NNB GENERATION COMPANY (HPC) LIMITED

REGISTERED NUMBER: 6937084

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

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Directors	Humphrey Cadoux-Hudson
	Bernard Ainsworth
	Florian Debionne
	Barbara Jones
	Fiona McMillan
	Paul Thomas
	Philippe Bordarier
	Yigang Cao
	Andrew Mathews
	Paul Newman
	Thierry Schall
	Bin Shangguan
	Dongshan Zheng
	Minhong Zhu
Company secretary	Christopher Hamill
Auditor	Deloitte LLP 2 New Street Square London EC4A 3BZ
Registered office	40 Grosvenor Place Victoria London SW1X 7EN

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2016.

Principal activity

The principal activity of NNB Generation Company (HPC) Limited ("the Company") is the development of low carbon electricity generation facilities. This development is to be achieved by the construction and operation of a mixture of generating capabilities; nuclear power and other sustainable solutions.

The Company is currently building a twin EPR Pressurised Water Reactors ("EPR") at its Hinkley Point C ("HPC") site, in Somerset.

It will continue with these activities for the foreseeable future.

Review of the business

The loss for the year before taxation amounted to £22.1m (2015: £21.6m) and the loss after taxation amounted to £28.3m (2015: £10.4m).

During 2016, the Company has continued to make progress relating to its new nuclear ambitions. The construction phase has been fully launched and all project goals have so far been achieved; this includes the commissioning of the first concrete batching plant, excavation of over 3 million cubic metres of earth, as well as commencement of the construction of the jetty that will deliver materials via the sea. The Project has also achieved the internal closure of the Pre-Construction Safety Report; this is a key stage for approval of the safety justification by the Office for Nuclear Regulation ("ONR"). A necessary step to begin construction.

Following the successful outcome of the UK Government Review of the HPC Project, on 29 September 2016 ("Completion"), the Company took its Final Investment Decision (FID) in respect of the HPC project and signed the necessary agreements with Government, EDF and China General Nuclear Power Corporation ("CGN") to proceed with the Project.

During 2016 CGN completed their due diligence process and at Completion the HPC Shareholder Agreement between CGN and EDF was also signed. The Company is owned by EDF (66.5%) and CGN (33.5%).

The investment is to be equity financed by each partner. Following Completion and signature of the HPC Shareholder Agreement in September 2016, both shareholders are obliged to act in accordance with the provisions of that Agreement in relation to the Cash Calls required to fund the investment.

Since FID, equity funding, by way of shareholder loans totalling £1,194,334k have been provided by NNB Holding Company (HPC) Limited to the Company, resulting in a capital contribution of £1,194,334k.

At Completion several key construction contracts were also signed, these agreements now enable the Project to move from the development phase to construction.

The Contract for Difference ("CfD") and the Secretary of State Investor Agreement (SOSIA, a separate agreement between the Secretary of State and the investors in HPC which provides the protection to the investors notably in the event of a political shutdown) was signed on 29 September 2016. The CfD will provide security in respect of revenues generated from electricity produced and sold by HPC through compensation based on the difference between the strike price and the market price, for a period of 35 years from commissioning.

STRATEGIC REPORT (CONTINUED)

Key performance indicators

To support the Company's overall objectives in relation to new nuclear, the Company set key performance indicators relating to safety, achieving specific milestones in the delivery of new EPRs, high performing people and financial measures relating to expenditure against budget.

Safety

The project is focused on delivering a safe plant for future operation with a key focus being to establish a secure acceptable safe design for the UK based on the existing EPR design being constructed elsewhere by EDF SA. All project activities are being established to ensure the delivery of safety in design and through procurement, manufacturing and construction to commissioning, operation and decommissioning of the plant. The project has also continued to focus strongly on construction safety throughout all activities.

Delivery of new EPRs

In parallel with discussions with UK Government, CGN and key suppliers, the project team continued with site preparation works under the Site Preparation Works S106. This includes remediation of certain areas of the site, earthworks and the design and pre-fabrication of three concrete batching plants, one of which was successfully commissioned in 2016. Following FID the full construction phase of the project was launched, this includes the commencement of piling work for the installation of the temporary jetty as well as full mobilisation of the earthworks contract in accordance with the Development Consent Order.

Additionally, work continues on the building of long haul roads to give access to site for machinery needed for the main construction phase, rights of way improvement, and good progress has been made on the construction of office buildings, worker accommodation and welfare facilities.

In parallel with the on-site work, off-site work has continued on the detailed engineering design for the plant. Work has also continued with construction partners and the following contracts have now been signed for the three major construction areas: Main Civil Works, Turbine/Generator and the combined Nuclear Steam Supply System and Instrumentation & Controls. Procurement also continued on other critical path work packages.

High Performing People

A new competency and qualification matrix has been launched for the contractor workforce that identifies standardised, minimum health and safety qualification along with technical and professional requirements. This includes target qualifications to underpin personal development plans. Also launched in 2016 was the HPC Project Introduction that provides a uniquely interactive learning experience as part of the on boarding process for the project incorporating key health, safety and environment information with specific knowledge and understanding with respect to the nuclear industry.

Expenditure

The total 2016 expenditure is £57m (2015: £26m) favourable against latest approved budget, with under-spends across most areas. This underspend is due to the timing of the Project achieving Completion in September 2016. This will be recovered during 2017 as the Project enters the full construction phase and will not impact the current schedule.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties
The following is a discussion of the key risks facing the Company together with a summary of the Company's approach to managing those risks.

The governance structure of the Company is designed to manage and mitigate risks. This covers all aspects of the Company's activities, economic or other.

Political and regulatory risk
Political risk arises in relation to public acceptance of building new nuclear power stations, and regulatory risk relates specifically to obtaining the relevant licences and consents to build, operate and decommission the Company's EPRs at HPC. Management is engaged with local residents, regulators and politicians in addressing the safety needs and the need to meet the current and future national energy demand.

Political risk also exists in relation to the UK Government's Electricity Market Reform ("EMR"), EMR includes key measures to attract investment, minimise the impact on consumer bills and create a secure mix of electricity sources including new nuclear, renewables, gas with carbon capture and storage. The Company believes that the risks to it from EMR have been largely mitigated now that the HPC CfD and SOSIA are signed as these are contracts containing negotiated rights and protections for the Company and the investors in HPC.

Liquidity risk
In order to ensure that sufficient funds are available for ongoing construction, operations and future developments, the Company uses a mixture of shareholder loans and equity finance. The shareholder loans used to fund the HPC investment have been accounted for as equity instruments. These are classified as equity instruments as the terms of the shareholder loan are such that there is no redemption date and the holder has no option to redeem the instrument. Equity finance is funded via its parent company, NNB Holding Company (HPC) Limited, which is itself equity funded by its ultimate shareholders. These arrangements will continue from completion through funding obligations in the HPC shareholders' agreement.

Credit risk
Credit risk is the financial cost of replacing contracts that fail to be performed due to a counterparty's or supplier's default, or failure to deliver. The main risk to the Company is potential significant cost and time over-runs due to insolvencies in the supply chain and/or suppliers unable to fulfil their contractual obligations due to financial constraints. This risk is managed through a credit risk management procedure that measures, monitors and mitigates credit risk.

Foreign currency risk
The Company's activities expose it to the financial risks of changes in foreign currency exchange rates because certain suppliers invoice in foreign currency. Presently these exposures are limited, leading to the Company buying currency as the need arises. Company-specific hedging strategies will be implemented as exposure increases during the construction phase.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties (continued)

EPR design risk
The EPR design risk is the Company's exposure to a safe design not being developed and approved under UK standards within an economic time frame and cost outlay.

The original generic design was jointly developed using both French and German expertise and has satisfied their engineering codes and standards. This design is in the process of being constructed at sites in France, Finland and China, thereby enhancing its credibility.

In the UK, the design has been assessed to determine whether it is suitable for licensing in this country. This Generic Design Assessment ("GDA") came to a satisfactory conclusion at the end of 2012 and this systematic and comprehensive review has confirmed that the generic aspects of the design are acceptable for construction within the UK. The GDA did not address site specific issues directly. Site specific issues are being addressed as part of the site specific design and safety case development being completed by the Responsible Designer, EDF SA, on behalf of the Company. The Company has its own internal design assurance capability to oversee this work as part of the role of the Intelligent Customer.

The Company and the Responsible Designer continue to work together to address both the findings from the GDA and site specific issues. There is an active and effective dialogue with the UK regulators that is being led by the Company, supported by the Responsible Designer and satisfactory progress is being made on all site specific issues.

Any risk around the EPR design is mitigated by the achievements to date. In May 2013, the Decided Design Reference was achieved ("DDR") which was an evolution of the Preliminary Design Reference, incorporating requirements specific to the UK context and the layout of the HPC site. This enabled the creation of a HPC specific 3D model, the finalisation of HPC contract technical specifications and commencement of the HPC specific system design manuals. In December 2013, the Basic Design Reference ("BDR") was achieved which incorporates additional design changes not developed during DDR principally relating to the evolution of the Flamanville-3 design as construction of this plant progresses, and incorporation of findings resulting from the GDA conducted by the UK regulator. During 2014, following the successful completion of the BDR, an enhanced basic design reference configuration was defined ("RC1"). This is the initial configuration used as the basis for the start of the HPC detailed design phase as well as the third Pre Construction Safety Report ("PCSR 3") and the Construction Safety Justification ("CSJ") preparation activities. During 2015, integrated engineering teams from NNB and Responsible Designer have been set up across all key packages (Nuclear Island, Balance of Plants and Conventional Island) to provide dedicated resources and surveillance monitored by HPC, PSCR3 and CSJ were completed and submitted to ONR for review. RC1.2 configuration has been defined and agreed. Galleries and earthwork detailed designs were completed and delivered to site ready for construction. The casting of the reactor pressure vessel heads by Japanese Steel Works was also completed during 2016.

STRATEGIC REPORT (CONTINUED)

Going concern

The Company has been equity and shareholder debt funded since incorporation. Following Completion and signature of the HPC Shareholder Agreement in September 2016, both shareholders are obliged to act in accordance with the provisions of that Agreement in relation to the Cash Calls required to fund the Company. Cash Call is the term used to describe the process by-which the Company requests funding from each shareholder.

For each Shareholder there are default mechanisms contained within the Agreement that will, in the event of a Cash Call default, ensure the required funds are made available to the Company.

After making enquiries and reviewing cash flow forecasts and available facilities for at least the next 12 months, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This judgement has been formed taking into account the principal risks and uncertainties that the Company faces and which have been outlined in more detail elsewhere in the Strategic report. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 31 May 2017 and signed on its behalf by:

....
Christopher Hamill
Company secretary

DIRECTORS' REPORT

The Directors present their report and the financial statements for the year ended 31 December 2016.

Principal risks and uncertainties are discussed within the Strategic Report.

Directors

The Directors who held office during the year, and to the date of this report, were as follows:

Humphrey Cadoux-Hudson

Bernard Ainsworth

Florian Debionne

Barbara Jones

Fiona McMillan

Paul Thomas

Adolph Bakken (resigned 25 February 2016)

Allan Spence (resigned 30 September 2016)

Philippe Bordarier (appointed 21 March 2016)

Yigang Cao (appointed 30 September 2016)

Jean-Luc Foret (appointed 30 September 2016 and resigned 31 March 2017)

Andrew Mathews (appointed 30 September 2016)

Paul Newman (appointed 30 September 2016)

Thierry Schall (appointed 30 September 2016)

Bin Shangguan (appointed 30 September 2016)

Dongshan Zheng (appointed 30 September 2016)

Minhong Zhu (appointed 30 September 2016)

None of the Executive Directors had a service contract with the Company in the current or prior year.

Yigang Cao, Bin Shangguan, Dongshan Zheng and Minhong Zhu are employed by and have service contracts with subsidiaries of CGN, the ultimate parent of the minority shareholder in the Company. The remaining Executive Directors are employed by and have service contracts with subsidiaries of the ultimate parent company, EDF S.A. Details of total Executive Directors' remuneration is available in the EDF S.A. group accounts, which are available to the public as set out in note 22.

No Director (2015: none) held any interests in the shares or debentures of the Company or the EDF S.A. Group that are required to be disclosed under the Companies Act 2006.

Dividends

The Directors do not recommend payment of a dividend (2015 £nil).

Political donations

The Company made no political donations in the current or prior year.

DIRECTORS' REPORT (CONTINUED)

Future developments
The future developments of the Company are outlined in the Principal Activity section of the Strategic Report.

Post balance sheet events
Following contract signature on 29 September 2016, for the design, manufacture, installation and commissioning of the HPC NSSS and I&C systems, the Notice to Proceed clause of the contract was signed on 4 January 2017. On 5 January 2017, a down payment of €268m was paid.

On 20 January 2017, a contract with a total value of £117m was signed for the design and construction of workers' accommodation to be located at both the HPC site and in Bridgewater. A contract for the design, manufacture, install and commissioning of emergency generators, with a value of £161m, was also signed after the balance sheet date.

In addition to the contracts referenced above, there have been a further 25 contracts entered into since the balance sheet date with a combined value of €136m and £93m.

On 27 March 2017 the first nuclear concrete pour took place at HPC. This is a significant milestone for the Project. The pour follows approval by the Office for Nuclear Regulation ("ONR") that the quality of the concrete mix meets the appropriate standards. The first concrete pour took place in the HPC galleries, these galleries are a network of connected tunnels which will carry cabling and pipes. They will be some of the first permanent structures on the site.

Directors' liabilities
The Company has made qualifying third party indemnity provisions for the benefit of its Directors during the year and remain in force at the date of this report.

Disclosure of information to the auditor
Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provision of s.418 of the Companies Act 2006.

Reappointment of auditor
It is noted that Deloitte LLP as appointed by the members are deemed to be re-appointed as the auditors to the Company for the financial year ending 31 December 2017 in accordance with the provisions of Section 487(2) of the Companies Act 2006 and that the Directors have been authorised to fix the remuneration of the auditors.

Approved by the Board on 31 May 2017 and signed on its behalf by:

....
Christopher Hamill
Company secretary

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NNB GENERATION COMPANY (HPC) LIMITED

We have audited the financial statements of NNB Generation Company (HPC) Limited for the year ended 31 December 2016, which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NNB GENERATION COMPANY (HPC) LIMITED (CONTINUED)

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Timothy Biggs, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom

31 May 2017

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £ m	2015 £ m
Revenue	4	0.6	0.8
Fuel, energy and related purchases		-	(0.1)
Gross margin		**0.6**	0.7
Materials and contracting costs		(0.3)	-
Other operating expenses		(12.4)	(16.6)
Operating loss		**(12.1)**	(15.9)
Loss on disposal of property, plant and equipment		(0.1)	-
Depreciation	10	(0.4)	(0.4)
Loss before taxation and finance costs		**(12.6)**	(16.3)
Investment income	5	0.1	0.2
Finance costs	6	(9.6)	(5.7)
Loss before taxation		**(22.1)**	(21.8)
Taxation	8	(6.2)	11.4
Loss for the year	9	**(28.3)**	(10.4)

There were no recognised gains or losses during the current or prior year other than the losses shown above. Accordingly, no statement of comprehensive income has been presented.

All results are derived from continuing operations in both the current and preceding year.

BALANCE SHEET
AT 31 DECEMBER 2016

	Note	2016 £ m	2015 £ m
Non-current assets			
Property, plant and equipment	10	3,226.2	2,267.5
Current assets			
Trade and other receivables	11	11.6	6.9
Cash and cash equivalents	12	353.5	9.0
Current tax asset		36.5	27.3
		401.6	43.2
Total assets		3,627.8	2,310.7
Current liabilities			
Other liabilities	13	(256.2)	(157.3)
Short-term provisions	14	(1.5)	-
Borrowings	15	-	(100.0)
Obligations under finance lease	16	(1.5)	-
		(259.2)	(257.3)
Net current assets/(liabilities)		142.4	(214.1)
Total assets less current liabilities		3,368.6	2,053.4
Non-current liabilities			
Obligations under finance lease	16	(124.2)	-
Deferred tax liability	17	(99.4)	(74.4)
		(223.6)	(74.4)
Total liabilities		(482.8)	(331.7)
Net assets		3,145.0	1,979.0
Capital and reserves			
Called up share capital	19	203.1	203.1
Share premium reserve	19	1,827.7	1,827.7
Capital reserve	19	1,194.3	-
Profit and loss account		(80.1)	(51.8)
Shareholders' funds		3,145.0	1,979.0

The financial statements of NNB Generation Company (HPC) Limited (registered number 6937084), on pages 11 to 28, were approved by the Board and authorised for issue on 31 May 2017 and signed on its behalf by:

....

Florian Debionne
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £ m	Share premium £ m	Capital reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2015	203.1	1,827.7	-	(41.4)	1,989.4
Loss for the year	-	-	-	(10.4)	(10.4)
At 31 December 2015	203.1	1,827.7	-	(51.8)	1,979.0
Loss for the year	-	-	-	(28.3)	(28.3)
Capital contribution (note 19)	-	-	1,194.3	-	1,194.3
At 31 December 2016	203.1	1,827.7	1,194.3	(80.1)	3,145.0

NOTES TO THE FINANCIAL STATEMENTS

1 General information

NNB Generation Company (HPC) Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on the contents page.

Basis of preparation
The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) "Reduced Disclosure Framework". These financial statements were prepared in accordance with FRS 101 Reduced Disclosure Framework.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the asset. The financial statements are presented in pounds sterling as that is the currency for the primary economic environment in which the company operates.

Summary of disclosure exemptions
The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) The requirements of IFRS 7 Financial Instruments: Disclosures;
b) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
(iii) paragraph 118(e) of IAS 38 Intangible Assets;
d) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
e) the requirements of IAS 7 Statement of Cash Flows;
f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
i) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

Where relevant, equivalent disclosures have been given in the group accounts which are available to the public as set out in note 22.

Going concern

The Company has been equity and shareholder debt funded since incorporation. Following Completion and signature of the HPC Shareholder Agreement in September 2016, both shareholders are obliged to act in accordance with the provisions of that Agreement in relation to the Cash Calls required to fund the Company. Cash Call is the term used to describe the process by-which the Company requests funding from each shareholder.

For each Shareholder there are default mechanisms contained within the Agreement that will, in the event of a Cash Call default, ensure the required funds are made available to the Company.

After making enquiries and reviewing cash flow forecasts and available facilities for at least the next 12 months, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This judgement has been formed taking into account the principal risks and uncertainties that the Company faces and which have been outlined in more detail in the Strategic report. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales tax or duty.

Revenue from sales of electricity is recognised in the period during which the output is delivered.

Foreign currency transactions and balances

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rates at the balance sheet date. All exchange differences are included in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption added to the cost of qualifying assets until such time that the assets are substantially ready for their intended use.

Interest expense is recognised on the basis of the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Taxation

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided or recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax arising from (1) the initial recognition of goodwill, (2) the initial recognition of assets or liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit, or (3) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future, is not provided for.

Deferred tax assets are recognised to the extent it is more likely than not that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax for the year

Current tax and deferred tax are recognised in the income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Property, plant and equipment

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. Included in cost are all those costs incremental and necessary to the construction of low carbon power generators, including but not limited to Generic Design Assessment, planning, site preparation, associated development, safety compliance, construction and decommissioning. The following costs are not capitalised: EDF Energy plc Central Shared Service charges ("CSS") which include staff and IT support and foreign exchange gains or losses. However, costs within CSS charges which are considered incremental to the Company's projects, such as IT development project costs and direct legal work, are capitalised.

Depreciation is provided on all tangible fixed assets, at rates calculated to write-off the cost of acquisition of each asset evenly over its expected useful life, as follows:

Wind farm - 20 years

Assets recognised in the course of construction are included under assets under construction ("AUC") and will be depreciated when the plant is commissioned and ready for use. AUC and leasehold land is depreciated over the period of its intended use, commencing upon commissioning of the plant. The leasehold land is expected to have a nil value at the end of the life of the site, and therefore will be depreciated over 60 years.

Impairment of tangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Trade and other receivables

Trade and other receivables are interest free and are stated at their nominal value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Other liabilities
Other financial liabilities include trade and other payables, stated at their nominal value, and balances owed to other group companies which are interest free, unsecured trading balances with 30-day repayment terms.

Provisions
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases
Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rental is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Financial instruments
Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through the profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through the profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial liability or a financial asset and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or asset or (where appropriate) a shorter period, to the net carrying amount on initial recognition).

3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, some critical accounting judgements have been applied by management and some balances are based on estimates.

Carrying value of property, plant and equipment
The Company reviews the carrying value of property, plant and equipment on an annual basis where there is an indicator of impairment. The impairment review involves a number of assumptions including discount rates, output values, asset lives and forward power prices. The long term nature of the Company's assets and the unique and early stage nature of the Nuclear New Build projects in particular, increases the level of uncertainty involved.

Classification of financial instruments as debt or equity
The shareholder loans used to fund the HPC investment have been accounted for as equity instruments. These are classified as equity instruments as the terms of the shareholder loan are such that there is no redemption date and the holder has no option to redeem the instrument.

Accounting for the Contract for Difference
The accounting treatment with regards to the CfD, signed following the achievement of FID, represents a critical judgment. The assessment of the accounting treatment is that there is no derivative or embedded derivative, or other financial instrument, required to be accounted for prior to the point of generation, and hence no accounting implications for the year ended 31 December 2016. This is on the basis that signing the CfD contract does not in itself create a contractual right for the generator to receive cash from the CfD counterparty.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Calculation of capital allowances
Due to the nature of the HPC project, judgement has been applied in analysing which assets qualify for capital allowances. The methodology used is based on experience of capital allowance claims relating to construction projects for nuclear and non-nuclear power stations.

4 Revenue

Revenue, which is stated net of value added tax, arises entirely in the United Kingdom and is attributable to the continuing activity of electricity generation.

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2016 £ m	2015 £ m
Sales of goods and services	0.6	0.8

5 Investment income

	2016 £ m	2015 £ m
Interest on bank deposits	0.1	0.2

6 Finance costs

	2016 £ m	2015 £ m
Finance charges payable under finance leases	0.8	-
Foreign exchange losses	9.6	5.7
Total finance cost	10.4	5.7
Less: amounts included in the cost of qualifying assets	(0.8)	-
Total borrowing costs	9.6	5.7

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Directors' remuneration

	2016 £ m	2015 £ m
Emoluments	0.3	0.2

In respect of the highest paid Non-Executive Director for services to the Company:

	2016 £ m	2015 £ m
Emoluments	0.1	0.1

All Executive Directors are employees of associated EDF S.A. group companies or CGN group companies.

Bin Shangguan, Minhong Zhu, Yigang Cao and Dongshan Zheng are paid by subsidiaries of CGN for their services to the CGN group. The remaining Executive Directors are paid by subsidiaries of the ultimate parent company, EDF S.A., for services to the whole Group. No portion of their remuneration can be specifically attributed to their services to the Company. Details of total Executive Directors' remuneration is available in the group accounts, which are available to the public as set out in note 22.

No Director (2015: none) held any interests in the shares or debentures of the Company or the EDF S.A. Group that are required to be disclosed under the Companies Act 2006.

8 Taxation

(a) Analysis of tax charge / (credit) in the year

	2016 £ m	2015 £ m
Current taxation		
UK corporation tax (credit) on loss made in the year	(18.7)	(30.5)
Adjustments in respect of previous years' reported tax charges	(0.1)	3.1
Total current tax charge / (credit) for the year	(18.8)	(27.4)
Deferred taxation		
Current year charge	28.8	23.8
Adjustments in respect of previous years' reported tax (credits)	(0.1)	(2.9)
Effect of decreased tax rate on opening balance	(3.7)	(4.9)
Total deferred tax charge / (credit) for the year	25.0	16.0
Income tax expense/(credit) reported in the profit and loss account	6.2	(11.4)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Taxation (continued)

(b) The tax on profit before tax for the year is higher (2015: lower) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.25%).

The charge / (credit) for the year can be reconciled to the profit in the income statement as follows:

	2016 £ m	2015 £ m
Loss before tax	(22.1)	(21.6)
Tax at the UK corporation tax rate of 20.00% (2015: 20.25%)	(4.4)	(4.4)
Effect of:		
Non-deductible expenses and non-taxable income	0.2	0.3
Group relief surrendered/(claimed) for less than statutory rate	18.6	-
Current year effect of deferred tax rate change	(4.3)	(2.6)
Decreased tax rate on opening deferred tax balance	(3.7)	(5.0)
Adjustment to prior-year corporation tax charge/(credit)	(0.1)	3.2
Adjustment to prior-year deferred tax charge/(credit)	(0.1)	(2.9)
Income tax charge/(credit) reported in the profit and loss account	6.2	(11.4)

(c) Other factors affecting the tax charge for the year:

Changes to the main rate of corporation tax were announced in Finance Act 2015. These comprised a reduction in the main rate of corporation tax for the financial year beginning 1 April 2017 from 20% to 19% and a further reduction for the financial year beginning 1 April 2020 from 19% to 18%.

Finance Act 2016 announced a reduction in the main rate of corporation tax for the financial year beginning 1 April 2020 from 18% to 17%.

The closing deferred tax balance at 31 December 2016 has been calculated at 17.4% (31 December 2015: 18.3%). This is the average tax rate at which the reversal of the net deferred tax liability is expected to occur.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Loss for the year

Loss for the year has been arrived at after charging/(crediting) the following gains and losses:

	2016 £ m	2015 £ m
Losses on foreign exchange revaluations (note 6)	9.6	5.7
Depreciation for the year (note 10)	0.4	0.4
Operating lease rentals on land (note 18)	1.5	3.6
EDF Energy plc CSS charges	16.7	26.3
EDF Energy Nuclear Generation Limited charges	0.2	0.2
Less expense capitalised as property, plant and equipment	(6.0)	(13.5)

In 2016, an amount of £22,899 (2015: £15,132) was paid to Deloitte LLP for the audit of the Company's annual accounts. In 2016, amounts payable to Deloitte LLP by the Company in respect of non-audit services were £235,000 (2015: £1,594,000).

The Company had no employees in the years ending 31 December 2016 and 31 December 2015.

10 Property, plant and equipment

	Assets under construction £ m	Freehold land £ m	Leasehold land £ m	Windfarm £ m	Total £ 000
Cost					
At 1 January 2016	2,186.1	39.7	36.2	7.4	2,269.4
Additions	833.5	-	125.7	-	959.2
Disposals	(0.1)	-	-	-	(0.1)
At 31 December 2016	3,019.5	39.7	161.9	7.4	3,228.5
Depreciation					
At 1 January 2016	-	-	-	1.9	1.9
Charge for the year	-	-	-	0.4	0.4
At 31 December 2016	-	-	-	2.3	2.3
Carrying amount					
At 31 December 2016	3,019.5	39.7	161.9	5.1	3,226.2
At 31 December 2015	2,186.1	39.7	36.2	5.5	2,267.5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Property, plant and equipment (continued)

Assets in the course of construction mainly relate to nuclear new build activities, of which the amount capitalised in relation to Hinkley Point C is £3,019.5m at 31 December 2016. The recoverability of the balance of assets in the course of construction relating to HPC at 31 December 2016 is dependent upon the forecast profitability of HPC.

The carrying amount of the leasehold land includes amounts in respect of assets held under finance leases of £125.7m (2015: £nil). Please refer to note 16 for further details.

11 Trade and other receivables

	2016 £ m	2015 £ m
Trade receivables	0.2	0.2
Amounts due from related parties (note 20)	5.4	4.3
VAT	3.0	2.4
Prepayments	3.0	-
Total current trade and other receivables	11.6	6.9

Amounts due from related parties are unsecured trading balances and are interest free, with 30-day repayment terms in both current and prior year.

12 Cash and cash equivalents

	2016 £ m	2015 £ m
Cash pooling with ultimate parent company (note 20)	346.1	8.7
Cash at bank	7.4	0.3
	353.5	9.0

Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash pooling is made for varying periods up to 12 months, depending on the cash requirements of the Company and earns interest at the respective short-term rates.

13 Other liabilities

	2016 £ m	2015 £ m
Trade and other payables	175.9	84.0
Amounts due to related parties (note 20)	80.3	73.3
	256.2	157.3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Other liabilities (continued)

Amounts due to related parties are unsecured trading balances and are interest free, with 30-day repayment terms in both current and prior year.

14 Provisions for liabilities

	Restructuring £ m
At 1 January 2016	-
Additional provisions	1.5
At 31 December 2016	1.5

The restructuring provision covers the costs of severance related to restructuring which has been announced to impacted employees. It is expected to be utilised in 2017.

15 Borrowings

	2016 £ m	2015 £ m
Amounts owed to EDF Energy Holdings Limited	-	100.0

The amounts owed to EDF Energy Holdings Limited were interest free and were repaid in September 2016.

16 Obligations under finance leases

Finance leases

	minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
	£m	£m	£m	£m
Within one year	11.5	-	1.5	-
After one year but not before more than five years	46.2	-	7.6	-
More than five years	231.1	-	116.6	-
	288.8		125.7	
Less: future finance charges	(163.0)	-		
Present value of minimum lease payments	125.7	-		

16 Obligations under finance leases (continued)

The finance lease relates to land at Hinkley Point. The term ends in 2041 and had an effective interest rate of 8.8% per annum at inception. Repayments under the lease are re-calculated annually and no arrangements have been entered into for contingent rental payments. The lease is denominated in sterling, and there are no restrictions attached to this lease arrangement.

17 Deferred tax

The following are the major deferred tax (liabilities) and assets recognised by the Company and movements thereon during the current and prior reporting period:

	Accelerated capital allowances	Short term timing differences	Losses	Total
	£m	£m	£m	£m
At 1 January 2015	(58.4)	-	-	**(58.4)**
Credit/(charge) to income:				
-current year	(23.8)	-	-	**(23.8)**
-adjustments in respect of previous years' reported tax charges	2.9	-	-	**2.9**
-effect of decreased tax rate on opening liability	4.9	-	-	**4.9**
At 1 January 2016	(74.4)	-	-	**(74.4)**
Credit/(charge) to income:				
-current year	(32.0)	0.2	3.0	**(28.8)**
-adjustments in respect of previous years' reported tax charges	0.1	-	-	**0.1**
-effect of decreased tax rate on opening liability	3.7	-	-	**3.7**
At 31 December 2016	**(102.6)**	**0.2**	**3.0**	**(99.4)**

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016	2015
	£m	£m
Deferred tax assets	-	-
Deferred tax liabilities	(99.4)	(74.4)
At 31 December	**(99.4)**	(74.4)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £5,611,3m (2015: £116.5m).

Other commitments

The Company has entered into a purchasing power agreement with EDF Energy plc to sell the power and associated renewable benefits from its windfarm. This agreement will terminate in 2019.

Operating lease commitments

As at 31 December 2016 the Company had annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:

	2016	2015
	£m	£m
Land and buildings		
Not later than one year	1.7	4.6
Later than one year and not later than five years	6.5	18.2
Later than five years	5.0	12.5
	13.2	35.3

19 Share capital

Allotted, called up and fully paid shares

		2016		**2015**
	No. m	**£ m**	**No. m**	**£ m**
Ordinary shares of £0.10 each	2,031	203.1	2,031	203.1

The Company has one class of ordinary shares which carries no right to fixed income.

Share premium reserve

The share premium reserve arose in 2014 when 2,030,805,140 shares with a nominal value of £0.10 were allotted. An amount of £1 was paid per share resulting in a share premium reserve of £1,827.7m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Share capital (continued)

Capital Reserve

The capital reserve was created as a result of capital contributions from the shareholders of £1,194.3m. These are classified as equity instruments as the terms of the shareholder loan are such that there is no redemption date and the holder has no option to redeem the instrument.

20 Related party transactions

The Company has taken advantage of the exemption in FRS 101 Reduced Disclosure Framework from disclosing transactions with other members of the group, which would be required for disclosure under IAS 24.

21 Post balance sheet events

Following contract signature on 29 September 2016, for the design, manufacture, installation and commissioning of the HPC NSSS and I&C systems, the Notice to Proceed clause of the contract was signed on 4 January 2017. On 5 January 2017, a down payment of €268m was paid.

On 20 January 2017, a contract with a total value of £117m was signed for the design and construction of workers' accommodation to be located at both the HPC site and in Bridgewater. A contract for the design, manufacture, install and commissioning of emergency generators, with a value of £161m, was also signed after the balance sheet date.

In addition to the contracts referenced above, there have been a further 25 contracts entered into since the balance sheet date with a combined value of €136m and £93m.

On 27 March 2017 the first nuclear concrete pour took place at HPC. This is a significant milestone for the Project. The pour follows approval by the Office for Nuclear Regulation ("ONR") that the quality of the concrete mix meets the appropriate standards. The first concrete pour took place in the HPC galleries, these galleries are a network of connected tunnels which will carry cabling and pipes. They will be some of the first permanent structures on the site.

22 Parent undertaking and controlling party

NNB Holding Company (HPC) Limited holds a 100% interest in the company and considered to be the immediate parent company. EDF Energy Holdings Limited is the smallest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from the registered office at 40 Grosvenor Place, Victoria, London, SW1X 7EN.

At 31 December 2016, Electricité de France SA ("EDF SA"), a company incorporated in France, is regarded by the Directors as the Company's ultimate parent company and controlling party. This is the largest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from the registered office at Electricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.