

## Consultation of the EDF Central Works Council (Comité Central d'Entreprise) on the Hinkley Point C project

Since the signing on October 21, 2015 of the Strategic Investment Agreement between EDF and China General Nuclear Power Corporation (CGN), which defined the principal terms of their partnership for the construction and operation of two 1600 MW EPR reactors at Hinkley Point C (HPC), discussions have continued which have led to the successful finalisation of contract documents in their stable form. Implementation of the arrangements with CGN was authorised respectively by the European and Chinese merger control authorities on March 10 and April 6 2016. The contracts with the British authorities<sup>1</sup>, which will come into effect when a final investment decision is made, are also in final form and ready to be signed, as are contracts with the main suppliers, notably Areva and GE/Alstom.

Before asking the EDF Board to consider a final investment decision, the Chairman and CEO of EDF wished to consult the Central Works Committee (CCE) in order to strengthen the social dialogue on this project of particular importance to EDF. The process of information and consultation was engaged upon on May 2 2016 and started by an information meeting with the CCE which took place on May 9 2016.

The consultation with the CCE covers the terms of the partnership with CGN for the HPC project for which the main terms are set out below.

### The Hinkley Point C project

The two EPR reactors at Hinkley Point C in the southwest of England would provide around 7% of the UK's electricity needs. The schedule anticipates a 115 month construction period after the final investment decision until commissioning of the first reactor.

The Hinkley Point C project is ready to be launched:

- A Development Consent Order has been obtained and the Generic Design Approval (GDA) for the EPR reactor and a nuclear site licence have been granted
- Integrated teams, including the key suppliers, have been strengthened by the establishment of engineering and construction control centres
- In addition, the HPC project incorporates experience gained from Flamanville and Taishan

<sup>1</sup> The Contract for Difference, Secretary of State Investor Agreement, the IPA Guarantee, the Funded Decommissioning Programme and the Waste Transfer Contracts

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## The industrial and strategic partnership with CGN

The construction of new nuclear reactors in the UK is based on the longstanding strategic business partnership with CGN (Daya Bay, Ling Ao, Taishan). The new agreements would be based on three pillars:

- The construction and operation of two EPRs at Hinkley Point, led by EDF (66.5%), with CGN taking a 33.5% share
- The development of two EPRs at Sizewell led by EDF (80%) to a final investment decision, with CGN taking a 20% share
- Adaptation and certification in the UK of HPR 1000 technology (a third generation 1000MW Chinese reactor) and its development at Bradwell, led by CGN (66.5%) to a final investment decision, with EDF Group taking a 33.5% share.

In addition, EDF and CGN would enter into an Industrial Cooperation Protocol offering additional development opportunities for EDF, CGN and the French and Chinese supply chains in compliance with competition law.

## The Contract for Difference (CfD)

Hinkley Point C would benefit from a secure revenue stream thanks to the CfD, which is a private law contract negotiated with the British Government.

The main features of the CfD are:

- A strike price set at £92.502012 MWh, or £89.502012 MWh, if the Sizewell C project is launched (i.e if a final investment decision is taken) indexed to UK inflation (CPI)
- A term of 35 years from commissioning. HPC would sell its electricity at market prices but would also receive (or pay) the difference between the market price and the CfD reference price
- A number of protections including against changes in law and regulation and against the risk of volume reduction (known as curtailment).

The terms of the HPC CfD were approved by the European Commission under the state aid rules on October 8, 2014.

## Financing of the HPC project

Financing requirements until commissioning are estimated at £18bn in nominal terms<sup>2</sup> of which £2.4bn in development costs have been spent to date. The investment would be equity financed by each partner, at least in a first phase, with EDF Group's share amounting to £12bn and CGN's share being £6bn. The partners' equity commitment includes a contingency margin and could reach a total of £13.8bn for the EDF Group and £6.9bn to CGN. CGN would pay to EDF for the acquisition of its shares in the project a premium on top of its share of the development costs already expensed.

EDF would commit to provide CGN limited financial guarantees, particularly in the case of cost overruns delays to the project schedule, or in the event of a challenge to the CfD by European authorities

The projected rate of return (IRR) is estimated at around 9%, over the entire project duration. The sensitivity of the IRR is approximately 20 basis points for a six month delay.

For accounting purposes the project company would be consolidated into the EDF Group balance sheet.

Hinkley Point C is also eligible for the British Government infrastructure guarantee programme, a decision which was also approved by the European Commission in October 2014. An initial amount of £2bn could be made available at the time a final investment decision is taken.

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<sup>2</sup> Nominal costs or current costs refer to the costs expressed in terms of their value when they are spent. They include the cost of inflation each year.

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## **The Sizewell C project (SZC)**

This project provides the opportunity to develop two EPRs using the same technology used for HPC at Sizewell in the east of England. It would build on the experience gained during the development and construction of HPC.

## **The Bradwell B project (BRB) and the Generic Design Assessment (GDA) joint venture**

This is the third part of the agreement with CGN. The Bradwell project in the east of England would be led by CGN using UK HPR 1000 technology subject to its approval by the safety authority. A joint venture would be created between EDF (33.5%) and CGN (66.5%), in order to obtain design approval (GDA) for the Chinese technology from the British safety authority.

The share of EDF in the development costs of the SZC and BRB/GDA projects is estimated at a maximum of around £600m phased over around five years.

A key player in energy transition, the EDF Group is an integrated electricity company, active in all areas of the business: generation, transmission, distribution, energy supply and trading, energy services. A global leader in low-carbon energies, the Group has developed a diversified generation mix based on nuclear power, hydropower, new renewable energies and thermal energy. The Group is involved in supplying energy and services to approximately 37.6 million customers, of which 27.8 million in France. The Group generated consolidated sales of €75 billion in 2015, of which 47.2% outside of France. EDF is listed on the Paris Stock Exchange

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