DEAR SHAREHOLDERS,

This letter is both an opportunity to review the financial results of the first half of 2016, and to keep you updated on the major subjects that have occupied us over recent months.

Firstly, I would like to point out that on 22 April of this year, following a Board of Directors meeting, we made an important step forward by defining the Group’s new financial trajectory. It includes the optimisation of net investments (excluding Linky and new developments) reaching nearly €2 billion in 2018 compared with 2015; an asset disposal programme amounting to €10 billion by 2020; the strengthening of our savings plan, with the aim of reducing operating expenses by at least €1 billion in 2019 compared with 2015; and the strengthening of our shareholders’ equity through in particular a capital increase of €4 billion, to which the French government will contribute €3 billion. The French government has also undertaken to receive its dividend payment in shares for years 2016 and 2017.

The action plan associated with this financial trajectory has been launched and will enable the Group to continue its development and successfully carry out its investments.

In terms of disposals, EDF has started exclusive negotiations with Caisse des Dépôts and CNP Assurances to implement a long-term partnership for the development of Réseau de Transport d’Électricité (RTE, France’s electricity transmission network) and the disposal of 49.9% of RTE. Regarding the strengthening of our capital structure, the General Meeting of 26 July 2016 authorised the Board of Directors to undertake the capital increase that may be carried out by the cloture date of the 2016 accounts. Following the Board of Directors meeting of 28 July, we took a major step forward on several strategic issues:

- the reforming of the nuclear sector – a crucial issue for the Group’s future – has seen three major advances: an updated memorandum of understanding for the strategic partnership with AREVA, extending the accounting depreciation period of the majority of our fleet of 900 MW nuclear reactors, and the final decision authorising the investment in the Hinkley Point C project;

- the compensation principles related to the closure of the Fessenheim power plant were announced.

Cost-reduction efforts paid off, with operating expenses dropping 1.6% compared with the first half of 2015, and savings of €167 million. This improvement bolsters the action plan presented to the Board of Directors on 22 April 2016, which provided for a €700 million reduction in operating expenses by 2018, and a reduction of at least €1 billion in 2019 compared with 2015.
THE STRONG RESULTS OF EDF EN AND FRENCH HYDROPOWER CONFIRM EDF’S LEADING ROLE IN RENEWABLE ENERGIES IN EUROPE.

In an unfavourable environment, EDF’s results in the first half of 2016 are characterised by the strong performance of regulated activities and renewable energies. In 2015, EDF made as many investments towards the development of renewable energies as towards new nuclear. EDF EN’s TWh generation increased by 16% compared with the same period in 2015, whereas French hydropower output increased by 6.5%. Renewable energies are naturally a major area of technological innovations serving our customers in France and abroad. EDF’s very low-carbon electricity, combining nuclear and renewable energies, is a key asset to support the energy transition of cities and regions.

During the first half-year, we introduced innovations enabling our customers to better manage their electricity bill and to further reduce their carbon footprint. To that end, we launched a new green electricity self-consumption offer, “Mon Soleil & Moi”. Supporting customers also entails promoting new, customised energy services: that is the goal of our energy service subsidiaries Dalkia, Citelum, Tiru and Sodretel.

Thank you for your trust.

Jean-Bernard Lévy,
Chairman and CEO of EDF

THE GM IN FIGURES

General Meeting on 26 July 2016
- 5,617 online votes
- 20 written and 17 oral questions
- 60-minute discussion with the floor
- Quorum: 92.74%
- The 7 resolutions suggested by the Board of Directors were approved with an average rate of 99.32%

SHAREHOLDING STRUCTURE

As at 30 June 2016

Total number of shares: 2,013,251,391
You announced stable results in an environment of increased competition with deteriorated market prices. How do you explain that? The operating results of the first half of 2016 are indeed nearly stable in organic terms.

The results are supported by the strong performance of regulated activities and renewable energies. The Group also continues its cost-reduction strategy: operating expenses dropped 1.6% compared with the first half of 2015, which bolsters the action plan presented to the Board of Directors on 22 April 2016, providing for a reduction in operating expenses of at least €1 billion in 2019 versus 2015.

For 2016, EDF Group recently adjusted its EBITDA target at €16.3 – €16.6 billion: is that compatible with your lowered nuclear output target?

The EBITDA target takes into account in particular the new nuclear output target. Based on nuclear generation of 205.2 TWh in the first half-year, down 5.2 TWh compared with that of the first half of 2015, the Group announced on the 21 September 2016, a new target for 2016, nuclear output of between 380 and 390 TWh (For more information). The EBITDA target also takes into account the adjustment of regulated electricity tariffs, as announced following the judgement of the Conseil d’État on 15 June 2016, with application expected by the end of the third quarter.

You also maintain the 2018 goal of positive cash flow after dividends, excluding Linky, new developments and disposals. How did cash flow perform in the first half-year?

Cash flow experienced positive momentum over the period. Operating cash flow amounted to €7,959 million, versus €6,738 million in the first half of 2015, i.e. 18% growth.

This growth is due in particular to the repayment in 2016 of income tax advances paid in 2015, and the drop in financial expenses paid, in addition to investment optimisation efforts. Group cash flow¹ is positive at €107 million, which recognises the payment in shares of the largest part of the balance of the dividend for 2015. Restated for Linky, new developments and asset disposals, Group cash flow is positive at €485 million.

The EDF Board of Directors decided to extend the depreciation period for the 900 MW fleet, excluding Fessenheim in France. What is the aim of this resolution, and what will its financial impact be?

The decision was made to extend the depreciation period of the PWR² 900 MW series (excluding Fessenheim in France) to 50 years from 1 January 2016. This change is part of the Group’s industrial strategy to extend the operating life of the French fleet beyond 40 years. It is based on the facilities’ technical ability to run for at least 50 years, drawing on international benchmarks, and on the investments made gradually as part of the Grand Carénage (major refit) programme. These investments will enable the PWR 900 MW series to achieve safety levels as close as possible to that of the EPR and among the highest internationally, following their fourth ten-year inspection (VD4).

The content of the VD4s is being progressively converged as indicated by the ASN’s response to the reviews of guidance documents sent to EDF in April 2016. EDF also takes into account the ASN’s complementary requests in terms of studies, inspections and works.

In addition, this extension is compatible with the objectives of the draft multi-year energy plan (PPE) of 1 July 2016.

The extended depreciation period of the 900 MW series excluding Fessenheim leads to a reduction in expenses related to asset depreciation and to unwinding the discount on provisions, with a decrease estimated at €1 billion for 2016. Its impact on the provisions is a decrease of €2.1 billion at 1 January 2016.

2016 FINANCIAL TARGETS

- **EBITDA**: €16.3 – €16.6 billion
- **Net debt to EBITDA ratio**: between 2x and 2.5x
- **Payout of net income from continuing operations**: 55% to 65%

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1. Cash flow after dividends
2. Pressurized Water Reactor
3. Adjusted for interest payments on hybrid issues booked in equity
HINKLEY POINT C, A PROJECT FOR EDF’S FUTURE

On 28 July 2016, EDF’s Board of Directors made the final investment decision and authorised its Chairman to ensure the proper implementation of this decision through the signature of all contracts and agreements necessary to build two EPR reactors at Hinkley Point C (HPC) in south-west England. On 15 September, British Government confirmed its approval of the construction project for the two nuclear reactors. On 27 September, the EDF Board has confirmed that the conditions set out at its meeting on 28 July 2016 are met in order to sign the Project contracts (For more information).

This construction project is a major component of the EDF Group’s CAP 2030 strategy. The two HPC reactors will help consolidate EDF’s presence in Great Britain, where its subsidiary EDF Energy already operates 15 nuclear reactors and is the leading electricity supplier in terms of volume. It will also harness the Group’s top-level expertise in nuclear engineering.

This programme signals the renaissance of nuclear power in Europe, giving a boost to the French nuclear activity. It is an excellent international showcase for the expertise of EDF Group, AREVA NP and French companies operating in the sector. EDF is making efforts to keep its leading position as a successful, competitive and pro-active nuclear power supplier for the full benefit of France and French companies.

The project, which has obtained all the necessary authorisations, is based on an innovative contract: the “contract for differences”, a contract which guarantees price stability for consumers over 35 years, and revenue stability for the power plant operator. The investment forms part of the Group’s new financial trajectory. The total financing requirement is £18 billion: EDF’s Group share is £12 billion, and that of its long-standing partner China General Nuclear Corporation (CGN) £6 billion. CGN’s investment in the project will go together with the payment of an acquisition premium. The estimated profitability rate after tax is about 9% every year over the next 70 years. Following this decision, everything is in place to enable EDF to sign the contracts with the British government, CGN and the project’s main suppliers.

Commissioning is planned for end-2025. This project will support and expand operating teams’ skills at a pivotal time, since the project will be completed between the end of the Flamanville 3 project and the early stages of the renewal of the French nuclear fleet.

UPDATE OF THE STRATEGIC PARTNERSHIP BETWEEN EDF AND AREVA

The memorandum of understanding (MoU) for the strategic partnership with AREVA, signed in July 2015, was updated and approved by the respective Boards of Directors of EDF and AREVA on Thursday 28 July 2016. It must be submitted for consultation to employee representative bodies.

This EDF project aims to guarantee a more effective integrated model for the French nuclear activity.

This non-binding MoU comprises three components:
- the assets and activities of AREVA NP, except those related to the creation of the Olkiluoto EPR in Finland, will be transferred to a new company called “NEW ANP”. The MoU provides for EDF’s majority ownership of this new company (at least 51% of shares and voting rights). AREVA will own between 15 and 25% of the capital, which may be opened to other minority shareholders with a maximum investment of 34%.
- the second component remains unchanged: the creation of a dedicated company 80% owned by EDF and 20% by AREVA NP (then by NEW ANP, as applicable), combining engineering and research activities for new reactors that are more competitive and better suited to customer requirements, in France and abroad;
- lastly, EDF and AREVA reaffirm their determination to establish a global, strategic and industrial partnership in order to improve the effectiveness of their cooperation in areas such as Research and Development, the sale of new reactors for export, the storage of spent fuel, and decommissioning.

The parties agreed to an indicative price for NEW ANP (100% of equity value) at €2.5 billion2 at the date of completing the transaction. This price corresponds to a 2017 forecasted EBITDA multiple of 8x3. On the basis of a 51% to 75% stake held by EDF, all the financial terms enable the Group to preserve its financial trajectory. This disposal of AREVA’s reactor activities is also subject to approval of the Flamanville reactor’s vessel.

COMPENSATION FOR THE CLOSURE OF FESSENHEIM

The EDF Board of Directors was informed of the progress of discussions with the French government regarding the compensation protocol and schedule associated with this closure.

The compensation principles are based on a fixed portion related to the achievement of costs associated with the plant’s closure, and a variable portion leading, where applicable, to subsequent payments reflecting EDF’s loss of income until 2041.

The Central Works Council’s opinion on this subject shall be sought on 14 September.

1. Scope of the transaction, after excluding operations not acquired
2. “Non binding” figure with no transfer of liability related to Olkiluoto, nor financial debt at the closing date, and including proper protection against the risk resulting from irregular findings in the manufacturing tracking records of equipment and components at le Creusot and Saint Marcel and Leumont, if any. The figure will be subject to adjustment at closing
3. Normalised EBITDA pro forma of the acquired scope, excluding large projects

EDF
Relation actionnaires
22-30, avenue de Wagram
75382 Paris Cedex 08
A French public limited company with share capital of €1,006,625,695.50
552081317 Paris Trade and Companies’ Register
www.edf.fr

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