, which is a significant driver of our EBITDA.

Let me share further details on the **OPEX component of our performance plan**. As you know, we had the first milestone of €700 million cuts in 2018 versus 2015. And we delivered it one year ahead of schedule. Every geographical area and activity contributed to the OPEX cuts. However, overall, savings came in majority from France and from external costs, in particular procurement. In 2017 alone, we delivered more than €400 million of reductions, with contributions from all activities based on external cost optimisations and adjustments in the workforce, in particular in sales teams and in overheads to adapt to the evolving market environment.

Jean-Bernard presented our nuclear output for 2017 earlier. Let's spend some time on **the outlook for French nuclear generation** over the next three years.

In 2018, we expect nuclear output to stand above 395TWh, thanks to a better overall availability of the nuclear fleet than in 2017. This takes into account the continuation of the Fessenheim 2 and Paluel 2 outages, as well as the extended outage at Belleville 2. Belleville 2 and Fessenheim 2 are expected to come back online within one month and Paluel 2 in June. The output assumption also takes into account a potential risk related to the finalisation of the Creusot audits in relation to all equipment in place in the operating fleet. This process is unfolding well so far. The teams are focused on delivering the reports to ASN in a timely manner.

Everything else being equal, 2019 output is expected to be down versus 2018 with two main drivers.

- First, the ten-year visit programme. There will be two additional ten-year visits and two of these will be first-of-a-kind visits. Tricastin 1 is scheduled to be the first reactor of the fleet to go through a fourth ten-year visit. Chooz B2 will be the first 1,450MW reactor to undergo a second ten-year visit. The average duration of these first-of-a-kind visits is expected to be longer, especially for fourth ten-year visits, an important milestone to the process to extend operations beyond 40 years.
- The second driver is the expected shutdown of Fessenheim when Flamanville starts up. But, as Flamanville is only expected to ramp up gradually, with grid connection in Q2 and full power in Q4, its 2019 output will clearly not offset the entire lost output from Fessenheim.

In 2020 six ten-year visits will start and *Grand Carénage* maintenance activities will carry on.

Moving now to **Regulated activities in France**. EBITDA in the segment reached €4.9 billion. The trend was driven by four elements.

- First, volumes distributed by Enedis dropped slightly, carrying a €42 million negative impact. This was driven by an 0.4TWh reduction in demand, or –0.2% on top of weather and 2016 leap year effects. Some of these negatives will be caught up in the next tariff reviews via the smoothing mechanisms of the so-called CRCP.
- Second, weather events: strong storms in mainland France as well as the Irma and Maria hurricanes in the Caribbean islands. This triggered increased operating costs and power cut compensations for Enedis and island activities, amounting overall to a –€83 million.
- Third, 2016 benefited from positive one-offs, particularly in island activities, with no equivalent in 2017.
- Finally, this was partly offset by the positive impact of the tariffs change under the TURPE framework.

Looking now at the **UK segment**. EBITDA stood just over €1 billion, down 33.3% in organic terms. In line with the trend presented at H1, the drop in UK wholesale power prices carried a 12% negative impact in realised nuclear prices. This element alone explains the bulk of the EBITDA drop versus 2016.

UK nuclear output came just shy of 64TWh, including the slight negative from the extended outage at Sizewell B. Compared to the record output in 2016, this remains a very robust year for the UK nuclear fleet. In supply activities, the number of B2C customer accounts was down just 1.2%, showing good resilience in a very competitive market. Demand volumes decreased as energy efficiency continues to improve.

In Italy, 2017 EBITDA reached €910 million, up 42.1% in organic terms. Performance in electricity activities was up 10%, lifted by average electricity sales prices and good optimisation of gas-fired generation plants. These positive drivers were partly mitigated by the impact of poor hydro conditions on hydro power output.

Hydrocarbon activities were up nearly €100 million, supported by Brent and gas price effects and by increased volumes following the commissioning of production assets in Egypt. Optimisation of maintenance costs in E&P activities also carried a positive impact.

Lastly, the disposal of Edison's headquarters made a positive contribution to a Group EBITDA of around €100 million.

Let us focus now on EDF Énergies Nouvelles. Overall, 2017 EBITDA performance is down 14.8% to €751 million. This is mainly due to a lower EBITDA contribution from the DSSA activity, especially compared with 2016, a very strong year in that regard. Conversely, EDF EN's output grew strongly and EBITDA from generation activities was up 8.5% organically. This reflects the Group's strategic acceleration in renewables and strong growth of its portfolio of net renewables activity. Intense project development activity in 2017 reflected that ambition, with 1.9GW of gross capacity commissioned and a further 1.9GW in construction end December. Interestingly, the share of solar PV increased markedly in the technology mix of assets under construction. Indeed, the acquisition of Futuren is in line with that strategic acceleration and contributed further to growing renewables generation output and installed capacity.

EBITDA at **Dalkia** came to €259 million, down just slightly in organic terms. Dalkia continues to be successful on the commercial front, with contracts signed or renewed. 2017 was particularly active on the heating and cooling networks front. One challenging contract created a temporary headwind. But this was essentially offset by two positive drivers for EBITDA: higher energy prices and favourable reviews of index-based services contracts.

Looking, finally, at International businesses. EBITDA in the Other international segment was down organically by 17.9% to €457 million. In Belgium, the nuclear output was reduced and sales prices were lower. Renewables output was also penalised by unfavourable wind conditions. On the other hand, Group investment in Belgian onshore wind yielded a 25% increase in installed capacity.

Brazil was penalised by the annual tariff review of Norte Flu's PPA, driven in particular by the downward trend in inflation. Note that 2016 was an exceptional year for Norte Flu.

As you know, the sale of EDF Polska's assets was completed mid-November.

Let's now move to the other items of the P&L. Starting with EBIT, which is down 25% at €5.6 billion. Two main factors here:

- First, the higher D&As come partly from an accelerated depreciation on oil-fired assets in France and a volume effect from maintenance investments in the French nuclear fleet in the context of the *Grand Carénage*.
- Second, the RTE transaction delivered a pre-tax disposal gain of €1,462 million.

Net income Group share came to €3.2 billion, up 11.3%. This positive trend was driven by two main supporting factors.

- First, the financial result improved by €1.1 billion. This was driven by a significant increase in disposal gains on dedicated assets for more than €500 million. 2017 will be the last year with such an impact on the financial results from financial asset disposals. From 2018 onwards, on the basis of IFRS 9, the change of fair value of a large part of these assets will be accounted for in the financial result and there will be no P&L impact when disposed of. The volatility introduced by the standard will be accounted for in non-recurring income. In addition, provisions discounting costs were lower than in 2016. Whereas the discount rate of French nuclear provisions dropped 20bps at end 2016, the reduction was only 10bps in 2017, resulting in a lower discounting charge by around €400 million. Continued proactive debt management and a favourable Euro-to-USD exchange rate also helped yield a further drop in financial costs.
- The second factor: income tax stood at €147 million, down more than €1.2 billion versus 2016. This is consistent with the income level. Furthermore, as I said at our half-year communication, the effective tax rate benefited from the reduced tax treatment of the long term capital gain of the RTE disposal. And the cancellation of the 3% tax on dividends in France - with an impact of €255 million - and lower tax rates in the US and in Belgium impacting deferred tax, also contributed to reducing the effective tax rate.

When excluding non-recurring items, recurring net income came to €2.8 billion.

A quick word on the **post-tax effects of non-recurring items**. In 2017, they stood at +€353 million versus –€1.2 billion in 2016. This reflects essentially the €1.3 billion positive impact of the disposal gain on the RTE transaction. Impairment losses have been recorded on some specific assets for total amounts similar to the level of 2016.

Looking now at the first part of the cash flow. Operating cash flow stood at €10.2 billion, down €2.9 billion from 2016, in line with the EBITDA trend. Cash flow after net investments and change in working capital requirement came to €1.9 billion, up €2.4 billion versus 2016.

Three points to note here:

- First, the change in working capital requirement came to +€1.5 billion compared to –€1.9 billion in 2016. This is a significant swing, indeed. Let me come back to that in more details on the next slide.
- Second, total net investments and acquisitions, excluding the 2015–2020 disposal plan reached €16 billion, up €3.2 billion. This is mainly driven by increased investments in renewables, the rollout of Linky and new developments, including HPC development, and the acquisition of Framatome for €1.87 billion. Let me come back to net investments in a couple of minutes also.
- Third, our 2015–2020 disposal programme contributed €6.2 billion to 2017 cash flows.

A quick focus on the change in working capital requirement over 2017. In 2017, working capital requirement benefited first from the cash-in of items that had supported EBITDA in 2016, namely the tariff adjustment and increased weather-driven sales recorded in 2016. In addition, improvement in working capital requirement was supported by the impact of the optimisation efforts.

Indeed, the Group also exceeded its target for reductions in the working capital requirements. We have now delivered €1.9 billion of optimisations over 2015–2017 versus a goal of €1.8 billion by 2018. Continued efforts on receivables and inventories have produced further results. As you can see on the chart, all geographical areas have contributed to this significant optimisation effort.

Considering now the trend on investments. Net investments including acquisitions before disposal stood at €16 billion. This includes the exceptional cash-out associated with the acquisition of Framatome for nearly €1.9 billion. Net investment excluding new developments, as you can see on the chart, increased by €151 million, under the impact of intensified investment effort in renewables, including the acquisition of Futuren. In addition, investment volumes in nuclear maintenance grew in line with the *Grand Carénage* programme.

New development investments are up in services, driven by the acquisition of Imtech in the UK. Implementation by Enedis of the Linky investment programme is following its expected course. And in New Nuclear Build, construction activity at Hinkley Point C has accelerated with the construction of the first permanent concrete structures of the site and of the first elements of the cooling system. Overall, new developments grew €1.2 billion to nearly €2.2 billion when excluding Framatome.

A quick word on our disposal plan as a key driver of the Group cash flow for 2017. On this front as well we are ahead of schedule since we have already achieved more than 80% of our initial target just halfway through our plan: €8.1 billion over 2015–2017 out of a target of €10 billion over six years from 2015–2020.

Last slide on cash flow shows the €1.1 billion disbursements made to the dedicated assets fund which I already discussed at half-year. After deducting the interest payments on hybrids and the share of the dividend paid in cash, Group cash flow stood at –€209 million.

Net financial debt was reduced by €4.4 billion and came to €33 billion. Operating cash flow and the change in working capital requirements nearly covered net investments on the current scope of activities. Disposals covered new developments, as well as dividends and allocations to the dedicated assets fund. This results in the Group cash flow you've just seen at –€0.2 billion. And the improvement in net financial debt was essentially driven by the capital increase.

To conclude this presentation and before I hand over to Jean-Bernard Lévy for the presentation of our financial outlook, let me come back to **the key drivers of our operational performance over the last year and their evolution in 2018.** Those of you familiar with our financial communication materials will recognise this slide. We presented it one year ago when we explained that 2017 was going to be challenging and 2018 would see a rebound. Looking at the transition from 2016 to 2017, everything we anticipated materialised with one exception: French nuclear output was expected to be back on a growth path but ended up 16TWh below the mid-point of our assumption. Despite this headwind, we are delivering our initial EBITDA and net financial debt to EBITDA guidances.

So, in 2018, we are confident the Group will deliver on its expectations, driven by:

- intensified performance effort on the OPEX front;
- growth in nuclear output;
- positive impact of higher wholesale power prices in realised and sales prices;
- a strong commercial and marketing response in downstream businesses;
- growing performance in renewables supported by the acceleration of Group investments;
- and also by the steady development path we have set for energy services.

This ends my presentation. Let me hand back over to Jean-Bernard for the outlook for 2018 and 2019.

Jean-Bernard Lévy

Chairman and Chief Executive Officer, EDF Group

For 2018, we confirm that we will move ahead with our OPEX performance targets. €800 million versus 2015, and as I have already said, an increase of what we had expected in our four-year plan. We confirm that the EBITDA target will be between €14.6–15.3 billion and we confirm that cash flow should be around zero in the definition that you have here, which is very precise (*excluding Linky, new developments and 2015-2020 disposal plan –red.*).

Regarding the asset disposal plan, we expect that by the end of 2018 we will be close to the €10 billion that we had predicted when we reported this in the year 2016. Total net investment excluding acquisition, and I will come back on that, and the 2015–2020 disposal plan will be €15 million. And I would like to point out that we currently do not have any major acquisition project, but that we will be ready to act if any specific opportunities arise. And we did find a few such opportunities, which we conducted in 2017, such as the acquisitions of Futuren, or Imtech, that I mentioned earlier. But the number here may include some mid-level acquisitions like the one I have just mentioned, and that happened in 2017, but we certainly do not have any major acquisition project in mind.

We also confirm that the financial debt to EBITDA ratio at the end of 2018 should be less than or equal to 2.7x. And payout of net income, excluding non-recurring items, should reach 50% for fiscal year 2018.

I now turn to the 2019 outlook. In 2019, the nuclear fleet's capacity factor is expected to be lower than in 2018 due to a more extensive maintenance programme. And also, in 2019, we will see the first outage in the fourth regular visit, the fourth cycle of ten-yearly outages on our 900MW plants. And furthermore, as we all know, we have to predict the disconnection of both Fessenheim nuclear power plant units in 2019 – in end of 2018 or early 2019, whereas we know that Flamanville 3 will be gradually powering up, which means that, all in all, we will not be able to offset lack of production from Fessenheim by the new production of Flamanville over fiscal year 2019.

Regarding our operating expenses, we intend to reinforce the plan to reduce the OPEX with €100 million worth of additional savings compared with existing projections, which means we should gain roughly €300 million of savings when we will compare 2019 with 2018. And as you are well aware, there are still some remaining uncertainties regarding market conditions. We are counting on a slight price rise in France due to the end of the effect created by hedged volumes, which we hedged in late 2015 - early 2016, against a backdrop of extremely low wholesale prices. And because wholesale prices for 2019 are still fairly volatile and we lack visibility over the average selling price for the year and for the power we generate, we are still not totally sure of where alternative suppliers' subscription levels will be under the ARENH mechanism which, as you know, creates a sort of hangover situation over us. So this means that, at this stage, we are not able to give a precise guidance for 2019 EBITDA and we believe we will be able later in the year to give you more details.

Let me also conclude by saying that payout of net income excluding non-recurring items is expected to be, for the fiscal year 2019, in the range of 45–50% payout ratio for fiscal year 2019. This is not news, we had already stated this.

So, I thank you for your attention and Xavier and myself, we now will take your questions and hopefully be able to provide you with good answers. Thank you.

Q&A

Philippe Ourpatian (Natixis): Just two questions: one, could you just give some light about the impact of Framatome 2018 – it was not in your figure of 2017 – just an idea in terms of revenues and EBITDA in order to help us to integrate it in the model?

And second point: could you just also elaborate about your tax rate? It's quite volatile in 2018 mainly due to some several non-recurring impacts. Could you just give us some colour about 2018 and why not, 2019, if it's the normative level? Thank you.

Xavier Girre: Thank you for your questions. So, as regards Framatome, we've included the contribution of Framatome EBITDA to our guidance, which is expected around €300 million. And if you compare 2017 and 2018 you have also to remember that in 2017 we had during part of the year the contribution of Polska or even a slight contribution of Hungary also, so the impact will be a net positive impact. It will be a net of these two trends, first point.

Second point, as regards the tax rate. In 2017, we had this very low tax rate due to the fact that we had the capital gain on RTE, which was taxed at 12%, in particular, and due to the fact that the result, when you compare the income tax with the previous year, was lower. So for 2018 of course we'll see, but there is no hypothesis of such a difference because there is no hypothesis of a significant, for example, capital gain in 2018.

Philippe Ourpatian: Then tax rates should be back somewhere around… ?

Xavier Girre: Around a normal tax rate, a normative, standard tax rate.

Louis Boujard (Oddo): Good morning. I have, in fact, two questions. The first is regarding the nuclear output in 2018. You mentioned above 395TWh expected, including Fessenheim 2, Paluel 2 and Belleville 2 to restart in March and in June. Does that mean that it might be at risk if it's not the case, and could you please give us a bit more details in the meantime regarding Belleville 2, what is at stake at the moment? And on top of that, you mentioned as well that there is risk related to the Creusot files investigation completion, what does that mean and what is that risk?

My second question is regarding the hydro dam concession. Yesterday in the press there were some rumours that eventually the French government might be thinking about opening the French concession to the competition. Could you please give us your view on that specific topic?

Jean-Bernard Lévy: On the hydro situation, of course, we are planning in 2018 and in 2019 that whatever happens on the hydro concessions will not have an effect on our numbers because it takes a long time to organise tender offers, to transfer the operations in the case that we would not be able to keep all the concessions we have. So as today the overall frame is still in discussion between Brussels and Paris, we believe that there will be no short or mid-term effect. But of course in the long run we may have a reduced market share if and when the concessions are open to tender and if we do not win all the concessions.

Now, regarding the current situation of these discussions, I would not like to make any comments because the ball is being passed in between Brussels and the French government, and EDF is not part of that rugby game at this stage.

Dominique Minière, Group Senior Executive Vice-President - Nuclear and Thermal: Concerning Paluel 2 and Fessenheim 2, we are optimistic concerning the restarting of the two plants. Of course, we have still some provisions in case of even some delays, but for the time being we are not expecting delays about restarting of Paluel 2 and Fessenheim 2. Concerning Belleville 2, we are today fixing, in fact, a technical issue on the reactor vessel part for which we have already undertaken some more jobs and we are now discussing the final situation and the final fixing of the situation with our nuclear safety authority.

Emmanuel Turpin (Société Générale): Good morning. The first question would be on financials regarding the discount rate for nuclear provisions. You gave us quite clear guidance a year ago about the trend in the discount rate, could you update us on what it should mean for 2018? And, following the past few weeks' rise in bond yields in the market, could you maybe explain to us what potential implication it would have on your different P&L or balance sheet lines? And I'm thinking particularly about sensitivity of the book value of your dedicated assets to bond yields. That would be on the financing.

Beyond numbers, a lot is at stake for the company regarding political and regulatory developments in France. We've been hearing, for some time now, that the government is looking at maybe offering you better visibility on return on your CAPEX for nuclear, for instance, in France, through setting up a remuneration scheme. Could you update us on whether things are moving there?

And, last point, we had *Cour des comptes* issuing a report a recently saying that they view the remuneration of the Linky scheme as too generous. It is not a report that needs to end up into a change, but typically they are listened to, so I wanted to know whether we should expect a change in that scheme and what effect it would have? Thank you.

Xavier Girre: First, as regards the discount rate, as you've seen, in 2017, we have a 10bps drop in the discount rate, which has an impact of €727 million under our nuclear liabilities. And this has an impact of €300 million on our financial costs. So this is for 2017.

For 2018, our hypothesis at the end of this year is a discount rate of 3.9%, which means 20bps drop. And in this frame, the impact would be €1.5 billion on our nuclear liabilities, including €1.3 billion which has to be covered by dedicated assets and an impact on our financial results in the range of €800 million.

And then, as regards 2019, for cash considerations, our hypothesis is that we will be in a position to dedicate non-consolidated assets or assets that we are currently owning under equity methods, to dedicated assets. So this is exactly where we are today.

So as regards the second question about the potential impact of a significant increase of the interest rates, we have put, it's just for information and we have highlighted that it’s really just for information, what would be the impact of quite a significant increase in the rates. If we take a hypothesis of 50bps, we would have, everything equal, a positive impact on our economic debt, so a reduction of the economic debt, of around +€1.9 billion, thanks to the impact, of course, on the financial accruals earned on the accruals for social benefits. And we would have, on the other hand, a negative impact on the cash flow statement, by -€200 million. And an impact also on the pre-tax net income, favourable, in the range of €240 million.

Jean-Bernard Lévy: On your two other questions, new builds in nuclear plants will, in our view, not be able to be decided to be put in place if there is not an appropriate regulation. I think it is quite obvious that we are moving in a world, we are already in a world, where no new capacity in Europe – and of course, this includes France as well as the UK as we have seen with Hinkley – no new capacity can be built when prices are both low and volatile. And that there is a clear understanding of this situation by the regulators and we have seen regulators approve new capacity being built under new financing schemes, giving to investors the visibility they need. I have said that now for maybe two or three years, so this is not news. But I can confirm today that we have – we are holding discussions in both our home countries, the United Kingdom and France, to try to organise – this is, of course, very preliminary – the kind of framework that would fit the need for this regulation. So do not expect any short-term outcomes, but do expect that, at some point in time, we will move from a concept to something more precise.

Regarding Linky, interesting to see *Cour des comptes* discuss about the Linky, so-called generosity of the regulator. And, of course, we are not here to have any comments on *Cour des comptes* public statements. We will keep our comments for our direct dialogue with the *Cour des comptes*. But let me just say that, first, Linky is today a very successful programme. People always talk about trains not arriving on time and, indeed, we have about 1% of the Enedis clients, about 1% are not happy when somebody comes and wants to change an old meter to a new, digital meter. But 99% it happens with no problems and we are installing today millions and millions of Linky meters. I think we are 8 million units this year. So 8 million units means, is it something like 200,000 per week? So it’s growing very fast and the programme is indeed successful. Regarding the returns, let me just say – and that was also one of the things that shocked me when I arrived - that our clients are not going to pay for the new meter until all meters are installed, which will be by 2021-2022, when we have reached more than 30 million units. And at this stage, we will, at last, be remunerated for the huge investment that the EDF has made in the name of Enedis. So Enedis is in charge of Linky, but EDF, who is quite indebted, is financing Enedis. An unexpected situation, which, of course, we have recalled to *Cour des comptes* when we had to.

Ivan Pavlovic (Natixis): Regarding the PPE, which has to be updated this year, do you have any schedule in mind to share with us, please?

Jean-Bernard Lévy: I think we will really refer to Nicolas Hulot and to the government, who are in charge of preparing the PPE. We have participated in a number of workshops on the PPE. There is a *débat public*, public debate, which is now going to be implemented. And this whole process is fully in the hands of the government and of the *Ministère de la Transition*.

Ahmed Farman (Jefferies): Morning, everyone. Two questions from my side. Firstly, could you quantify for us the year-on-year impact you're showing or indicating on slide 15 for nuclear output in France between 2018 and 2019? And within that, sort of a related question, because, in the past, you have indicated 410-415TWh of normalised output for nuclear. But when I look at slide 15, it indicates that, for the next few years, the output would be materially below that level. So I just want to understand, is it largely because of the fact that you're indicating on the slide or, other factors like lower demand also impacting? That's my first question.

My second question is on the EBITDA indication for 2019. Could you comment on whether you expect the recovery that you have seen or expect between 2017 and 2018 to continue into 2019, with reference to the mid-point of the 2018 guidance and the current forward power price? Thank you.

Xavier Girre: Thank you for your question. As regards 2019, we expect a negative impact of the nuclear generation. We'll see. Dominique has explained this trend and we expect also positive impacts as regards, in particular, the cost-cutting programme and the price trends. We will not give additional detail as regards the EBITDA for 2019 - you see quite a balance between negative and positive impacts.

And as regards the nominal nuclear production, what is useful that you have in mind is that, due to the current level of the ten-year visit, this has quite an impact on the overall nuclear generation. I think you have everything here to make your hypothesis.

Sam Arie (UBS): Good morning, everybody. Thanks for the presentation. I wanted to just ask a follow-up question to your comments earlier on the dedicated asset portfolio and the liabilities. You talked about changes in the accounting method for the dedicated assets, changes in the discount rate and so on. If I step back from the detail, can I just ask if over the next three years, say, would you expect to make new cash injections into that dedicated asset portfolio? Or fundamentally are you comfortable that the return on that portfolio will match any growth in the liabilities as you unwind the discount and so on? Just one question, thank you.

Xavier Girre: Thank you for your question. As you know, we have reached, at the end of 2017, a coverage ratio of 108.5%, which is a very high coverage ratio. We will have in the years to come, in particular at the end of this year, an impact on the nuclear liability due to the downward trend of the discount rate that I just explained. And we will assess at the end of this year, 2018, what is the level of the necessary injection in the dedicated assets. I also explained that our intention is to transfer some non-consolidated or entities consolidated through equity method into these dedicated assets. We are working on that currently.

Sam Arie: And is it too early to give a quantum on how much equity income you might then be transferring, I suppose, out of the P&L and into the dedicated portfolio?

Jean-Bernard Lévy: I am not sure that this is something that we quantify at this stage, but I am sure that, in due time, you will be provided with more precise numbers.

I have **two questions coming from our internet site**. I will read the questions. The first one is: *"Can you comment on the scrip dividend policy? Is 2017 the last year of scrip dividend or will this option be offered in 2018?"*

And I have to say very clearly that 2017 is indeed the last year of scrip dividend. For 2018, the Board has not yet made any decision, but we very clearly stated when we implemented this policy of scrip dividend that this would be over three years, 2015, 2016 and 2017. So, at this stage, our intention is that it will end with fiscal year 2017.

And I have a second question on a different topic, which is: *"What is your expectation for Framatome's EBITDA, including in the guidance for 2018?"*

And the response to this is we consider Framatome's expectation in EBITDA, that would be of course an order of magnitude, a rough number, which is consistent with the acquisition multiple of 8x EBITDA and we acquired Framatome for slightly under €2.5 billion for a value of 100%. Of course, we acquired 75.5% of Framatome, but for the 100% EV of Framatome, that was right, just short of 2.5 billion. And with a multiple of 8x, this leads as an approximate number, to €300 million of EBITDA as a rough appreciation for 2018.

And Framatome, maybe this gives me the opportunity to say that, when we look at what has been stated in the press about Westinghouse acquisition by a private equity fund, and when we look at the numbers and we have tried to look at it, we are quite proud that our acquisition of Framatome seems to be, I would say, in better terms than what this private equity Canadian firm has paid – or will pay, because it's not closed yet – for Westinghouse. Although I'm sure the comparisons are difficult. But at least we are on the right side.

Philippe Ourpatian (Natixis): Just one additional question concerning your renewable business. There is clearly a lack of investible assets in the renewable world, I would say. Most of the green firms and sustainable firms are looking for new assets. Are you thinking, maybe looking at the trend of your businesses, to re-put on the stock market, to IPO, maybe EDF Énergies Nouvelles?

Jean-Bernard Lévy: Let me say that we consider EDF's renewable business to be at the heart, at the core of our strategy. It is inside Cap 2030 from the beginning of CAP 2030 three years ago and we have absolutely no intention to share the value creation of our exceptional renewable business with anybody else than the EDF Group shareholders. Antoine?

Antoine Cahuzac, EDF Group Senior Executive Vice-President, Renewable energies & Chairman and Chief Executive Officer of EDF Énergies Nouvelles: And as far as opportunities are concerned, there is absolutely no issue. Clearly, there is a lot of players in the field. But having said that, the market is moving from a market which was driven by feed-in tariffs to a market which is driven by auction and tenders, and much larger assets, which makes it much more difficult for small developers or even medium-sized developers to be present and active. It's I think one of the main reasons why we are seeing today, around the world, a trend of consolidation, with acquisition. You have seen some in France, you may have seen some in foreign countries as well. And clearly EDF Group, through EDF EN, is able to play a key role. As you all know, renewable, whether it be solar or wind, will be the technology developing the most megawatts and gigawatts in the 10 or 15 coming years.

Xavier Girre: The internet question we received is about the impact of IFRS 9, what's the consequence of it on our P&L: *"Perhaps, you can provide some indication of what was the impact in 2017 of this new norm if it had been applied in 2017?".*

So, as you know, so the major impact is that changes in fair value at investment funds will impact P&L. So there will be no more recognition of gains or losses upon sales of the instruments. For 2017, impact would have been +€350 million on financial results. And last point, as I already said, this will create high volatility. So this volatility will be recorded in non-recurring income from 2018 on.

Vincent Ayral (JP Morgan): Good morning. A couple of questions here. One, going back to TURPE 5 and the challenge that has been made by EDF, the union, the French state, regarding the tariffs not being high enough, I wanted to know if you could give us some colour on the maths behind to understand exactly the case that you are putting forward? We've seen limited information on that. And when can we expect some news flow from the State Council on this specific issue? So that would be question one.

The other, Nicolas Hulot recently said that France will push for an EU-wide CO2 floor. So we saw the government being very supportive of EDF so far, helping find an agreement to reform the ETS. That was in the autumn last year. Now it seems that they want to go further. How do you see the likelihood of something like this happening? We see the German coalition as being overall open, but some members in the coalition may not be as open, I'm thinking here of the CDU. I would be interested in your views. Thank you.

Jean-Bernard Lévy: Thank you. I will take both questions on the tariff for Enedis, which we call TURPE, TURPE 5. As you know, we have challenged the TURPE 5 tariff from its inception and it is now with the State Council, *"Conseil d'État"*. We expect that the State Council will very soon decide on the matter. There have been public hearings, there have been a lot of documents exchanged. But it seems to us that there could be a potential outcome in favour of Enedis, which means in favour of EDF Group, of course. We need to wait a little longer to see exactly what would be the grounds of the decision, what would be the extent of the decision, whether it would be retroactive or only for the future, what would be the timeline for a new TURPE. So when I state all these questions ahead of us, I can only share that we are optimistic that something favourable will happen soon, but it's very difficult to quantify and we will know that, obviously, in a matter of weeks more than a matter of months. I would say that would be my response to your first question.

If I think about your second question, of course it is very difficult for me to make public comments about matters that are in the hands of the leaders of Europe and more precisely in the hands of the new German government and the current French government. And we know that the current French government is very much in favour of implementing a true and efficient CO2 price policy more aggressively and more quickly than what the directive is going to lead. We all know, all believe that the directive will have very little effect before 2023 or 2024 or 2025 and we hope that there will be initiatives that will be shared between the French government, the German government and maybe others. We have seen, for instance, the Netherlands, be very active in this regard. But now I am certainly not in the best position to give you any specific views on the way that the German coalition discussions will tackle the issue. Let’s just say we are hopeful that very aggressive statements on clean policies made in conferences will indeed be implemented when decisions have to be made and will not remain in the realms to talk, but will go to the realm of action. Thank you.

Bartlomiej Kubicki (Société Générale): Good morning. Two quick questions. First, Italy, very good performance. You were guiding on €700 million of EBITDA after first half upgraded guidance. You generated €900 million minus €100 million one off, €800 million, despite low hydro conditions. Is this new norm? Shall we expect €800 million to be recurring going forward, with upside risk from improved hydro?

And second, €10 billion assets disposal to be completed in the end of this year. What’s next, if anything? Thank you very much.

Jean-Bernard Lévy: Thank you very much. On Italy, we have indeed had some positive, I would say, one-offs in 2017 and we are cautiously in terms of EBITDA for 2018. Edison, I think that was probably yesterday morning or maybe Wednesday evening, stated a new guidance for EBITDA, which is slightly below what we had achieved in 2017, because we believe we should not plan on having each year as many good news as we had in 2017. So let us say that I will refer you to the public statement of Edison, of which the mid-point of the range is €700 million. And your second question, sorry?

Bartlomiej Kubicki: What’s next after the 10 billion? If anything, of course.

Jean-Bernard Lévy: This is something we are thinking about, it’s a bit early to discuss it more precisely. But we do believe that when we implement our Cap 2030 targets, based on a lot of expansion in services and renewables and also the need to maintain and, in some cases, expand our existing fleet of generation units, we need to further look at some of the assets we have and that you should not expect – but I will not quantify it – that €10 billion of asset disposal is the end of the game. We are looking at whether we should go a little further and we will talk to you about that later.

And I think this is the conclusion of this conference. I really want to thank you for attending and for your very good, precise and adequate questions. We were very happy, Xavier and myself, and also Antoine and Dominique, to be part of this. And I wish all of you a good day and a good weekend, as we are Friday. Thank you.