

Agreements for planned Hinkley Point C nuclear power station approved by the European Commission

The European Commission has approved the terms of agreements between EDF Group and the UK Government to build a new nuclear power station at Hinkley Point C in Somerset. Its decision followed a rigorous and detailed examination of the deal during a 12 month investigation led by European Commission.

The proposed agreements are for a long-term contract for the electricity generated at Hinkley Point C and for a guarantee for the project's debt.

The agreement for Hinkley Point C

The Commission's decision leaves the key elements of last October's agreements unchanged whilst it has enhanced measures which share future potential benefits with customers.

The "strike price"ⁱ for Hinkley Point C remains set at:

£92.50/MWh or £89.50/MWh if the planned power station at Sizewell goes aheadⁱⁱ

The contract will last for 35 years

The strike price is fully indexed to inflation through the Consumer Price Index

The project will be protected from certain unforeseen changes of law

As proposed in October 2013, the Contract for Difference already contained a series of "gainshare" mechanisms in which customers would benefit if the project construction costs or equity returns were more favourable than forecast. The Commission, the UK Government and EDF have accepted reinforcement of the "gainshare mechanisms" in the package today approved by the Commission.

EDF Energy has also committed that electricity from the proposed power station will be sold at market price and recorded separately from EDF Energy's other electricity production.

EDF has agreed that the fee for the Government's proposed Guarantee of project debt be paid at commercial rates.ⁱⁱⁱ The agreed guarantee fee delivers the equity return required by investors.

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Costs

In October, 2013 EDF said that the construction costs for the two nuclear power units at Hinkley Point, expressed in 2012 money, are expected to be £14bn. In addition to the construction costs, the project and its partners will have incurred £2bn of other costs before first operation. These include land purchases, achieving the different consents, construction of a spent fuel storage facility and preparing the 900 strong team which will run the station. This means total costs to first operation are expected to be close to £16bn, expressed in 2012 money. These figures have not changed.

Next steps

Approval by the European Commission is another important milestone for the HPC project following the granting of planning permission and nuclear site licences, the approval of the EPR reactor design by the regulator, and reaching agreement on key commercial terms for the project in October, 2013.

The remaining steps require the conclusion of agreements with strategic and financial partners. In parallel the waste transfer contract arrangements must be approved by the European Commission and by Secretary of State as part of the Funded Decommissioning Programme.^{iv} Subject to a final investment decision, the power station is expected to complete commissioning of the first unit in 2023.

Project status

Since March this year, the project team has moved forward with pre-development work at its own risk to prepare the construction site. This includes building of haul roads to give access to the site for machinery needed for the main construction phase, road improvements on the approach to the site and the first stages of office buildings, worker accommodation and welfare facilities.

Training has begun at the Bridgwater College Construction Skills Centre, giving local people the skills they need to work on the project. EDF Energy has also reached agreement with contractors and unions on conditions and employee relations covering all workers on the site. In parallel with the on-site work, off-site work has continued on the detailed engineering design for the power station. Work has also continued with major construction partners to ensure an efficient work schedule.

All of this preparation is designed to ensure that once a final investment decision is made, the main construction work can begin quickly and that the project can be delivered to begin generating electricity in 2023.

Hinkley Point C will be able to supply seven per cent of the UK's electricity needs, supplying secure, reliable low carbon electricity for decades to come. It will provide a massive boost to jobs, skills and industrial capability in the UK. An estimated 25,000 workers will be involved in the project during construction with a peak of over 5,600 workers on site at one time. During its 60 years of operation it will avoid around 9m tonnes of CO2 emissions per year and will employ around 900 people

EDF Group, one of the leaders in the European energy market, is an integrated energy company active in all areas of the business: generation, transmission, distribution, energy supply and trading. The Group is the leading electricity producer in Europe. In France, it has mainly nuclear and hydropower generation facilities where 95.9% of the electricity output is CO2-free. EDF's transmission and distribution subsidiaries in France operate 1,285,000 km of low and medium voltage overhead and underground electricity lines and around 100,000 km of high and very high voltage networks. The Group is involved in supplying energy and services to approximately 28.5 million customers in France. The Group generated consolidated sales of €75.6 billion in 2013, of which 46.8% outside of France. EDF is listed on the Paris Stock Exchange and is a member of the CAC 40 index.

ⁱ Agreements for Hinkley Point C include a "Contract for Difference" (CfD). This means that if wholesale prices rise above an agreed "strike price", payments from the generator will go back to consumers. If they fall below this price, the generator will receive a top-up payment. Customers pay nothing until the power station is operational.

ⁱⁱ If Sizewell C goes ahead, there will be a payment from Sizewell C to Hinkley Point C equivalent to £3/MWh upon the final investment decision being taken with respect to Sizewell C reflecting the fact that the first of a kind costs of EPR reactors are shared across the Hinkley Point C and Sizewell C sites. The strike price will be £92.50/MWh for HPC project if Sizewell C does not go ahead.

ⁱⁱⁱ The proposed Infrastructure Guarantee would be used to support 65% of expected total costs prior to operation. EU rules require that the costs of the Infrastructure Guarantee provided by the Government will be paid for at a commercial rate.

^{iv} This means that, for the first time, the eventual decommissioning and waste management costs associated with Hinkley Point C will be paid by the generator at the time of generation. The cost of this Funded Decommissioning Programme is already included in the strike price.