

**EDF GROUP  
UPDATE ON HINKLEY POINT C PROJECT  
TRANSCRIPT**

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## Henri PROGLIO

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### *Chairman and Chief Executive Officer EDF group*

Bonjour and thank you for being here today in spite of the very short notice that we gave you, due to the current developments. We wanted to get together with you at the time of a very important moment for our Company, which is the agreement that the UK government and the EDF Group just signed in relation to the Hinkley Point C nuclear power station construction project.

We are reaching a milestone today. The agreement on the Contract for Difference will allow us to progress in the development of the project in a much better defined framework and structure. This signature also comes to reinforce the industrial cooperation between France and the UK, a country with which the EDF group, the number one electricity producer in the country, already has very solid ties.

Before discussing the terms of the contract, I would like to quickly come back to the objective of this industrial project which brings the United Kingdom into new nuclear. What is at stake is the construction, on the Hinkley Point site of two third-generation nuclear reactors, each with a capacity of 1,650 megawatts and a 60-year operating life. These two EPR, designed to increase the share of low carbon electricity in the UK's energy mix, should ultimately produce the equivalent of 7% of the UK's total electricity output.

But before getting to that point, two conditions were the necessary prerequisites to the continuation of the process. The duration, set at 35 years by this contract and the strike price set at GBP92.5 per megawatt hour. These parameters contractually define the long-term profitability of the investment. They provide the necessary visibility to the parties with the required technical skills and the financial ability to undertake this industrial journey.

The amounts to be invested immediately put the situation in perspective. GBP14bn for the estimated construction costs, in line with the amounts committed to the EPR at Flamanville. An additional GBP2bn, corresponding to the specifics of the UK regulation, which triggered a number of long complementary studies, compulsory to obtain the design certification.

Similarly, the site specificities made important marine works necessary.

The Contract for Difference having defined the economic parameters of the investment, it became easier to gather in a consortium the industrial partners with the nuclear skills and appetite to invest alongside us in this project.

The alliance with Areva and our Chinese partners is a fundamental advantage. We know each other well and have a long common history in the construction of second-generation reactors, but also of the first EPR. Areva, our partner in the Flamanville EPR, demonstrates its ambition to contribute to the success of Hinkley Point by taking 10% of the investment.

Regarding China, EDF has been a partner of CNNC and of CGN for more than 30 years, in particular in the construction of the nuclear plants at Daya Bay, Ling Ao and of the two EPR under construction at Taishan.

Other partners would also probably join us.

Finally, the guarantee provided by the UK government for the debt financing is a critical support for the project. Thomas will come back to the financing structure in a few minutes.

But Hinkley Point cannot come down to numbers only. This project is first and foremost an incredible human and industrial challenge. It is an exemplary project in many respects, where all stakeholders' interests are satisfied in the long run.

I will start with the UK's interest. Hinkley Point C provides an answer to a country wishing to secure its energy independence as well as medium and long-term security of supply in the context of reducing gas reserves in the North Sea. But also, a country facing the shutdown within the next 10 years of a significant part of its existing fleet of coal plants and nuclear reactors.

Hinkley Point C is therefore the timely and necessary electricity generation asset, in complete coherence with the electricity market Reform which aims in priority at facilitating the

development of competitive, low carbon generation with stable prices. This is the underpinning of the Contract for Difference agreed between EDF and the UK government, which provides a stable price until beyond 2050 for the benefit of the consumers.

For EDF, the company leading the consortium, Hinkley Point is also a key project. Firstly, it acknowledges our industrial expertise in the nuclear sector, including the third-generation reactors, and that makes us very proud.

This project is also a milestone in the development of our industrial strategy in the sector. I will come back to this in a moment.

Also, the agreement we have just signed gives the project certainty over revenues over 35 years, ensuring the long-term profitability of the investment. This particular point, which is decisive for EDF, was also very important for our industrial partners, which will share the risk of constructing the power station to budget and schedule.

Finally, this highly technical and complex project, demanding the highest requirements in terms of safety and with a very long construction period, is a chance for the French and British industries. This is a project that will create skilled and long-term jobs as it will involve a significant number of industrial companies in both our countries.

In Great Britain for instance, we estimate that the project should create 25,000 jobs during the construction. A budget of GBP20m is already in place for the training of qualified staff in the county of Somerset where the power station will be built. The United Kingdom will thus develop an important pool of highly qualified individuals with a specialization in the nuclear sector, opening new opportunities for future projects.

Just like the UK, France will benefit through the contracts signed with our partners of the French nuclear industry and supply chain, from thousands of jobs, both new ones and existing ones.

All this background should give us a good sense of what is at stake with the entry of the United Kingdom in the third-generation new nuclear sector.

For reference, 70 nuclear power stations are currently being built globally, of which nearly 50 are in Asia. Asia will be the playing field for the new nuclear development and we absolutely intend to be part of that. This is a sector where expertise and lessons learnt from past experiences are key strengths. Each and every construction enables to capitalize on the progresses of the previous project.

We all know that the nuclear industry is a long-term industry and that it is necessary to consistently maintain our competencies, just like a professional sportsman who carries on practicing to always be at his best. This is a very suitable comparison for the nuclear industry.

Our teams have to keep on practicing and Hinkley Point is, in that context, a key moment in the history of EDF.

For memory, EDF and the French nuclear team share a successful industrial adventure which started 50 years ago. As early as the late 1970s, France made the choice of nuclear energy and enabled EDF and its partners to build over 20 years, a standardized fleet of 58 second-generation reactors, a fleet which has no equivalent worldwide. EDF and its industrial partners have therefore developed a "filière française" of excellence in the nuclear sector.

Since 2000, the advent of new nuclear has allowed EDF and its historical partners to start the construction of four EPR. EDF has brought its industrial expertise in the engineering, operation and maintenance of the Chinese nuclear power stations. That led to its participation into the two EPR in Taishan.

This project has significantly benefited from the experience gained at Flamanville with the first steps of the construction materially shortened.

As I just mentioned, these projects have facilitated the preservation of skills and the development of new expertise on large projects. They are also an occasion to carry on the cooperation with our Chinese partners and to reinforce our ties with them.

The planned construction of two EPR at Hinkley Point is part of this history.

Hinkley Point C, a generation three EPR designed in France, will today benefit from the experience accumulated over the last 30 years, including the experience acquired on similar reactors in other parts of the world.

Hinkley Point C will include, in its original design, the highest safety features. Hinkley Point will be the next part of the virtuous circle of this industry, with its highly demanding and specific norms and regulations. No other industry can be analyzed and exercised on such long timeframes with the decade as the measuring unit.

One then understands the financial commitments, the complexity of required competencies and the reason why there are so few players able to compete, although the international competition is strong with other types of reactors.

But EDF has several years of head start with a design already validated by the UK's Office for Nuclear Regulation.

Hinkley Point will enlarge the EPR family, consolidate the lessons learnt in different countries and contribute to defining tomorrow's energy landscape, based on low carbon energy where new nuclear shall play its due role, with reactors benefiting from the highest safety standards and with experienced industrial players.

The project also represents a new milestone of the history of the Group in the United Kingdom, where we are present for more than 10 years and where we became, as I've already said, the first producer of electricity since EDF acquired British Energy in 2009.

This long-term commitment allowed us to develop a robust knowledge of the British regulatory framework, to anchor us in the territory -- I remind you that we operate at Hinkley Point B two reactors of 880 megawatts each -- and also to weave solid links with the various actors in the country. These assets offer us the opportunity to lead this project in the best conditions.

This tells you why Hinkley Point is a major project for the industrial cooperation between France and the UK. It is a fruitful cooperation all the more so as we have established very strong links in the past few years.

May I remind you that EDF Energy is the first electricity producer with the lowest CO2 emissions? The excellent performance of the nuclear fleet over the past two years, which has reached levels unheard of before, evidences the efforts made to improve output since 2008.

We have over 15,000 employees and provide gas and electricity to approximately 5.5 million customers for revenues of nearly GBP10bn. We are present in nearly all areas, in particular in the nuclear sector with the operation of eight nuclear power stations.

The companies in our two countries will be able to share their experiences, which are absolutely complementary. For Hinkley Point, EDF will bring its historical knowledge of the French nuclear fleet as well as its industrial expertise in the construction of EPR.

As for the British companies, they will bring their knowledge of the industrial context and of the regulatory environment, but also the competencies and innovative approaches acquired in other sectors. Approximately 50% of the value of the project during this construction will benefit the British economy.

We initiated this project five years ago, with the ambition to become a reference in the new nuclear build program of the United Kingdom. It is an important human challenge in the context of the renewal of competencies in France and the restart of a nuclear program in the UK.

New nuclear is an incredible opportunity, in terms of industrial activity and employment. For instance, the French nuclear sector, which operates in a completely integrated fashion, is an important component of the French industry with 6.1% of industrial employment and over EUR46bn of revenues.

With the Hinkley Point project, the French nuclear companies associated with British companies through joint ventures will be additional assets. These alliances between British and French industrials will enable a leadership of the project and to establish alongside our historical partners, the basis for cooperation on future nuclear projects throughout the world.

Hinkley Point, which is an attractive project, is already positioned as a future international reference for the EPR. Our duty is now to successfully carry on together this incredible industrial challenge.

I now leave the floor to Vincent de Rivaz.

## Vincent DE RIVAZ

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### *CEO of EDF Energy*

Thank you, Henri. Good morning, everyone. I will give the context on the UK situation, the progress we have made so far in developing the most advanced nuclear project in the UK, the key elements of the CfD and the factors that give confidence that this is an industrial project that will succeed.

So let me start quickly by reviewing the UK energy market context. Nuclear currently produces around 20% of electricity in the UK and it is reliable, low carbon power. All but one of the nuclear stations is scheduled to close by the end of the 2020s. At the same time, 20% of the UK's power generation is due to close in the next decade as aging plants come to the end of the life and environmental measures come into force.

Recognizing the need for a market structure which supports the investment that is required, the UK coalition government, picking up from Labor, has taken forward reform of the electricity market introducing a progressive carbon floor price and establishing the framework that includes the Contract for Difference we are talking about today.

After a decade of sensible and reasoned debate there is also a strong public and political support for nuclear new build. All parties have agreed on nuclear to meet our de-carbonization targets affordably and with security of supply.

During the passage of the Energy Bill in the House of Commons in June, there was a clear demonstration of this cross-party consensus in support of nuclear. For instance, proposals to limit the support given to new nuclear under the CfD framework or to exclude nuclear altogether were rejected by 503 votes to just 20.

We have achieved a lot already that demonstrates our leadership in UK nuclear new build many years ahead of those who wish to follow our habit.

On the design, we have been through over four years works with the Office for Nuclear Regulation involving over 850,000 hours of engineering work to achieve a Design Acceptance Certificate and Nuclear Site License.

For planning, we have completed over three years of in-depth consultation with local communities and a year-long examination by the UK Planning Inspectorate. And in March we received planning approval and we were also granted the necessary permits from the Environment Agency.

Today, we have announced that we have agreed the key terms for the top four contracts representing over 60% of construction costs and also for the fuel supply with Areva. I will shortly talk more about the CfD.

We have also broad agreement on our funded decommissioning plan with the Office of Nuclear Development.

Nuclear is also supported by the majority of the public in the UK. Our latest polling conducted by YouGov found that 61% of people nationwide believe that nuclear energy should be part of the diverse energy mix in the UK. Local support of our site is even stronger. Unions and supply chain also want nuclear to go ahead, as can be seen by the innovative, product-specific agreements we have reached.

Talking now about the price, it is GBP92.5 per megawatt hour in 2012 sterling. It is absolutely competitive against other low carbon technologies. This price provides a project

return close to 10% in line with the investment criteria of EDF and the expected level to attract investors.

It is fully protected against inflation and contains a protection mechanism against adverse changes in expected operating costs such as uranium price or labor cost and changes in other costs which are out of NNB controls such as transmission charges and business rates.

EDF Group is also, at the moment, developing proposals for two EPR reactors at Sizewell C in Suffolk. A successive power station built to the same design benefits from a series effect on the shared design, supply chain and engineering work. So if Sizewell C goes ahead, there will be a payment from Sizewell C to Hinkley Point C equivalent to GBP3 per megawatt hour upon the final investment decision being taken for Sizewell.

Reflecting the fact that the first of a kind cost of EPR reactors in the UK would be shared across the two sites, in that case, this high price for Hinkley Point C will be reduced by GBP3 passing the benefit to customers, while this mechanism ensures neutrality for HPC investors.

The contract provides certainty on the price over 35 years after first operation, an equivalent proportion of the operating life to the 15-year contract to wind project. It also contains protections in case Hinkley Point C generation is reduced by the grid operators and the balancing market rules at that time won't provide full compensation.

The CfD also contains two sets of protections. First, against political shutdown, the CfD includes a compensation mechanism in case of a decision by the UK government to shut down HPC, unless for safety or environmental-related reasons.

Second, the CfD also offers protection against discriminatory change in law and against potential windfall taxes such as tax on nuclear facilities or electricity generation.

And lastly, the UK government debt guarantee, which covers the largest parts of the financing, offers investors further confidence that the government will attend to the effectiveness of the CfD.

We have done a great deal to prepare our project for success. We have built a world-class team with experience of large successful construction projects including Heathrow Terminal 5 and the London 2012 Olympic Park. We have learnt the lessons of the earlier EPR projects including Flamanville, Olkiluto and Taishan.

We have today announced the industrial participation from Areva, CGN and CNNC. These are all companies with long experience of managing nuclear construction and share our commitment to manage the project risks successfully.

We have a fully-costed project with a stable design that has been approved by the independent safety authority. Our project has a strong and clear organization with a robust cost model and schedule at its heart.

We are using modern 4D modelling techniques to optimize constructability. As one example, we have built full scale mock-ups of some complex reinforcement elements in the civil works which confirmed our ability to build these elements within one quarter of the time taken from other EPR projects.

Our supply chain partners, announced today, have been involved deeply to help our planning, to improve constructability and to apply construction best practices. Our contractual arrangements, including incentives, reinforce the one project ethos that is key to success. We won't start until we are ready and our project schedule is achievable.

And now I am pleased to hand over to Thomas to speak about the financing.

## Thomas PIQUEMAL

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### *Senior Executive Vice President in charge of Finances EDF group*

Thank you, Vincent. Good morning to everyone. The Hinkley Point C project that we are presenting today is certainly very different from a financial standpoint from the one we were considering three years ago when Centrica was still our partner. But the structure is fully consistent with our industrial strategy and shows our continued commitment to a strong financial discipline.

Twelve months ago we anticipated Centrica would withdraw from the project and since then we've made substantial progress in respect of the optimization of the investments and of its financing structure.

Let me first present the main highlights of the project before looking in more detail into its financing and the key steps ahead of us between the conditional commercial close that we are announcing today and the unconditional final investment decision that we target for the summer 2014.

You are now familiar with the main financial features of the Hinkley Point C project which are shown on slide 15. As mentioned before, the investment cost is estimated to be GBP16bn, consisting of GBP14bn of construction costs and GBP2bn of other costs such as the acquisition of the sites, preparatory work for the various regulatory authorizations and the training of the 900 future employees of the nuclear station.

The total construction cost of GBP14bn for a pair of reactors is about twice the amount estimated at Flamanville 3 for a single reactor. This figure is, however, made up very different at Hinkley Point C for two reasons.

First, there is an increased scope of work at Hinkley Point compared to Flamanville because of Hinkley Point's site characteristics. And by the way you have an appendix describing all that. For example, more foundation work is required at Hinkley Point C because of the different nature of the soil. Significantly larger marine works at Hinkley Point as there is an extreme low tide which means that water will be taken far offshore.

Luckily, Flamanville benefited from synergies from existing infrastructure while everything has to be built from scratch at Hinkley Point. This is the case for instance of the ancillary buildings or the access road. In addition, the design has to be adapted to the British regulatory context.

But on the other hand, and that's the second reason, these additional costs due to the site characteristics and to the British context, will be offset by the gains achieved, significant gains achieved, effectively from the construction of the EPRs at Flamanville 3, and Taishan 1 and 2.

Looking now at the revenue and profit profile of the investments, the key component is of course the Contract for Difference. You already know that the effective strike price will be GBP92.5 per megawatt hour expressed in 2012 money terms and that it will be fully protected against inflation. This means that revenues of the project will bring certainty over a period of 35 years after the start of operations of the power station.

This secures altogether an internal rate of return for the project of around 10%, which was targeted by EDF as early as in 2010 as you may remember.

65% of the financing of the project should be provided by non-recourse funding. This funding would be secured by Infrastructure UK and this again would prove the strong backing of the UK government to the Hinkley Point C project.

For the equity component of the project we have structured a consortium of strong industrial partners, ensuring an alignment of interests in the success of the project. EDF targets to hold between 45% and 50% of the equity alongside our partners.

As a result of the structure that I just described, we anticipate for the EDF Group a gross equity investment of GBP3.5bn over the construction phase of the project. This number is before deducting the disposal proceeds of 50% to 55% of the project to our partners.

EDF Group's other commitments will also include contingent equity which will be capped and the amount of the contingent equity is still to be defined. Our partners will take of course a corresponding commitment.

Let me now describe in more detail on slide 16, the target project structure. As the leader of the project, EDF has set up an experienced consortium of French and Chinese nuclear leaders. As you can see in the lower blue box of the chart on the right-hand side of this slide, NNB GenCo is the nuclear license holding entity. It is fully owned by NNB HoldCo. And in turn we target that NNB HoldCo will be, as I said earlier, 45% to 50% indirectly owned by EDF Group through EDF Energy, between 30% and 40% in total by CGN and CNNC, the two Chinese leading nuclear operators, 10% owned by Areva and up to 15% by other investors with whom we are currently holding discussions to join the consortium.

The targeted shareholder structure will be signed off at the time of the final investment decision during the summer 2014. But at this point in time, I'd like to stress three points.

First of all, the interest of partners will be fully aligned as they will share the construction, operational and financial risks of the project as well as its Capex.

Second, all the consortium members have an extensive experience in the nuclear field especially in the construction of nuclear plants. Areva, CGN and CNNC are longstanding partners of EDF Group and as you know they are already partners on the Taishan projects in the Guangdong province in China.

Lastly, given EDF's interest in the consortium, the shareholders' agreements and more generally the expected governance for NNB HoldCo, at EDF we are expecting to consolidate our investments in Hinkley Point C under the equity method.

The non-recourse debt funding also matters in this respect. Its three main characteristics are summarized on slide 17.

First, the 65% of the project will be debt financed and should benefit from an IUK guarantee and therefore will provide access to the sovereign bond markets. Discussions are ongoing with IUK which is currently carrying out a comprehensive due diligence.

Secondly, the financing is expected to be structured on a non-recourse basis to the sponsors. It means that there will be no counter-guarantee of the sponsors to IUK and no completion guarantee. It also means that the commitment of the sponsors will be limited to their base case equity and subject to a cap on their contingent liability.

Lastly, the financing will be backed by appropriate credit standing of the sponsors, limited to their own commitment to the project and not on a joint and several basis.

The debt funding will be structured with flexible terms to accommodate the features of the project. It means in particular that it will be a long-dated maturity given the long-term characteristic of the project.

As you can see, significant progress has been achieved over the last 12 months to be in a position to take a sound investment decision from a financial standpoint and in the interests of the EDF Group. However, we still have a lot of work ahead of us before the final investment decision as shown on the slide 18.

Today, we've reached a first milestone since we have agreed on the CfD terms with the UK government and received confirmation that the project would qualify for Infrastructure UK. In addition, we also have received letters of intention of our key partners, CGN, CNNC and Areva. Lastly, as mentioned by Vincent, we have initialized the top four contracts, accounting for 60% of the construction contracts.

The next milestone, the conditional financial close, is expected to be reached during the first half of next year 2014. It means that by then we should have the binding agreements with Areva, CGN and CNNC and potentially with other investors, a detailed agreement with IUK on the terms of guarantee of the debt financing and the full contracts for the Contract for Difference and the Funded Decommissioning Program.

The unconditional final investment decision should then take place in the summer 2014. This requires in particular that the projects will have received full state aid clearance from the



European Commission in respect of the Contract for Difference, the Funded Decommissioning Program and the guarantee from IUK.

In addition, the full debt and equity contracts should be signed by them with in particular all conditions precedent being cleared.

Lastly, the EDF Group should have sold 55% of the project at that time, between 50% and 55% of the project.

As you can see, there are still many important steps ahead of us before the FID. Of course we will update you in due course as well, making progress along this road map. This concludes my presentation. I think that now we are ready to take your questions. Thank you.

## Questions & Answers

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### **Eric Albert - Le Monde**

Hi, good morning, gentlemen. Just one quick question on the costs, it's GBP16bn which is more than what was expected. I know you're presenting it as GBP14bn plus GBP2bn; the GBP14bn being strictly the construction cost, nevertheless it's more than expected. And if you take it at GBP16bn divided by 2 that's more than the cost of Flamanville. How do you explain this?

### **Thomas Piquemal**

I think that if you want to really compare the two projects, you have to go into further detail. I tried earlier to summarize the key differences, the different big topics, first of all site specificities. I mentioned some of them. They are summarized in the appendix to the slide pack. The fact that more buildings have to be built at Hinkley Point C, more infrastructure, and the fact that also in the additional GBP2b, above the GBP14b that you mention, we have to buy the land and do some incremental works. So it's very difficult to compare; what is really comparable is the nuclear island, or some specific works like that, but not the overall cost of the plant.

### **Eric Albert**

So that's not, to summarize, an increase of the EPR cost as far as you are concerned?

### **Thomas Piquemal**

Not at all. On the contrary, as I said earlier, there is a series effect since we took lessons from our experience in Flamanville 3 and in Taishan and compared to the cost of Flamanville 3 we are able to reduce significantly the cost of an EPR if we were to build a new Flamanville 3. And this significant decrease offsets the additional incremental work that we have to perform and to carry out at Hinkley Point. So embedded in this number there is a series effect and a significant savings compared to the cost of Flamanville 3.

### **Eric Albert**

All right, thank you.

### **Emmanuel Turpin - Morgan Stanley**

Good morning, everybody. First of all in terms of the overall Capex budget of GBP16n, how much has already been spent on site?

Number two, just taking then the IRR parameter that you gave us is it based on GBP16bn or just on GBP14bn for the pure construction?

Can you possibly give us an idea on the shape of the capital commitment, of the Capex over the years, not year by year but roughly speaking over the next 10 years?

And last in terms of your IRR of 10%, what can you tell us in terms of the underlying assumptions, operating assumptions, load factor, for instance, are they the same as the ones mentioned by AREVA for the reactor and the one we use for Flamanville?

And beyond the 35 years of the CfD, what sort of power price assumption do you use assuming the IRR is over the long term -- over the overall duration of the project? Thank you very much.

### **Thomas Piquemal**

Okay. So, on your first question we estimate that at the time of the FID we will have spent GBP1.5bn, excluding contribution by Centrica. And as I said earlier, we expect to sell between 50% and 55% of the project, but the number I have given to you is the cost of what we've spent.

Second question, the shape of the Capex, I think it's too early to go into such detail now because it comes to the shape or so of our equity financing, given the fact that the debt is non-recourse. We still have some work ahead of us on the financing structure and the discussion that we are going to have with IUK is part of it of course. And, as I said, what is important to EDF is the shape of the equity drawdown and it will of course depend on when the debt is in itself drawn. So a bit too early to comment in detail around that, except to say that for 2014 it will be a net positive cash inflow for the Group as we would sell, as I said, between 50% and 55% of the project.

Now you were asking the question on our underlying assumptions for calculating IRR. It's an availability factor of 91%, operating life of 60 years and -- no, I will not dare making any comments on where the power prices might be in 45 years -- all the more since I'm not really sure it has a significant impact on the expected IRR given the discount factor at that time. We believe that the CfD duration of 35 years gives very good protection for the investment and protects the IRR on the basis of the budget that we anticipate to spend.

### **Martin Young – Royal Bank of Canada**

Good morning to everybody. I've just got a few questions. Firstly, could you just give us an indication of the construction time of the project, assuming that you take the FID in the summer of next year?

Secondly, could you just give an indication of how you reconcile the GBP3.5b equity contribution from EDF which looks at the moment as being on a 100% basis to the GBP16b cost of the project?

Thirdly, picking up on Emmanuel's question around power prices, are you assuming that the UK's carbon price floor remains in place, in line with the current trajectory of increases over time.

And then my final question is around the decommissioning costs. Ballpark what are you assuming as far as decommissioning costs are concerned? Can we take the type of ballpark numbers that you have for France and resolutely defend it?

And then on the treatment of waste, what are you assuming there? Thanks.

### **Vincent de Rivaz**

The date of the commissioning of the first unit is mid-2023.

So question on the carbon price floor trajectory: the Contract for Difference is neutral compared to what could be the trajectory. And the current trajectory is the one which the government has announced and there is no impact on the CfD.

**Martin Young – Royal Bank of Canada**

Okay. It's more an issue of thinking about where prices might go in the longer term. Obviously if one assumes that remains in place in perpetuity and increases along with inflation that is going to be a significant impact on power prices 35 years ahead.

**Vincent de Rivaz**

It is going to potentially have an impact on the difference which is included in the contract for difference, not on the strike price.

And the more the carbon price floor is sustained at a predictable level, less volatility will happen in the power prices and less volatility would happen in the differences between the strike price and the market price. So in this sense the carbon price floor is helpful because it reduces the uncertainty on the market price and reduces the volatility on the difference but in terms of the strike price it has no impact.

**Martin Young – Royal Bank of Canada**

Okay.

**Vincent de Rivaz**

And in terms of how much we have factored in our strike price for the decommissioning, basically it is between GBP2 and GBP2.5 per megawatt hour and the mechanism is such that this number is going to be capped at GBP3 per megawatt hour and any difference will be passed through. So it is wholly funded. There is a cap and if there is a difference it will be passed through.

**Martin Young – Royal Bank of Canada**

Passed through to the consumer or passed through to the consortium members?

**Vincent de Rivaz**

To the consumers.

**Martin Young – Royal Bank of Canada**

Okay. And what about the treatment of the waste itself?

**Vincent de Rivaz**

The UK policy is to have a long-term deep, geological depository for the waste on the long term. And that will be the final destination of our waste and in the meantime they will be stored on the site.

**Martin Young – Royal Bank of Canada**

Okay.

**Sylvia Pfeifer - Financial Times**

Hi. I've just got one quick question which has to do with the cost of the reactor. This might have already been said, but who is liable for the regulatory risk? Is it the consortium or is it the government? And if, for argument's sake, the reactor costs more than GBP16bn, who pays for the cost overrun?

**Vincent de Rivaz**

We have in Britain a strong, capable, independent regulatory authority. We have been dealing with them and we are dealing with them on our existing nuclear generation and I would say that the relationship is highly professional. We have been through many years without any surprises which is very important for an operator. Regarding Hinkley Point C the design of the EPR technology has been approved through the generic design assessment process which has ended at the end of 2012 with the design certificate acceptance. It is on this basic, approved design that we are working now on the next steps of the detailed design. And we have obviously, it's part of our job as a nuclear operator and a responsible designer to deal with the safety authority and to embark these relationships in our project, in our cost, in our budget.

**Sylvia Pfeifer - Financial Times**

So you are liable for any extra costs?

**Vincent de Rivaz**

The construction cost is one of the key responsibilities that we are taking and we are convinced that we are equipped to take it. It will be shared by all the equity partners. And the deal with the government is very clear. These part of the risks are taken by us because we are the best equipped to cope with this responsibility.

**Sylvia Pfeifer - Financial Times**

Just so that I've got it straight in my head, the construction costs you're going to be taken that, but in terms of the design costs, the regulatory costs --

**Vincent de Rivaz**

It's part of the construction costs

**Sylvia Pfeifer - Financial Times**

Okay.

**Vincent de Rivaz**

To have a stable design, to have a good relationship with the regulator so that there is no surprise and no difficulties along the way during the construction, the commissioning and the operation. It is at the heart of our skills to be able to deal with the British safety authority and in this respect we can say that we have along experience, in the past with British Energy and in the last five years directly through EDF Energy, of a very constructive relationship with the safety regulator.

**Sylvia Pfeifer - Financial Times**

Okay, thank you.

**Vincent Ayrat - Société Générale**

Good morning and congratulations for this long-awaited agreement. I wanted to know if you could provide some colors to shareholders regarding the structuring of the deal against potential future political risk -- the perception is that it is on the rise. The Sunday Telegraph recently reported actually that the Tories would be planning to review the CO2 floor. I know it doesn't impact this new nuclear project; however, it is a very long lease project and what sort of protection against future political or regulatory intervention on this project, I think that's something I would be very interesting to hear that.

**Vincent de Rivaz**

First of all, we are starting from a very strong position regarding the cross party consensus in favor of nuclear. And we should remember that UK in last few years has demonstrated a good resilience in terms of its commitment to nuclear despite many events, including what has happened in Japan. And the vote at the House of Commons has illustrated this very strong political consensus. That is the starting point. It is very important for today. And the way we have negotiated with the government on the CfD for the long term is very clearly to protect ourselves against a political shutdown. To make it simpler, if there is a decision similar to the one taken in Germany, the investors would be fully indemnified against the consequences of such a decision and that is a very key feature of the Contract for Difference. We are protected against political risks.

**Vincent Ayrat**

Okay, thank you very much for that.

**Patrick Hummel - UBS**

Thanks for taking my question. Good morning, everybody. The first one, just to come back to the earlier question regarding the risk of a cost overrun, I wasn't 100% sure if I got this right, so if this plant costs instead of, say, GBP16bn it costs GBP20bn, we hope it won't happen but for the scenario it does, is the cost overrun fully borne by EDF or is it borne equally between the shareholders according to the ownership. That's my first question.

The second question is the CfD of GBP92.5 was obviously less than what you have advocated for. I think you were seeking a number of at least GBP100 so I appreciate that's part of the negotiation game, but was there something in exchange which you got from the UK government that made you feel more confident or more happy with a lower than GBP100 CfD?

And final question, for your internal business case calculations on the project what's the applied WACC you use for project?

**Vincent de Rivaz**

So on the first question we repeat what Thomas has already said and the President as well, construction risk will be shared by all the equity partners.

Our partners have been selected because they have industrial experience justifying that they take these risks with us. I would like also to underline that we talk about risk, but we have mitigated this risk a lot in the way we have prepared this project. We start this project with a design which is stabilized. We start the project with all the project organization which is taking into account all the lessons of previous projects. We start this project with an early involvement of the main contractors with whom we have signed today agreements. We have a procurement strategy with them which is one by which they are incentivized to deliver under budget. We have every confidence that the contingencies we have put in our cost estimate are adapted to the nature of this project. So frankly the main thing regarding the risk of the construction is to start when we are ready and it is exactly what we are going to do.

**Vincent de Rivaz**

The second question was on the --

**Patrick Hummel - UBS**

The CfD level being below GBP100 --

**Vincent de Rivaz**

It's below GBP100; it's above GBP80, significantly above GBP80 which was the starting point of the government negotiation. If you want to have more detail you can ask them. I don't want to enter any details of this negotiation. We really believe that it is a fair deal, fair for the investors, fair for the customers, good for EDF, good for the UK. And a negotiation is a long process. Many elements have been brought by the government to reduce significantly the risks for the investors.

The Contract for Difference key features, duration 35 years, indexed on inflation, protections against political risks, protections against curtailment in the evolution of the power systems, for example, have brought significant improvement to the risk profile of this deal. In addition to that, the UK infrastructure guarantee on the debt 65% is clearly adding a layer of protection because the first to be exposed to potential political risk is the UK government. And in that context we strongly believe that GBP92.5 is fair, balanced and good deal for EDF, for the consumers and for the UK.

**Patrick Hummel - UBS**

And as far as the WACC is concerned

**Thomas Piquemal**

It's as for –this project as for any of our other investment decision we apply our Group WACC plus value creation and since -- consistently since the beginning, since December 2010 we have indicated that our target was a Group WACC -- sorry, was a project return of 10%. Given the structure that we are presenting today, with this non-recourse debt financing and equity partners and the fact that we anticipate that this will be equity accounted in our balance sheet, we are now looking at equity returns that are of course higher than 10%. And I can confirm that the return that is expected in this project is totally consistent with our investment criteria.

**Question from Andrew Moulder - Credit Sights:** What cost of debt are you assuming for the 55% debt financing?

**Thomas Piquemal**

Well, again it's a bit early to disclose our assumptions given the fact that we are discussing with IUK and others, but the structure, this guarantee would give us access to the sovereign debt market. And what we see on precedence is that there is a small margin applied to sovereign debt cost, so those are assumptions that we retain in our modeling. But again this will have to be clarified and confirmed during the first half of next year when we make progress on the financing structure.

**Question from Iain Turner – Exane:** Can you give some details about the contingent equity? What is it for, how much in total and also what is your expectation for a new state-aid approval?

**Thomas Piquemal**

So contingent equity is again equity that will be committed by each equity investor. It will be capped -- so it will be together with the equity investment, the maximum exposure that each equity investor will bear in this project. The number will depend on our discussions with IUK and some scenarios that we are currently running and here again it's an example of parameters that we will have to confirm later on, at the end of this due diligence and discussion process with IUK.

**Vincent de Rivaz**

On the state aid, first of all, the British government has been extremely engaged with the European Union for many, many months on this deal through various steps leading to the notification which has taken place today, the formal, official, final notification has come today. There have been many stages in between pre-notification workshops with the Brussels commissions. So we have a very clear engagement of the UK government to make it successful.

Two, on the substance of this deal, we are confident that the criteria that would be applied - and they are the usual one for state-aid in Brussels -- is it necessary, is it adequate, is it appropriate, is it something in terms of energy policy which is needed to achieve the energy policy. This project will tick all the boxes. It is a process which has to be followed with rigor. I'm not saying that it will be a formality at all, but we are confident that we will get through and that is the assumption we are making when we say that the final investment decision should be mid 2014. And from today starts the discussions, the engagement with Brussels and we will do that with the same dedication that we have shown so far.

**Question from Véronique Le Billon - Les Echos:** Concerning the cost of the project, I understand the GBP2bn covered specificities of HPC site and the specific design of the UK EPR. It remains that the cost that could be compared to Flamanville is GBP14bn which means GBP7bn for each, the same amount as Flamanville. It means that there is no positive series effect between Flamanville and Hinkley. How is that possible?

**Thomas Piquemal**

Well, it's possible because it's not the same GBP2bn that you are referring to. The difference between GBP14bn of construction costs and GBP16bn of project cost overall are not site specificities but are all what we call owner's costs, so buying the land, training the people as I said. So it's not only construction but all the costs associated with it. Then it is true that there is another GBP2bn number which is what I call the series effect. So the lessons learned, if we had to build a new Flamanville 3 it would cost GBP2bn less. But this is offset by the site specificities for Hinkley Point, the regulatory environment in the UK and all specificities for HPC.

**Vincent de Rivaz**

Maybe we can reiterate what Thomas said earlier about the site specificities so that you have a clear understanding of why we have additional costs linked to the Hinkley site. In Flamanville, EPR has been built on a site which was prepared for it. There are existing plants and the site had been prepared to receive a new power plant Flamanville 3. It is not the case in HPC. Nothing has been prepared and we had to do everything from scratch. We have to have many ancillary buildings at HPC that we don't need for Flamanville. The nature of the ground, geological nature of the ground is different. It happens that it is a site which has a different nature, softer ground and we have to do more earthworks and to put more concrete underground as a consequence.

We have to take into account the fact that the Severn estuary is a large tidal flow location and there are many issues of that nature which leads to a more expensive cooling system when you are going to get the water in the sea to cool the power station.

And last but not least we have on the site a long-term fuel store facility which is not in Flamanville. Flamanville they are not far from the site to put their long-term fuel storage but we have to build a specific one in Hinkley. And all that has been fully understood by the government because all those costs have been scrutinized, analyzed, challenged by the government, by the consultants and they have been convinced that these costs are justified and they are in the strike price.

**Ingo Becker - Kepler Cheuvreux**

Yes, thank you. Good morning. I had a question on the implications, possibly for British Energy. You have said that you protected Hinkley Point against political risk. Are there any

provisional clauses in the agreement that relate to British Energy, i.e. are there any implications or any protection implications for British Energy?

And my second question would be on the relevance of accounting here. Apparently you account at equity which I understand means you, alongside the spending, you increase the associates that you declare which I guess makes a lot of sense. Would you have been interested in a deal at the same terms if you would have had to account this as a subsidiary in full?

**Vincent de Rivaz**

Okay. May I ask you what exactly you mean by British Energy because I'm not sure I've understood your question?

**Ingo Becker - Kepler Cheuvreux**

Yes. You said that Hinkley Point is protected against all kinds of political risk like a shutdown. I understand also any kind of retrospective announcements can be ruled out. We have seen cases in Europe like changes of the working environment or the tax environment for existing nuclear. Does the deal have any protective implications as well for the existing fleet that you have which is British Energy?

**Vincent de Rivaz**

What you are underlining is that this deal is much more protective for us than what we did when we made the acquisition of the existing nuclear power plant. All the protections which are embedded in the CfD, political certain risk, curtailment risk, pass through on the taxes, business rate, transmission rate, etc., etc., you will see the details, are protecting us for 35 years after the commissioning which is specific to this project and, as you underline it, much better than any protection we could have had in the past.

**Ingo Becker - Kepler Cheuvreux**

Right. And the accounting how relevant was the --

**Vincent de Rivaz**

And -- but regarding the existing fleet, it is what it is and by the way, as you know, the performance of the fleet is very strong. It has improved by 50% since we acquired them at the end of 2008. And the life span is planned to be extended, but we are not at all in the same duration regarding Hinkley Point C. It's a 35-years contract and therefore we had to ask for much more protection and we have got all the protections that we asked for. It was asked earlier about the dynamics of the negotiation. The priority of the negotiation was to get all the protections that we have described, indexation on the inflation, duration of the contract, political shutdown, curtailment, pass-throughs, the funding of the decommissioning, etc. And we are in a very strong position.

**Thomas Piquemal**

Now you had a question on the accounting. The accounting is not a goal in itself. It's just a consequence of the organization and of the partnerships that we confirmed around these projects. We wanted to find real industrial partners who could take risks, also to align interests and we believe we are there now. So the consequence of this organization is that it will be equity accounted in our accounts. It's a consequence of the governance and it has no impact on the industrial organization of the project given the fact that at FID most of it will be ready and agreed upon. It's also a way of de-risking the project which is to really increase the visibility when the FID is taken. So this is consistent and certainly not an objective but a consequence.



**Ingo Becker - Kepler Cheuvreux**

Can I just enquire, if you get to the full 50%, you can also account this at equity right?

**Thomas Piquemal**

No, the percentage on the FID will not change our views on the accounting. The accounting depends on the industrial organization and the governance. So whether we are at 50% or 45% has no impact on the fact that we intend to consolidate it under the equity method. And I'd like to come back to the question earlier on the cost overruns and contingent equity and so on, I'd like to make clear to everybody that our commitment, EDF commitment, such as for all the other partners, will be capped at an amount equal to equity plus contingent equity. So if there are cost overruns, they will have to be within that limit. And, as Vincent expressed, the industrial organization, the lessons learned from our previous projects in Flamanville, Taishan, the early involvement of our key suppliers, the alignment of interest with our partners, all of that are protections against cost overrun. That's why we feel confident with this industrial organization. Thank you.

**Ingo Becker - Kepler Cheuvreux**

Thank you.

**Thomas Piquemal**

So I think this was our last question. Thank you very much for attending this call and of course if you have further questions, don't hesitate to call us and the team. Thank you.

**Henri Proglio**

Thanks.

END