EDF Half-Year Results 2016

Friday, 29th July 2016

Jean-Bernard Lévy

Chairman and Chief Executive Officer, EDF Group

Good morning, ladies and gentlemen, welcome to this conference call dedicated to our half-year results. First of all, I will review the progress made on the main issues that have kept us busy over the past few months, quite busy. After me, Xavier Girre, CFO of EDF group, will present the results in more detail.

May I start by reminding you that after our Board of Directors Meeting on 22nd April, we defined the Group's new financial trajectory.

- It includes an asset disposal plan of €10 billion through 2020;
- It includes the strengthening of our savings plan with the objective of reducing Opex by at least €1 billion in 2019 compared to 2015;
- It includes a reinforcement of our equity, mainly based on a capital increase of €4 billion which the French state has announced it will participate to the level of €3 billion. The French state has also committed to receive its dividend in shares for fiscal years 2015, which is now behind us, 2016 and 2017.

The action plan related to this trajectory is now operational. It enables us to continue our development and complete future investments.

Regarding asset disposals, yesterday we announced that we are entering into exclusive negotiations with a consortium of Caisse des Dépôts and CNP Assurances for a long-term partnership with RTE which will include the sale by EDF of 49.9% of RTE.

We would also like to highlight that our cost control drive has been very productive. In the first half of the year, our operational expenditures went down by 1.6% when compared to the first half of 2015 - that means reduction of our cost of €167 million. Regarding the reinforcement of our equity capital, the Extraordinary General Meeting of 26th July last Tuesday authorised the Board of Directors of EDF to increase the capital.

Also, yesterday, further to our Board of Directors meeting, we have embarked on a new decisive stage for many strategic subjects.

May I mention the restructuring of the nuclear sector first, this constitutes an essential goal for our future:

- It includes updating of the memorandum of understanding covering the strategic partnership with Areva in the nuclear reactor area;
- It includes the depreciation of the 900MW plant series excluding Fessenheim, which is now in our books, depreciated over 50 years and no more 40;
- It includes the final decision to invest in the Hinkley Point C project, which we have made;
- The Board of Directors has also been notified of the principles we have reached to be compensated for the closing of the Fessenheim nuclear power reactors, two reactors. First, this compensation will be based on a fixed initial portion corresponding to the anticipated cost associated with the closure of the plant. Second, a variable portion to

be determined based on trends in market prices and volumes which would not have been generated. In due course, these arrangements will be submitted to the employee representative bodies for approval and the meeting has been called for 14th September to discuss the matter. These principles fit in with the schedule laid down by the government for the decree which will annul the Fessenheim operation permits.

All this demonstrates how EDF really fosters its transformation in compliance with our CAP 2030 strategy. This will be continued in the coming months and years with the support of our employees.

Regarding the results after this general introduction, may I present now a few key figures and highlights for the first half of the year. In the first half of 2016, our results demonstrate a good level of performance in our regulated activities, a strong development of renewable energies and sustained efforts to control operational expenditures.

Operating income is virtually stable despite the unfavourable context caused by the combination:

- first, of continued development of competition, particularly fierce in **France** with the end of the Yellow and Green regulated tariffs as of 1st January;
- second, of the sharp drop of 30% in wholesale market price, especially at the start of 2016 when we had reached €26/MWh, before recovering slightly on the French wholesale market to €32/MWh as of March.

EBITDA fell slightly to €8.9 billion when compared to the first half of 2015. This represents an organic change of less than 0.7%.

- In the UK, despite difficult market context, operational performance of our nuclear fleet was excellent. Organic decline compared to the same period in 2015 was 8.9%.
- But on the other hand, recovery of the margins related to the renegotiation of the price formula for the Libyan gas contract enabled strong organic growth in **Italy** with an EBITDA increase by 36.2%.

Net income excluding non-recurring items went up by 1.4% whereas net income Group share fell by 17.2%, mainly due to loss of value.

Regarding the debt, the Group upheld a ratio of net financial debt-to-EBITDA of 2.1x. This includes a draw up in debt of just over €1 billion, and as you all know, our goal is to maintain this ratio between 2x and 2.5x.

I would like to spend a few moments on the two pillars of our low-carbon energy mix: nuclear and renewable energies. I am absolutely convinced that for us the way forward is based on the complementary nature of nuclear power, the basis of our generation mix, and renewable energies which strengthen our foothold on energy transition and whose development we will speed up.

Regarding the nuclear power, the Board of Directors has decided to extend the depreciation period of 32 units in the 900MW nuclear fleet to 50 years. This decision is an industrial strategy decision. It results in the development of the Grand Carénage programme, whose principle was approved by the Board of Directors just after I joined. That was on the 22nd of January 2015. This industrial programme is estimated at $€_{current}$51 billion over the period from 2014 to 2025. The purpose of this programme is to extend, subject to the approval of the Nuclear Safety Authority, fleet operating lifetime beyond 40 years, while improving the safety level. We will, indeed, be able to ensure long-term generation of low-carbon and competitive electricity in France through this programme.

Concerning industrial safety, this programme is consistent with international operating experience. It implements the additional requirements laid down after the Fukushima accident to replicate as much as possible the safety level of the EPR. We will continue to work very closely with the Nuclear Safety Authority on preparation of the fourth ten-year outages for each and every reactor in our 900MW plant series, and we have confidence in our capacity to fulfil the requirements which have been laid down by the regulator in April.

I would like now to speak briefly about updating of the memorandum of understanding, governing the strategic partnership with Areva which our Board approved yesterday. My priority has been and will be to defend the interest of EDF and thus protect us against several risks, including the risks related to the achievement of the Olkiluoto EPR, and those related to the ongoing audit at the Areva Forge in Le Creusot. In this context, we have modified the memorandum of understanding signed in July 2015. The purpose of this project is to guarantee a more effective integrated model for the French nuclear sector, mainly based on the acquisition of Areva NP by EDF. We will be more effective, more coordinated, both on the domestic market and for exports initiatives. The updated MoU is non-binding and will be submitted to the employee representative bodies for validation. It includes the acquisition of all of Areva NP assets except those related to the achievement of Olkiluoto EPR, which will be transferred to a new company called New NP. EDF will have exclusive control of this new entity with a holding of at least 51%.

The second part of the partnership, already announced in July 2015, is the setup of a dedicated company also controlled by EDF at 80%, and grouping together the project engineering, design and management activities in France and outside France, in charge of design and construction of new reactors, more competitive, and better-tailored to customer needs. We have decided with Areva to set up this company independently of the acquisition of Areva NP. The role of this company is to optimise the management of such project as Hinkley Point and the future updated EPR.

Also, within the MoU with Areva, we have confirmed our resolve to enter into a comprehensive strategic and industrial agreement in order in particular to improve the efficiency of our cooperation in such areas of research and development, international sales of new reactors, storage of spent fuel and dismantling activities.

The indicative price for 100% of Areva NP equity capital has been confirmed with this updated agreement. The amount is €2.5 billion, which corresponds to eight times the EBITDA forecast for 2017. As I have already said, we have guarded against exposure to any risks. That is why on top of guaranteeing total immunisation of EDF, Areva NP and their subsidiaries against the risks and costs related to the OL3 project. The cooperation agreement also protects us against any risk incurred by ongoing audits on components manufactured at the Le Creusot, Saint-Marcel and Jeumont plants.

I will just finish off this part on Areva by providing a reminder of the next stages in the process. Specific due diligence regarding the manufacturing process in Le Creusot and other plants is currently run. We will also implement a supplemental due diligence effort to the one carried out last year. Our objective is to sign binding agreements before the end of November 2016. We plan to close the transaction before the end of 2017, subject to customer re-approval from the relevant Merger Control Authorities.

May I now turn to renewable energies. I really would like to stress that we now invest as much in the development of renewable energies as in the development of new nuclear build. This shows our determination to make very significant progress in renewable energies. In line with our CAP 2030 strategy, we have obtained excellent results in the deployment of renewable energy projects. And just a few examples:

- We have commissioned the largest wind farm in France during the second quarter, the Ensemble Eolien Catalan. At the end of June we inaugurated this facility. It is powerful, it is highly innovative, as it is equipped with stealth wind turbines to reduce their footprint on the radars operated by the French Met Office;
- On the international scene, we now operate through EDF Énergies Nouvelles in 21 countries. Two new breakthroughs have been implemented in the wind power sector, one in India, one in China;
- Related to the hydropower sector, our fleet in France recorded a good level of performance with a 6.5% increase in generation against the same half-year period in 2015;
- We are now also embarking on a new stage on the international scene with the Nachtigal dam project in Cameroon. We have setup the joint venture in charge of construction, which includes in the project the Cameroon State and also the World Bank. We plan the final investment decision in this project in 2017. We believe in the strategic importance of Africa. Africa was a major focus in the COP 21 discussions, and obviously Africa's energy needs and potential are immense. We are part of that.

In terms of our financial performance, EDF Énergies Nouvelles EBITDA rose by 48% in the first half of the year, and that reflects an increased generation of 16% against what we generated in power in the first half of 2015.

Renewable energies are, of course, a major field of technical innovations. The first half of 2016 was very fertile, with a few highlights, as I will say now:

- We successfully immersed two turbines off the coast of Brittany to fund the world's first grid-connected tidal array once the connection will be completed;

- We also implemented a very innovative storage solution for the Réunion island, in order to better integrate its renewable energies to its grid.

Presenting the Group's main developments in the renewable energy sector, we can observe that hardly a month goes by without us developing and laying down the foundation of a new major project. Contrary to what is commonly thought, there are just as many such major projects located in France as there are abroad.

A few words now on our downstream activities, one of the top priorities in our CAP 2030. As we all know, one of our priorities is to support customers and territories in the energy transition. Within the context continuous development of competition, we have demonstrated a very solid level of resistance when regulated tariffs, the Yellow and Green tariffs went off. More than 75% of customers that used to benefit from Yellow and Green tariffs have opted for EDF. I would like to take this opportunity to thank the teams for their commitment based on their expertise and their proximity towards customers.

In the first half of the year, we have innovated directly for our customers in areas such as control of their electricity bill and their carbon footprints. To these ends, we have launched a renewable energy self-sufficiency programme known as "Mon Soleil & Moi". Such innovations are part of our new social trends. As we all know, consumers now want to participate and consume their own carbon-free electricity generation.

Digitisation of our customer relations has also been speeded up. The digital offer, e.quilibre, which we already announced a year ago, has now been adopted by 1.6 million customers, whereas the application EDF & Moi has recorded more than 2 million downloads. Our collaborative platform EDF Pulse & You for retail customers, and EDF Connect Enterprises for corporate customers, are now enabling us to jointly build tomorrow's offers with many start-up companies. Our energy service subsidiaries, I want to mention Dalkia and TIRU, Citelum and Sodetrel, which specialised in many areas of energy services, are now deployed for our industrial customers and local authorities, and I would like to point out the very good performance of Dalkia. We recorded a net portfolio growth of 3.5% in the first half of the year, and we won several very major contracts such as the one in Nancy, the one for Centre Pompidou in Paris and many others. In the first half of this year, we also reorganised, and today Dalkia owns 75% of TIRU. This enables Dalkia to better achieve its energy transition goals by combining its district heating expertise with that of TIRU specialised in the recycling of waste.

A few words on the Opex reduction. Our initiatives have been productive. Our costs have fallen by 1.6% against the first half of 2015, which means a decrease of €167 million. This shows we are in a good pace to reach our operational expenditures target of a decrease of €700 million by 2018 and €1 billion by 2019, when we compare it to the base cost of 2015. This is confirmation of what was announced after the Board of Directors meeting on 22nd of April. Successful cost reduction is essential. It is one of the key elements of the action plan announced in April.

A few words about Hinkley Point. As you know, the Board of Directors decided yesterday to invest in this major project, which paves the way for our future. The next stage is now to sign this investment with our Chinese partners and the British government. The project is now mature. The risks have been identified and managed. The two reactors at Hinkley Point will be the fifth and sixth EPRs to be built in the world. We have support by the authorities in Great Britain, as Hinkley Point occupies the central place in energy, security and global warming policies. HPC will be built on stabilised design, benefiting from operating experience from Taishan 1, Taishan 2 and Flamanville 3. All the contracts are ready. The contract for difference guarantees stability of consumer prices for 35 years and stability of revenues for the nuclear operators. HPC is a good project: it is funded; it is a very valuable asset within a regulated framework.

Total financing requirements amount to £18 billion up to commissioning. This will be funded with equity capital by each partner, EDF group share amounting to £12 billion, and CGN, our Chinese partner, amounting to £6 billion of funding. The provisional rate of return on this investment after tax is estimated at around 9% every year over the next 70 years.

HPC is one of EDF group's essential investments. It is part of our new financial trajectory, which I have already described. The decision to commit to Hinkley Point project is a decision for the future. It is part of the revival of nuclear power in Europe. It will give a new impetus to the nuclear industry in France and in the United Kingdom.

Today, eight of the most powerful countries in the world deploy nuclear power to generate their electricity. The most powerful countries, by GDP, when I look at the USA, China, Japan, the UK, France, India, South Korea, Spain - eight of the top ten countries in the world deploy nuclear power. So we know competition is and will be fierce on the world stage. If the French, British and European nuclear sector does not plan to build HPC, then others would step in. Winning the contract to build the first two EPRs ordered since Fukushima is a great victory for EDF and for the nuclear sector in Europe. It will be also an international showcase for the know-how of EDF group, of AREVA, and all the companies belonging to the sector.

Let me remind you that construction of Hinkley will be carried out after the Flamanville 3 construction has been completed and before the start of the renewal of the French nuclear fleet in the early 2020s. Through Hinkley Point, EDF will play its full role of leading inside an effective, competitive and proactive nuclear sector, the best and most secure opportunities for nuclear generation in the world.

With this, I will now turn over to Xavier Girre for his presentation with more details around our half-year results.

Xavier Girre

Group Senior Executive Vice President - Finance

Thank you, Jean-Bernard. Good morning. I will now detail and explain our 2016 half-year results.

First, you already know the key figures. Jean-Bernard Lévy has just shared his comments on them with you.

As regards **Sales**, they were down 4.6% at €36.7 billion, reflecting the market environment of this first half marked by lower power prices and increased competition. In this environment, the EBITDA performance was robust. **Group EBITDA** came to just under €9 billion, nearly stable in organic terms versus the first half of 2015, supported by the positive evolution of our regulated and renewables activities, as well as our continued efforts to control costs. **Recurring net income** was up 1.4% and benefiting from the positive impact on D&As of the life extension to 50 years of the PWR 900MW series in France. **Net income - Group share** was down 17.2%, reflecting impairments in some of our international businesses.

Looking at the structure of our balance sheet, two points:

- First, **net debt** was down €1.2 billion, thanks in particular to a slightly positive free cash flow and favourable Forex;
- Second, **net debt-to-EBITDA** remained at 2.1x, at the lower end of our target range.

Before reviewing these results in more details, I wanted to give you an update on the implementation of **the plan announced on 22 April 2016** to enable EDF to achieve its strategic development within the **CAP 2030** framework.

First, our efficiency plan is being implemented, and we are making progress on all fronts:

- Regarding Capex, over this first half, net investments were down almost €0.9 billion compared to H1 2015. They stood at €5.6 billion, including Linky, new developments and disposals. The main contributors to this reduction were EDF Énergies Nouvelles, the UK, Italy and Poland. This includes some favourable phasing effect; however, the trend is a positive one;
- You heard from Jean-Bernard Lévy that our cost control plan continues to deliver savings. Group Opex are down 1.6% organically over the first half of 2016. As you can see on the slide, our three larger segments, France, UK and Italy delivered reductions:

- Lastly, cash flow benefits from the positive effects across the Group of our working capital requirement improvement plan. The plan yielded a €0.4 billion positive contribution over the first half of 2016 on top of the €0.7 billion delivered in 2015.

Regarding our disposal plan, we have decided to enter into exclusive negotiation with Caisse de Dépôts and CNP about RTE, and to consider a 49.9% disposal of RTE. This deal would be based on an indicative 100% equity value of €8.45 billion. Including last year's €0.7 billion of disposals, our plan would be achieved at almost 50% when the transaction is achieved.

Next slide, as Jean-Bernard Lévy just explained, over the first half of 2016, the necessary conditions to allow the **depreciation period of the 900MW reactors** to be aligned with the Group's industrial strategy are met. The Group's consolidated financial statements as at 30 June 2016 thus include the extension from 40 to 50 years of the depreciation period of the 900MW reactors, except Fessenheim.

This accounting change implemented as of 1 January 2016 carried certain impacts on the Group's P&L and balance sheet.

First, looking at the P&L impact:

- With depreciations spread over a longer period and a lower asset value related to the reduction in nuclear provisions – I will come back to that – depreciation charges were down €445 million in H1 2016 compared to what they would have been with a depreciation period kept at 40 years. This was the main impact;
- Another positive element was the lower cost of unwinding the discount related to lower provisions.

Overall, combined effects of the extension had a positive impact of €472 million on profit before tax, and of €310 million on Net income.

Secondly, let me go back on the impacts on nuclear provisions:

- With the life extension, disbursement of certain future charges related to nuclear generation is pushed back in time. As a result, corresponding provisions went down by €2.1 billion, out of which nearly €1.7 billion are in the scope of Dedicated Assets. As a consequence, the coverage ratio of the Dedicated Assets reaches 105% as of 30th June;
- This reversal of provision had no P&L impact but, as I said, came as a deduction of the asset value. The reversal is nearly entirely taxable, which will trigger a one-off cash payment of nearly €0.8 billion.

The effects I just described are explained in details in notes 12 and 18 of our consolidated financial statements.

EBIT was almost stable at €4.5 billion. It was penalised by a negative evolution in IAS39 volatility and other operating income and expenses. This was essentially offset by the €0.5 billion reduction in D&As linked to the extension to 50 years of the depreciation period of the 900MW reactors. Impairments passed in 2015 on some of our UK and Italian assets also carried a positive impact on D&As in 2016.

Let us focus now on **post-tax effects of all non-recurring items** on the next slide. They came to minus €887 million, down from minus €414 million in the first half of 2015. A number of elements that carried an impact in the first half of 2015 had no equivalent in 2016. This includes:

- On the one hand, the July 2015 EC decision on RAG which had a negative impact in 2015, as you know, and
- On the other hand, items carrying a positive impact in 2015 such as the cancellation of the Robin Hood Tax in Italy and the agreement with Engie on the treatment of in-kind energy benefits.

On the whole, these impacts more or less offset each other. So, in fact, a key driver of the negative evolution of non-recurring items was the higher level of impairments recorded by the Group in this first half of 2016. This mainly relates to our participation in CENG in the US, and to coal units in Poland.

Looking now at **Group Net income**. Starting from a roughly similar EBIT level, the main drivers of the 17.2% decrease in Net income - Group share compared to H1 2015 were:

- First, slightly degraded Financial result. This was mainly related to the lower level of capital gains on dedicated assets disposals, which were partly mitigated by the absence of equivalent to the H1 2015 financial charges associated to RAG, also by the positive impact of fix-to-variable swaps and Forex on the cost of net financial debt, and by the lower cost of unwinding the discount on nuclear provisions.
- The second main driver was a significant fall in the contribution of associates to net income due to the impairment recorded on CENG.

When excluding the impact of non-recurring items, Net income was up slightly, at nearly €3 billion.

Let us now review, in more details, our operational performance over the first half of 2016 compared to the same period last year.

As I said, **Group EBITDA** was almost stable in organic terms at minus 0.7% after taking into consideration particular negative impact on the Forex. Looking at the main components of the EBITDA evolution:

- France was down €178 million, under the combined effect of lower power prices and the end of regulated tariffs for industrial and commercial customers;
- Our activities in the UK also faced challenging market conditions. EBITDA was down €117 million in this segment;
- On the other hand, EBITDA in Italy was up €89 million, as gas margins recovered thanks to the positive effect on gas contract renegotiations;

- Performance in the Other activities segment was up as well, with a €105 million increase in EBITDA, driven by strong growth at EDF Énergies Nouvelles;
- Finally, EBITDA in Other International grew by €41 million, supported by a good performance across all areas.

Looking at the distribution of the **Group EBITDA across the segments**. The UK remained the largest contributor outside France, closely followed by the Other activities segment where growth of EDF Énergies Nouvelles has been a strong driver. In France, the contribution of regulated and quasi-regulated activities in distribution and islands represented 44% of the segment's EBITDA.

Looking now at the performance of each major segment, starting with **France**, where EBITDA decreased by 2.8% in organic terms at €6.2 billion. Market conditions were the main driver of this evolution, carrying a €633 million negative impact on EBITDA. This was mainly due to:

- the end of Yellow and Green tariffs for minus €410 million;
- and on the other hand, the combined effects of the decrease in market prices and enhanced competition in all segments with a €308 million negative impact. The market competition triggered an increase in our market-exposed volumes in the context of decreasing power prices.

Nuclear output over the first half was down 5.2TWh. The corresponding EBITDA impact is a negative €161 million. This was partly offset by the higher hydro output. I will come back to nuclear and hydro generation in the next slide.

France EBITDA benefitted from the change in tariffs, especially the increase in the energy components of regulated sales tariffs implemented on 1st August 2015. Some external factors also carried a positive effect:

- For example, we had one additional day of activity in this leap year;
- and weather also had a positive impact, as the lower spot power prices of the first half of 2016 enabled us to meet demand at a lower cost during the high consumption period of this past winter compared to 2015.

Operating expenditures, and this is an important point, were down as our cost reduction plan delivered savings, in particular in our supply and thermal generation activities.

Finally, EBITDA in the segment benefitted from the positive impact of reduced fuel costs on margins in thermal generation and gas sales.

If we consider now the **upstream/downstream electricity balance**, the customary balance on slide 27 shows a 38TWh increase in volumes sold on wholesale markets. This mainly corresponds to ARENH sales during H1 2015, which no longer happened during the first half of 2016, as well as a decrease in demand from end-customers in line with the evolution of our market shares with ex-Yellow and -Green customers.

Considering now the **French nuclear output**. You are probably familiar with these numbers as we disclose them on a monthly basis. Nuclear generation was down 5.2TWh, at 205.2TWh. The mild weather carried a negative impact as the dispatch of available units was adjusted in times of reduced demand. But the main driver of this lower output was the increased volume of outages corresponding mainly to extended planned outages linked to additional controls. This did not reflect the strong industrial and safety performance of the fleet, in particular, the low level of unplanned outages and a historical low for automatic reactor shutdowns over the first half. Based on the nuclear output at the end of June and on the extended outages now expected in the second half of the year, we revised our 2016 nuclear output target from 408 to 412TWh, to a new 395 to 400TWh as announced on 19th July.

Some words about **hydropower generation in France**. Output was up 6.3% to 25.5TWh as hydro conditions have been more favourable than in H1 2015.

Looking now at **the UK** segment, EBITDA came to €1.1billion, down from €1.3billion over the same period last year. This included a negative Forex impact of €77 million. In organic terms, EBITDA was down 8.9% versus the first half of 2015. This was due first to the impact of lower wholesale market prices on realised prices for nuclear generation. This was partially offset by a continued good underlying operating performance in nuclear generation, with output up 1.8% to 30.9TWh.

Competition in the UK B2C market continued to be fierce. EDF Energy's average number of product accounts was down 1%. Average pricing was decreasing as well.

In that context, EDF Energy further strengthened its cost control efforts across all parts of the business.

Turning now to **Italy**, EBITDA was up 36.2% in organic terms. This strong growth reflected a positive evolution of our long-term Libyan gas supply contract with ENI. This follows on from the arbitration end of 2015 and the review of price formula last June. Gas margins recovered markedly as a result.

This positive effect was partly mitigated by the impact of lower Brent prices on E&P activities, a lower hydro output in the first quarter of the year, and a negative evolution of power prices and of margins in thermal generation.

In this context, Edison confirmed its expectation of an EBITDA of about €650 million for 2016.

Moving to the **Other activities** segment, and starting with a **focus on EDF Énergies Nouvelles**. EBITDA came to €554 million, up 48.3% in organic terms - including DSSA - against the first half of 2015. This strong growth reflected first the positive impact of the capacity commissioned in the course of 2015, with a net installed capacity increasing by 1GW in EDF Énergies Nouvelles' portfolio. Output increased by 16% compared to H1 2015 as a result. Growth in EDF EN's EBITDA over this first half was also supported by DSSA activities skewed to the first half of the year, and by a disposal gain under the new agreement signed with Enbridge for the three offshore wind projects off the French coast.

EDF EN's pipeline of capacity under construction amounted to 1.6GW at the end of June, which should further support continued growth of the activity.

Looking now on the next slide at the entire segment, where EBITDA went up 12% in organic terms. Dalkia faced unfavourable price conditions, and its EBITDA was down 6.7% organically at €135 million. EDF Trading's EBITDA came to €188 million, down from €311 million in H1 2015. This reflects in particular the transfer of regulated purchases of renewable injections to the France segment, which has no impact at Group level, though. In addition, EDF Trading's performance was impacted by an unfavourable environment in its different markets.

Moving finally to the **Other International** segment. All areas contributed to the good operating performance resulting in an 11.6% organic growth of EBITDA, to €363 million. EBITDA in Belgium was up 22.7%, supported by the restart of Doel 3 and Tihange 2. EDF Luminus' wind generation output increased on the back of the capacity commissioned last year, comforting its leading position in onshore wind in Belgium. Continued strong activity in ancillary services contributed as well to the strong performance.

In Poland, EBITDA was up 19.8%. Electricity and heat volumes grew under the effect of a more favourable weather than in H1 2015, and the improved availability of units whose modernisation was nearing completion. Increased heat tariffs also boosted EDF Polska's performance.

Brazil's EBITDA was up, supported both by the annual price review under Norte Fluminense's PPA, and by low power sourcing cost on the market during maintenance outages.

EBITDA of the segment also includes the negative impact of the end of the Figlec concession in H2 2015.

Turning now to the **cash flow**. Operating cash flow came to nearly €8 billion, up €1.2 billion compared to the first six months of 2015. This was mostly linked to a reimbursement of excess advance tax instalments in France in 2015 following the decrease in 2015 of the Group's taxable income. Lower disbursements of net financial expenses also had a positive contribution. Working capital requirement increased by €1.7 billion over the first half of 2016. The negative evolution of the change in working capital requirement was mainly linked to a milder weather in France at the end of 2015, and an increase in the CSPE operating receivable. These negative drivers were partially offset by the improvements on stocks and customer receivables unleashed by our working capital requirement improvement plan, with a positive contribution of €0.4 billion overall. This impact on cash flow was partially mitigated by the reduction in net investments, which I will comment in the next slides. Cash flow after net investments hence comes to positive €670 million, improving significantly from the negative €295 million registered over H1 2015.

Taking into account the positive cash effect of the payment in shares of the large part of the 2015 dividend balance, **Group cash flow** came to a positive €107 million. The Group cash flow on the scope of our 2018 ambition, which excludes Linky, new developments and disposals, stood at €485 million.

Considering **net investments**, they amounted to €5.6 billion, a €0.9 billion decrease compared to the first half of 2015. This is in line with Capex selectivity efforts implemented under our plan to reduce net investments. This reduction also includes the significant impact over this first half of EDF EN's European portfolio streamlining.

Considering the **change in net financial debt** over the first half of 2016, net financial debt was down €1.2 billion to €36.2 billion under the positive impact of Forex on our sterling-denominated debt and of the positive Group cash flow.

Based on these results and as already stated in our 19th July communication, the **2016 financial guidance** is maintained.

- We are aiming for Group EBITDA between €16.3 and €16.8 billion;
- We continue to target a net debt ratio within the range of 2 to 2.5 times;
- Our dividend policy remains unchanged: we intend to have a payout of net recurring income adjusted for the hybrid coupons of between 55% and 65%.

Lastly, our 2018 ambition remains to generate positive Group cash flow after dividends excluding Linky, new developments and disposals.

For this last slide, I would like to share with you the key components of our **roadmap to delivering this 2018 ambition.**

First, control of our investment trajectory: net investments on the existing scope - meaning excluding Linky, new developments and disposals - is targeted at a €10.5 billion level in 2018.

- Maintenance of our existing assets would represent around half of those investments, for the main part in nuclear;
- Regulated businesses will make up about 30% of this investment, mainly at Enedis;
- The development projects already decided today will represent about 20%. This includes, in particular, Flamanville 3, EDF EN projects and Dalkia's investment.

Second, our Opex reduction objectives are unchanged. The 2018 Opex target is €0.7 billion below the 2015 base and the 2019 Opex target is €1 billion below the 2015 base.

Third, we continue to aim for a cumulative working capital requirement improvement plan contribution of €1.8 billion between 2014 and 2018.

I thank you, and let's now open the floor for the questions.

Q&A

Questions from the internet

Louis Boujard (Oddo): You have been able to increase the lifespan extension of the 900MW fleet despite the PPE. Could you give us more flavour on the specific items, including the draft multi-year energy plan that enabled you to take this decision?

Could you give us an update on the remaining asset rotation programme and its expected schedule?

Jean-Bernard Lévy: On the first question, I will only refer you to the PPE which, as you know, calls for some reduction within some range: the range of reduction in the nuclear output in France by the end of the PPE period, which is 2023. The company and its Board have looked at this situation and consider that this is consistent with our decision to make an accounting change, which is the one you know.

Regarding the asset disposal programme, when we close, hopefully – of course this is still pending a few important steps – but when we close, the disposal of 49.9% of RTE, we will have achieved within roughly one year 50% of our €10 billion objective for disposals. We are in very good shape and we are very happy with the pace of disposals within this target. We have other assets for disposal in many areas: thermal assets, minority-owned assets, non-essential assets to our business. However, it is the company policy not to make any comments related to any specific asset until we have a clear and strong decision for announcement. Thank you.

Andrew Moulder (CreditSights): After the impairments, what is now the book value of the CENG stake? What is the average age of the operating fleet? You have depreciated the 900MW fleet to 50 years now, but what about the other plans, so what is the average age of these plans?

Xavier Girre: As regards CENG, the book value, as stated in our consolidated statements, is roughly €2 billion. As regards the average age of our nuclear fleet, in the Reference document, you can find that, first, as regards our 900MW, the average age is 34 years. As regards the 1,300MW, the average is 27 years. As regards the N4 fleet, the average age is 15 years.

Damien de Saint Germain (Credit Agricole): On the back of the price on RTE derived from the deal with CDC and CNP, will you also revise up the value of the 50% stake included in the dedicated assets?

Xavier Girre: Yes, if we achieve this deal, the 50% stake which is in our dedicated assets will be reassessed on the basis of the deal.

Ahmed Farman (Jefferies): It appears that the recent issues related to steam generators has raised some safety concerns at 18 of your reactors. However, you have only cut output by 12TWh. Can you please help us understand how to reconcile the two? How will this impact 2017 output?

In total, how much tariff catch-up is reflected in your EBITDA guidance and how much of it would drop away in 2017?

Dominique Minière, Group Senior Executive Vice President, Nuclear and Thermal: In fact, we are fixing several technical files concerning mainly components or maintenance works like replacement of steam generator in Paluel unit 2. Some of them were mentioned at the beginning of the call. For these different files concerning several units, we have to demonstrate that these files are not preventing some components, mainly steam generators, to go and to be operated safely. We are doing it file by file, and reactor by reactor concerned. We know that this demonstration on Nuclear Safety Authority instructions will lead to delays for the reactors concerned to connect back to the grid after normal outages. That is what we are taking into account. These delays are mainly a few weeks.

Concerning one of the files – carbon segregation of steam generators that could potentially affect 18 reactors as you said – we are assessing the situation during normal outages. Some of these outages have already begun. The last one will be next year. Not all the reactors are at the end affected. Some of the reactors' concerns have already been restarted.

In the meantime, for the other outages which are not affected by any of the files I have pointed out at the beginning, the outages are going very well and the [unplanned outage] rate, as said by Xavier, is very, very low, demonstrating that our fleet is in very good status. We can expect that 2017 nuclear output will also be affected by extended outages in some extent but not as much as 2016. We need to monitor the next six months and analyse the feedback, to see how it will affect the 2017 nuclear output. At the time of full-year results, we will be in a better position to provide an annual nuclear output target.

Xavier Girre: As regards tariff catch-up, of course we have an internal scenario that we obviously do not disclose. But I would like to tell you that in our 2016 EBITDA range of €16.3 billion to €16.8 billion, we had taken into account a portion of the tariff catch-up as described in 2015 by the CRE, the French regulator. As you know, the CRE deliberation on the minus 0.5% tariff move as of 1st August 2016 does include a portion of 2012 tariff catch-up.

When you combine the CRE tariff catch-up and the decision taken by the Conseil d'État, which has urged the government to set tariff catch-up for the period August 2014 to July 2015, we estimate that the total will be above our assumption and will more than offset the downside from a lower nuclear output. This is what we have taken into consideration when maintaining our target of €16.3 billion to €16.8 billion EBITDA for 2016.

Telephone questions

Harry Wyburd (Merrill Lynch): Firstly, in EDF Énergies Nouvelles, you mentioned a couple of times in the presentation that the EBITDA increase is due to disposals, so could you let us know what the contribution from capital gains on disposals was in the EDF EN EBITDA number?

Then secondly, just looking at the press release, I can see your pension liability, or at least the non-current portion, remains flat in spite of a very sharp decrease in rates, and your nuclear provisions were down €3 billion. I know that €2 billion of that came from the depreciation of life extension, so what is it that led you to keep your pension provision flat? Where does the extra billion reduction in nuclear provisions come from? Thank you.

Xavier Girre: As regards the capital gain, we do not disclose the specific part of the capital gain. As you know, this activity of DSSA is part of our business model for EDF EN, and it is particularly significant during this first half thanks to the disposal of activities in Portugal, and this is what contributed to this organic growth.

Kader Hidra, Head of Investors & Markets, EDF Group: Second question was on pensions. Harry was referring to the almost-flat pension provisions despite a decrease in discount rate. It is explained actually, Harry, in the consolidated statements. That was an effect on the CSPE reform.

Harry Wyburd: Okay. On the nuclear provisions, there was a €3 billion decrease and €2 billion of that is explained by the accounting depreciation life extension, but what was the other 1 billion? The non-current nuclear provisions in your balance sheet reduced by €3 billion between December 2015 and 30th June. €2 billion of that is identified as coming from the extension of the accounting lives on the fleet. That leaves 1 billion which is still reasonably material relative to your market cap, so I wondered where that extra 1 billion reduction came from.

Kader Hidra: Sorry, we do not have the answer to that one right now. We will get back to you.

Cosma Panzacchi (Bernstein): The first question regards Hinkley Point C. Was the decision of the UK government to open a review on Hinkley Point C expected? Can you explain which impact it could have on the timeline of the project?

The second question is on the plan of disposals. Without entering into discussion on single assets, talking about the criteria behind the disposals, given the importance of customers and services in your new strategy, would you confirm that the disposal of any major retail operation is ruled out? Is Italy still strategic? Thank you.

Jean-Bernard Lévy: On the first one, I will just refer you to the British government. I have no further comment to make, as I believe that we can have a lot of confidence in the decision by the British government. Any comments on their own statements should obviously be made by the government themselves.

Regarding the second question about criteria for disposal, I will be very clear with you. No, we do not intend to sell assets from Italy. We believe Italy is a very important part of EDF's long-term asset portfolio. We have strong generation and retail assets in four Western European countries from north to south, UK, Belgium, France and Italy, more than 200 million Western Europeans are served by EDF's generation and retail assets. This is a core part of EDF's CAP 2030 strategy. This answers I guess both your questions regarding retail operations and Italy.

Martin Young (RBC): First question relates to the change in depreciation as a result to the life extension of the 900MW series. Previous comments on these calls had guided to a depreciation impact on a full year basis of extending the whole fleet of about €400 million to €500 million reduction in depreciation. Obviously, what you have reported this morning on part of the fleet is already double that amount. I just wondered if you could shed some light on why this is the case. If you were to extend the operating life of the remaining nuclear assets, what is the additional reduction in depreciation that would be?

The second question relates to Hinkley Point. I guess it came as a surprise to everybody that the UK government has asked for more time to review this. They could say "yes, proceed as normal" - that is easy to understand. They could say, "no, we do not want to do it" - that is obviously easy to understand as well. What happens if they went for the middle ground and wanted a change in the price of the contract? In that case, would EDF walk away from the project? I think it is a simple question.

Xavier Girre: As regards the impact of the change of depreciation for the nuclear fleet, we consider today the impact on the extension of the 900MW series. Our estimate for the full-year impact is in the range of €960 million for the net result and €630 million is the range for the net income Group share. As of today, we have no estimate to share about the other series.

Martin Young: Why is that significantly different from what you mentioned before?

Kader Hidra: I think what we mentioned before exactly was the market assumption on the impact on net income. It was not our own assumption. It was the market expectation. That was included in the consensus of net income. This is how you had this €450 million mentioned at the last call I think in February this year. Most likely the reason why this number was smaller is because since 2013, this number is in the consensus. Consensus has not updated this impact since 2013.

Jean-Bernard Lévy: Regarding your second question, I will only refer you to my previous comments, and we will not make any comments on hypothetical scenarios and we remain very confident on the decision to sign the contract for Hinkley Point.

Sofia Savvantidou (Exane): First of all, I was wondering whether you can give us any estimate on depreciation going forward now that you have done this life extension in terms of the Capex programme that you planned, how you expect depreciation to be evolving year-on-year?

My second question is whether you can give us any colour on the EBITDA contribution during the full year 2016 from prior hedges you have made either in the UK or in France, so that we can try to get sort of a cleaner, almost mark-to-market, number to use as a base for 2017? Thank you.

Kader Hidra: Sorry, Sofia, we did not quite get your second question, please.

Sofia Savvantidou: Yeah, so my second question is, if you can give us an estimate of how much of your 2016 EBITDA is benefitting from power generation hedges or customer contracts that you have signed at higher power prices both in the UK and in France, so that we can try to get a little bit of a clean number going forward once these hedges are rolling off and once you are re-signing French customers on the lower market price?

Xavier Girre: On these two questions, as you know, we do not give details about our hedging policy. As you know, we start each year with a high level of hedging, but we do not give more details about that.

Secondly, as regard the depreciation, we will consider the impact for the next two years during our next communication. Today, we have given the impact for this year, 2016.

Philippe Ourpatian (Natixis): Just two follow-up questions. One is concerning the impairments you have accounting for the semester. Could we have the spread between CENG and the EDF Polska contribution or how you shared the €731 million? That is the first question.

The second one, looking at your figure on the first half and the consensus expectation for the full year in terms of net profit, which is based on the figure I am showing on my screen, somewhere around €3.4 billion and the accounting measures you have already announced and included in your first-half figure, do we have to expect, looking also at the outages of the H2 plus some market trend which seems to be a little bit better on the second half, do we have to sharply increase this figure? Or are you still comfortable with the 3.4 currently expected by the consensus?

Xavier Girre: As regards the impairments, the total is €731 million. As regards EDF Polska, it is €195 million impact on the net result group share. As regards CENG, the impact on the net result group share is €458 million.

As regards your question about the consensus and the recurring net income, first I stress once more that I do not have any guidance about our recurring net income – so we do not have any target. I will just answer your question about my view on consensus, which is today at €3.5 billion for 2016. For most of the analysts, it includes a change of depreciation policy from 40 to 50 years with the corresponding impact assumed by the market to be around €450 million of net income impact. However, as you have seen on our slides and as I just said, the impact is rather or should be rather in the range of €600 to €630 millions. And the consensus may probably adjust upward everything else being equal. On this basis, we are obviously very comfortable on the consensus of the recurring net income for the reasons I have just explained.

Kader Hidra: Thank you. We are available obviously for any further questions, and I hope to see you at the next conference call. Thank you.