

NNB GENERATION COMPANY (HPC) LIMITED

REGISTERED NUMBER: 06937084

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019**

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Directors	Humphrey Cadoux-Hudson Catherine Back Nigel Cann Stuart Crooks Mark Hartley Andrew Matthews Fiona McMillan Patrick Pruvot Richard Savage Michael Weightman Xiaohui Zeng Huang Xiangchou David Waboso Haijun Liu Keping Zheng
Company secretary	Claire Gooding

Auditor	Deloitte LLP Hill House 1 Little New Street London United Kingdom EC4A 3TR
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Registered office	90 Whitfield Street London England W1T 4EZ
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**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
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STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2019.

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 being 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 Reactor ("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 £5.4m (2018: profit of £4.6m) and the loss after taxation amounted to £18.6m (2018: loss of £6.7m). The net assets at the end of the year amounted to £8,861.1m (2018: £6,398.4m).

Project Costs and Timeline

The Hinkley Point C project successfully delivered J-0 milestone in June 2019, the completion of the nuclear island "common raft" for its first unit, in line with the schedule announced in September 2016. Following this major milestone, a detailed review of the project's costs, schedule and organisation was performed.

The review has concluded that:

- The next milestone of completing the common raft for Unit 2 in June 2020, which was announced earlier in 2019, is confirmed;
- The previously communicated risk of Commercial Operation Date (COD) delay of units 1 and 2 (of 15 months and 9 months respectively) has increased;
- The project completion cost is now estimated between £21.5bn and £22.5bn, an increase of £1.9bn to £2.9bn compared to the previous estimate.

The range depends on the effectiveness of action plans to be delivered in partnership with contractors.

Cost increases reflect challenging ground conditions which made earthworks more expensive than anticipated, revised action plan targets and extra costs needed to implement the completed functional design, which has been adapted for a first-of-a-kind application in the UK context. EDF's project rate of return for Hinkley Point C (IRR) is now estimated between 7.6% and 7.8%.

The management of the project remains mobilised to begin generating power from Unit 1 at the end of 2025. To achieve this, operational action plans overseen by the management team of the project are being put in place. These involve the Électricité de France (EDF) Group's engineering teams in the UK and France, buildings and ancillary works contractors, and suppliers of equipment and systems throughout the supply chain.

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STRATEGIC REPORT (CONTINUED)

Interactions with Office of Nuclear Regulations (ONR)

Discussions with the ONR are ongoing and the next ONR Hold Point (project milestones) will be the start of bulk MEH erection (Mechanical, Electrical and Heating, Ventilation and Air Conditioning). In addition, agreement from ONR will be needed for the dispatch of the first components coming from Framatome and for the delivery of fuel on site.

Key performance indicators

To support the Company's overall objectives in relation to new nuclear, the project has designed detailed performance measures that enable clear accountability for successful delivery of the power station. This will ensure HPC is delivered safely, to quality, on time and on budget. These detailed measures feed in to the following yearly project key performance indicators (KPI's):

Safety

The Company's overall priority is safety. The HPC project is focused on delivering a safe plant for future operation. All project activities are being established to ensure the delivery of safety from the design stage (site specific design) and through to procurement, manufacturing, construction, commissioning, operation and the eventual decommissioning of the plant.

Accident Frequency Rate (AFR) is one of the HPC safety KPI. This is the measure of accidents per 100,000 hours of work carried out. HPC successfully achieved 0.08 for 2019 compared to the target of 0.13 (2018: 0.07 compared to the target of 0.14).

Schedule

The Project successfully achieved the four key goals set for 2019 (2018: four key goals set for 2018 were also achieved on time), these were; Tunnel boring machine ready to launch; J-0, completion of the nuclear island common raft of Unit 1; completion of engineering for Inner Containment Lift 1; start of manufacturing of Unit 1 Pressuriser.

Expenditure

The total 2019 expenditure was £2,548m (2018: £2,269m), this is £48m favourable to budget. The main areas of underspend were the Equipment and MEH programmes due to a re-profiling of schedule in some areas and delays across a number of contracts, mitigating actions have been taken to advance procurement in increments rather than bulk quantities.

Quality

HPC measures quality using two key metrics; Getting the Construction Deliverables Right First Time and Completeness of the Programme Execution Plans. The Construction Deliverable target was 80%, the project achieved 88% (2018: target of 75% with 92% achieved). The Execution Plan target was 70% and again the project successfully achieved 82% (2018: target of 70% with 82% achieved). These two measures provide confidence that the project will continue to meet the high quality standards it sets.

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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 Contract for Difference ("CfD") and Secretary of State Investor Agreement ("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. A cash flow hedge has been implemented in 2019 to limit the foreign currency risk exposure.

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STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties (continued)

EU Referendum

The United Kingdom (UK) voted to leave the membership of the European Union (EU) on 23 June 2016. Following the vote to leave, a Withdrawal Agreement (WA) and Political Declaration (PD), setting out the framework for the future relationship between the European Union and UK after the UK's exit from the European Union and Euratom, were agreed in November 2018 but were subsequently revised in October 2019. The revised Agreements (WA and PD) were subsequently approved by both the UK Parliament and the EU institutions in January 2020 and the UK officially left the EU on 31 January 2020. The Company continues to work closely with its supply chain to minimise any impact from the UK's exit from European union.

EDF Energy is committed to developing UK skills and is investing in UK skills and talent. However, the Company recognises the importance of being able to access necessary skills and talent of people from outside of the UK. Industry needs to be able to draw on skills and talent from the EU and beyond and this is especially relevant for the volume of construction workers required to complete construction of HPC. The Company has engaged with the UK Government and other organisation such as Confederation of British Industry and Energy UK, making the case that the UK needs to have an immigration system that enables appropriate labour mobility and entry to the UK for such people. UK Government's announcement of the European Temporary Leave for applicants prior to December 2020 to remain in the UK for 3 years in a no-deal situation is positive for all parts of our business and alleviates many concerns about a "cliff-edge".

Economists have assessed that a no-deal Brexit could result in lower base interest rates and higher inflation, following an expected weakening of sterling compared to other currencies. The impact of such potential changes is expected to be immaterial to the financial statements of the Company.

EPR design risk

The 'EPR design risk' is defined as 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.

The second EPR reactor at China's Taishan nuclear plant successfully entered commercial operation in September 2019. The Taishan project performance provides testament to the quality of the reactor design and confirmation of the industrial feasibility of the projects undergoing development in the UK with the HPC project the first to benefit from the project management and technological expertise provided by this project.

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 contained over 700 assessment findings that the Company has responded to, this led to further design changes which were incorporated in the Safety Case and the Reference Configuration 2 design freeze that was achieved in November 2018. This fixed design, together with the supporting safety case and design stability will allow equipment to be manufactured and construction to proceed to safety, quality, schedule and cost.

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.

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STRATEGIC REPORT (CONTINUED)

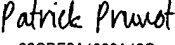
Going concern

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 (including subsequent events and the impact of COVID-19 (note 21)), the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has the ability to draw on 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 and signed on its behalf by:

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Patrick Pruvot
Director

18 June 2020

**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019**

DIRECTORS' REPORT

The Directors present their report and the financial statements for the year ended 31 December 2019.

Principal risks, going concern 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

Catherine Back

Nigel Cann

Stuart Crooks

Mark Hartley

Andrew Matthews

Fiona McMillan

Patrick Pruvot

Richard Savage

Michael Weightman

Xiaohui Zeng

Huang Xiangchou (appointed 21 January 2019)

David Waboso (appointed 3 April 2019)

Haijun Liu (appointed 26 November 2019)

Keping Zheng (appointed 26 November 2019)

Yigang Cao (resigned 3 April 2019)

Dongshan Zheng (resigned 26 November 2019)

Bin Shangguan (resigned 12 November 2019)

Of the above listed persons Stuart Crooks, Mark Hartley, Catherine Back, Patrick Pruvot, Nigel Cann, Xiaohui Zeng, Huang Xiangchou and Yigang Cao (retired) are Executive Directors. None of the Executive Directors had a service contract with the Company in the current or prior year.

Xiaohui Zeng, Xiangchou Huang and Yigang Cao (retired), as CGN Executive Directors, are paid by subsidiaries of CGN for their services to the CGN group. The remaining Executive Directors, as EDF 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 EDF Executive Directors' remuneration is available in the group accounts, which are available to the public as set out in note 22.

Richard Savage, Humphrey Cadoux-Hudson, Keping Zheng, Haijun Liu, Bin Shangguan and Dongshan Zheng are non-independent Non-Executive Directors. Keping Zheng, Haijun Liu, Bin Shangguan and Dongshan Zheng are paid by subsidiaries of CGN for their services to the CGN Group. Richard Savage and Humphrey Cadoux-Hudson 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.

Andrew Matthews, Fiona McMillan, Michael Weightman and David Waboso are independent Non-Executive Directors.

No Director (2018: 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.

**NNB GENERATION COMPANY (HPC) LIMITED
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DIRECTORS' REPORT (CONTINUED)

Dividends

The Directors do not recommend payment of a dividend (2018: £nil).

Political donations

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

Future developments

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

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 2020 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 and signed on its behalf by:

DocuSigned by:

Patrick Pruvot

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Patrick Pruvot
Director

18 June 2020

**NNB GENERATION COMPANY (HPC) LIMITED
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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.

**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NNB GENERATION COMPANY
(HPC) LIMITED**

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of NNB Generation Company (HPC) Limited (the 'Company') which comprise:

- the income statement;
- the statement of comprehensive income;
- 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, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NNB GENERATION COMPANY
(HPC) LIMITED (CONTINUED)**

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Report on other legal and regulatory requirements

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.

.....
Nigel Thomas (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom

Date:.....

NNB GENERATION COMPANY (HPC) LIMITED
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INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £ m	2018 £ m
Revenue	4	<u>0.9</u>	<u>0.8</u>
Gross profit		0.9	0.8
Materials and contracting costs		(0.2)	(0.3)
Other operating expenses		<u>(0.4)</u>	<u>(0.4)</u>
Operating profit		0.3	0.1
Gain on disposal of property, plant and equipment		-	1.4
Depreciation and amortisation	10	<u>(0.4)</u>	<u>(0.4)</u>
(Loss)/profit before taxation and finance costs		(0.1)	1.1
Investment income	6	0.3	3.5
Finance costs	7	<u>(5.6)</u>	<u>-</u>
(Loss)/profit before taxation		(5.4)	4.6
Taxation	9	<u>(13.2)</u>	<u>(11.3)</u>
Loss for the year		<u><u>(18.6)</u></u>	<u><u>(6.7)</u></u>

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

**NNB GENERATION COMPANY (HPC) LIMITED
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**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £ m	2018 £ m
Loss for the year		(18.6)	(6.7)
Items that may be reclassified subsequently to profit or loss			
Gain/(loss) on cash flow hedges (net)	19	<u>1.3</u>	<u>-</u>
Total comprehensive income for the year		<u>(17.3)</u>	<u>(6.7)</u>

The above results were derived from continuing operations in the current and preceding year.

NNB GENERATION COMPANY (HPC) LIMITED
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BALANCE SHEET
AT 31 DECEMBER 2018

	Note	2019 £ m	2018 £ m
Non-current assets			
Property, plant and equipment	10	9,400.8	6,977.4
Right of use assets	11	151.0	-
		<u>9,551.8</u>	<u>6,977.4</u>
Current assets			
Trade and other receivables	12	129.4	121.6
Cash and cash equivalents	13	24.2	44.6
Derivative financial instruments	14	1.6	-
Current tax asset		61.2	68.6
		<u>216.4</u>	<u>234.8</u>
Total assets		<u>9,768.2</u>	<u>7,212.2</u>
Current liabilities			
Other liabilities	15	(495.0)	(459.0)
Lease liabilities	11	(5.6)	(11.6)
		<u>(500.6)</u>	<u>(470.6)</u>
Net current liabilities		<u>(284.3)</u>	<u>(235.8)</u>
Total assets less current liabilities		<u>9,267.5</u>	<u>6,741.6</u>
Non-current liabilities			
Deferred tax liability	16	(263.1)	(221.2)
Lease liabilities	11	(143.3)	(122.0)
		<u>(406.4)</u>	<u>(343.2)</u>
Total liabilities		<u>(907.1)</u>	<u>(813.8)</u>
Net assets		<u>8,861.1</u>	<u>6,398.4</u>
Capital and reserves			
Called up share capital	18	203.1	203.1
Share premium reserve	18	1,827.7	1,827.7
Capital redemption reserve	18	6,943.3	4,463.3
Hedging reserve	19	1.3	-
Retained earnings		<u>(114.3)</u>	<u>(95.7)</u>
Shareholders' funds		<u>8,861.1</u>	<u>6,398.4</u>

The financial statements of NNB Generation Company (HPC) Limited (registered number 06937084), on pages 12 to 37, were approved by the Board and authorised for issue and signed on its behalf by:

DocuSigned by:

Patrick Pruvot

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Patrick Pruvot
Director

18 June 2020

**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £ m	Share premium £ m	Capital reserve £ m	Hedging reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2018	203.1	1,827.7	2,506.3	-	(89.0)	4,448.1
Loss for the year	-	-	-	-	(6.7)	(6.7)
Capital reserve (note 18)	-	-	1,957.0	-	-	1,957.0
At 31 December 2018	<u>203.1</u>	<u>1,827.7</u>	<u>4,463.3</u>	<u>-</u>	<u>(95.7)</u>	<u>6,398.4</u>
Loss for the year	-	-	-	-	(18.6)	(18.6)
Other comprehensive income/(loss)	-	-	-	1.3	-	1.3
Capital reserve (note 18)	-	-	2,480.0	-	-	2,480.0
At 31 December 2019	<u>203.1</u>	<u>1,827.7</u>	<u>6,943.3</u>	<u>1.3</u>	<u>(114.3)</u>	<u>8,861.1</u>

**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019**

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. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 1 to 5.

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.

Changes in accounting policy

Adoption of new and revised International Financial Reporting Standards

The following have been applied for the first time from 1 January 2019 and have had an effect on the financial statements:

IFRS 16 – Leases

IFRS 16, "Leases" was adopted by the European Union on 31 October 2017 and became applicable on 1st January 2019. The Company has applied this standard without restating the figures for the comparative periods (modified retrospective approach) and opted to value the right-of-use asset at an amount equal to the lease payment liability. The recognition and measurement principles that now apply to lease contracts are described as part of note 2 - Accounting policies. The company has also decided to apply the exemptions allowed by IFRS 16 and not re-assess lease contracts at date of first application. There has been an increase in assets of £28m and liabilities of £31m as a result of the adoption of IFRS16. The impact of adoption of these standards and the key changes to the accounting policies are disclosed in note 11.

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.

**NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

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 paragraph 79(a)(iv) of IAS 1;
- d) the requirements of paragraphs 10(d), 10(f) 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;
- 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;
- j) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a)-119(c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- k) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and
- l) the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

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

**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (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 (including subsequent events and the impact of COVID-19 (note 21)), the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has the ability to draw on 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 depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Revenue is recognised either when the performance obligation in the contract has been performed or as control of the performance obligation is passed to the customer.

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

Foreign currency transactions and balances

The functional and presentational currency of the Company is pounds sterling. 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.

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.

**NNB GENERATION COMPANY (HPC) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

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.

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.

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.

**NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

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.

**NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Leases

The Company's accounting rules and methods were changed as follows at 1 January 2019. These accounting rules for leases only apply in 2019, and the comparative period of 2018 is still presented in accordance with IAS 17.

Company as Lessee

At contract inception, the Company assesses whether a contract is or contains a lease. A contract is treated as a lease if it conveys the rights to control the use of an identified asset for a period of time in exchange for consideration.

Identified arrangements that do not have the legal form of a lease contract but nonetheless convey the right to control the use of an asset or group of specific assets to the purchaser are treated by the Company as leases, and analysed by reference to IFRS 16.

The Company recognises a lease liability which represents the lease payments to be made and a right-of-use asset representing the right to use the underlying asset for all leases apart from short-term leases (12 months or less) and leases of low value assets. Payment on short-term leases and low value assets are recognised on a straight-line basis over the lease term in the income statement.

Right-of-use asset

IFRS 16 requires leases to be recognised in the lessee's balance sheet when the leased asset is made available, in the form of a "right-of-use" asset. This is presented on the face of the balance sheet. Right-of-use asset is measured at cost less any accumulated depreciation and impairment loss and adjusted for any re-measurement of lease liability. The cost of right-of-use assets includes the initial measurement of the lease liability, any lease payment made at or before the commencement dates less any lease incentives received, any initial direct costs and an estimate of the costs to be incurred in dismantling and removing the underlying asset, restoring the site or restoring the underlying asset to the condition required by the terms of the lease. Right-of-use assets are depreciated on straight-line basis over the shorter of the lease term and the estimated useful life of the asset.

Lease Liabilities

At commencement of a lease the Company recognises a lease liability measured at the present value of the lease payments to be made over the lease term. The discount rate used is the incremental borrowing rate at the date of the lease commencement. The lease liability is split between current and non-current lease liabilities. Lease payments include fixed payments less any lease incentives receivable and amounts expected to be paid under residual value guarantees. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is re-measured if there is a modification such as a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

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.

**NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Hedge accounting

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At inception of the hedge relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, and on an on-going basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The Company classifies hedges in the following categories:

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement and is included within loss/gain on derivative commodity contracts for commodity contracts, and investment revenue or finance costs for financing instruments.

Amounts previously recognised in other comprehensive income and accumulated in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

**NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss statement.

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).

Recognition of expected credit losses

The Company recognises a loss allowance for expected credit losses on a financial asset that is measured at amortised cost, measured at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which impairment requirements apply.

At each reporting date, the Company measures the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. The expected credit losses are assessed considering all reasonable and supportable information, including that which is forward-looking.

If at the reporting date the credit risk on a financial instrument has not increased significantly since initial recognition, and entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The amount of credit losses (or reversal) is recognised in profit or loss, as an impairment gain or loss at the reporting date.

**NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

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. As at 31 December 2019, there were no indicators of impairment. As noted in the Strategic Report, the commissioning date for Unit 1 remains on schedule for the end of 2025. The project teams are fully mobilised and are implementing action plans to ensure this objective is fulfilled. The project successfully achieved the four key goals set for 2019. However, the ability of the company to achieve the future performance measures for successful delivery of the power station to appropriate safety and quality standards, on time and on budget as well as the ability to achieve future forecast financial returns once HPC is operational are key judgements in the ongoing assessment of the carrying value of property, plant and equipment.

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 2019. 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Calculation of capital allowances

Due to the nature of the HPC project, judgement has been applied in analysing which assets qualify for capital allowances and at what rate those allowances are available. Depending on the nature of the expenditure tax relief can be obtained in the year of spend, spread out over a number of years, or not be obtained at all. The methodology used is based on experience of capital allowance claims relating to construction projects for nuclear and non-nuclear power stations; however the HPC project is the first of a kind in the United Kingdom and hence there is no direct comparable against which the capital allowance claims can be benchmarked by EDF Energy or HMRC. The tax treatment of the capital expenditure is subject to an ongoing HMRC enquiry, which is looking at the technical issues of the project and the tax relief the capital expenditure qualifies for. As such we do not believe it is practicable to quantify the uncertainty at this point in time.

**NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Revenue

Revenue generated from the Company's windfarm, 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:

	2019	2018
	£ m	£ m
Sales of goods and services	<u>0.9</u>	<u>0.8</u>

5 Loss for the year

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

	2019	2018
	£ m	£ m
(Profit)/Loss on disposal of property, plant and equipment	-	(1.4)
(Gain)/Loss on foreign exchange revaluations (note 7)	5.6	(3.2)
Depreciation for the year (note 10)	0.4	0.4
Operating lease rentals on land	-	2.2
EDF Energy Limited CSS charges	10.4	8.5
EDF Energy Nuclear Generation Limited charges	2.0	0.6
Less expense capitalised as property, plant and equipment	<u>(12.7)</u>	<u>(10.8)</u>

In 2019, an amount of £200,860 (2018: £169,176) was paid to Deloitte LLP for the audit of the Company's annual accounts. This charge was borne by another Group company in both the current and prior year. In 2019, amounts payable to Deloitte LLP by the Company in respect of non-audit services were £5,657 (2018: £4,919).

The Company had no employees in the years ending 31 December 2019 or 31 December 2018.

6 Investment income

	2019	2018
	£ m	£ m
Interest on bank deposits	0.3	0.3
Foreign exchange gain	<u>-</u>	<u>3.2</u>
	<u>0.3</u>	<u>3.5</u>

NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Finance costs

	2019 £ m	2018 £ m
Finance charges payable under finance leases	10.3	9.3
Foreign exchange losses	5.6	-
Less: amounts included in the cost of qualifying assets	<u>(10.3)</u>	<u>(9.3)</u>
Total borrowing costs	<u><u>(5.6)</u></u>	<u><u>-</u></u>

8 Directors' remuneration

The independent Non-Executive Directors' (as set out in the Directors' Report and being each of Andrew Matthews, Fiona McMillan, Michael Weightman and David Waboso) remuneration for the year was as follows:

	2019 £ m	2018 £ m
Emoluments	<u>0.3</u>	<u>0.3</u>

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

	2019 £ m	2018 £ m
Emoluments	<u>0.1</u>	<u>0.1</u>

None of the independent Non-Executive Directors were part of a pension scheme.

All Executive Directors and non-independent Non-Executive Directors are either employees of associated EDF S.A. group companies or CGN group companies as set out in the Directors' Report.

Xiaohui Zeng, Xiangchou Huang and Yigang Cao (retired) are CGN appointed Executive Directors and are paid by subsidiaries of CGN for their services to the CGN group. The remaining Executive Directors, as EDF appointed, 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 EDF Executive Directors' remuneration is available in the group accounts, which are available to the public as set out in note 22.

Richard Savage, Humphrey Cadoux-Hudson, Keping Zheng, Haijun Liu, Bin Shangguan and Dongshan Zheng are non-independent Non-Executive Directors. Keping Zheng, Haijun Liu and Bin Shangguan, Dongshan Zheng are paid by subsidiaries of CGN for their services to the CGN Group. Richard Savage and Humphrey Cadoux-Hudson 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.

No Director (2018: 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.

NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Taxation

(a) Tax charged in the income statement

	2019 £m	2018 £m
Current taxation		
<i>UK corporation tax charge / (credit) on profits / loss made in the year</i>	(34.4)	(35.3)
Adjustments in respect of previous years' reported tax (credits)	6.0	(9.3)
Total current tax (credit) in the year	<u>(28.4)</u>	<u>(44.6)</u>
Deferred taxation		
<i>Current year charge</i>	50.3	53.2
<i>Adjustments in respect of previous years' reported tax charges</i>	(8.7)	5.1
Effect of decreased tax rate on opening balance	-	(2.4)
Total deferred tax charge in the year	<u>41.6</u>	<u>55.9</u>
Income tax charge reported in the income statement	<u>13.2</u>	<u>11.3</u>

(b) The tax on profit/(loss) before tax for the year is higher than (2018: higher than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%).

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

	2019 £m	2018 £m
Profit/(loss) before tax	(5.4)	4.6
Tax at the UK corporation tax rate of 19.00% (2018: 19.00%)	(1.0)	0.9
Effect of:		
Other non-deductible expenses and non-taxable income	-	(0.2)
<i>Group relief surrendered for less than statutory rate</i>	22.9	23.5
<i>Current year effect of deferred tax rate change</i>	(6.0)	(6.3)
Adjustment to prior-year corporation tax (credit)	6.0	(9.3)
Adjustment to prior year deferred tax charge	(8.7)	5.1
Impact of decreased tax rate on opening deferred tax balance	-	(2.4)
Tax charge reported in the income statement	<u>13.2</u>	<u>11.3</u>

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

The accounting for deferred tax follows the accounting treatment of the underlying item on which deferred tax is being provided and hence is booked within equity if the underlying item is booked within equity.

The closing deferred tax balance at 31 December 2019 has been calculated at 17.00% (31 December 2018: 17.00%). This is the average tax rate at which the reversal of the net deferred tax liability is expected to occur.

Changes to the main rate of corporation tax were announced after the balance sheet date. The impact of the changes is disclosed as a post balance sheet event in account note 21.

NNB GENERATION COMPANY (HPC) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Property, plant and equipment

	Assets under construction £ m	Freehold land £ m	Leasehold land £ m	Windfarm £ m	Total £ m
Cost					
At 1 January 2019	6,737.4	54.5	181.2	7.4	6,980.6
Additions	2,539.2	-	9.5	-	2,548.7
Transfers	-	-	(125.0)	-	(125.0)
At 31 December 2019	<u>9,276.6</u>	<u>54.5</u>	<u>65.7</u>	<u>7.4</u>	<u>9,404.3</u>
Depreciation					
At 1 January 2019	-	-	-	3.1	3.1
Depreciation charge	-	-	-	0.4	0.4
At 31 December 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>3.5</u>	<u>3.5</u>
Carrying amount					
At 31 December 2019	<u>9,276.6</u>	<u>54.5</u>	<u>65.7</u>	<u>3.9</u>	<u>9,400.8</u>
At 31 December 2018	<u>6,737.4</u>	<u>54.5</u>	<u>181.2</u>	<u>4.3</u>	<u>6,977.4</u>

Assets in the course of construction relate to nuclear new build activities, of which the amount capitalised in relation to Hinkley Point C is £9,276.4m at 31 December 2019. The recoverability of the balance of assets in the course of construction relating to HPC at 31 December 2019 is dependent upon the forecast profitability of HPC.

The carrying amount of the leasehold land previously held under finance lease has been transferred to the right of use asset on transition to IFRS 16. Please see note 11.

11 Leases

Company as Lessee

The Company has analysed the impact of the first time application of IFRS 16. Contracts that previously had been classified as operating leases now qualify as leases as defined by IFRS 16. The Company elected not to re-assess whether a contract is, or contains a lease at date of initial application. In addition the entity applies the recognition exemptions for short-term leases and leases for which the underlying asset is of low value. The weighted average incremental borrowing rate applied in discounting the lease liability is 6.38%.

The differences between the operating lease commitments under IAS 17 reported at 31 December 2018 and the estimated lease liability under IFRS 16 relating to the same contracts at 1 January 2019 are explained in the following table:

	£m
Operating lease commitments as lessee as at 31/12/2018	35.5
Discount effect	<u>(4.2)</u>
Discounted lease liability under IFRS 16 at 01/01/2019	<u>31.3</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Leases (continued)

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land £m	Buildings £m	Total £m
Cost			
At 31 December 2018	-	-	-
Transition impact	6.0	22.0	28.0
Transfer from PPE	125.0	-	125.0
At 1 January 2019	<u>131.0</u>	<u>22.0</u>	<u>153.0</u>
Additions	1.0	-	1.0
At 31 December 2019	<u>132.0</u>	<u>22.0</u>	<u>154.0</u>
Accumulated Depreciation			
At 1 January 2019	-	-	-
Charge for the year	1.0	2.0	3.0
At 31 December 2019	<u>1.0</u>	<u>2.0</u>	<u>3.0</u>
Carrying amount			
At 31 December 2019	<u>131.0</u>	<u>20.0</u>	<u>151.0</u>

The transition impact of £28m represents the right of use assets brought on balance sheet as a result of the Company's adoption of IFRS 16. In addition, the carrying amount of the Company's assets held under finance leases, totalling £125m have been transferred to Right of Use assets from Property, plant and equipment.

Set out below are the carrying amounts of lease liabilities and movement during the period:

	£m
As at 31 December 2018	133.6
Transition impact	31.3
As at 1 January 2019	<u>164.9</u>
Additions	1.4
Interest	10.0
Payments	(27.4)
As at 31 December 2019	<u>148.9</u>

	2019 £m	2018 £m
Current	5.6	12.0
Non-current	143.3	122.0
Total	<u>148.9</u>	<u>134.0</u>

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11 Leases (continued)

The following are amounts recognised in profit or loss:

	2019
	£m
Depreciation expense for right-of-use assets	3.5
Capitalised depreciation expense	(3.5)
Net depreciation expense	<u>-</u>
Interest expense of lease liabilities	10.3
Capitalised interest expense	(10.3)
Net interest expense of lease liabilities	<u>-</u>
Expense relating to short-term leases	-
Expense relating to leases of low value assets	-
Expense relating to variable lease payments not included in the measurement of lease liabilities	-
Total amount recognised in income statement	<u><u>-</u></u>

12 Trade and other receivables

	2019	2018
	£ m	£ m
Trade receivables	8.8	10.3
Prepayments	48.6	94.7
VAT	70.1	16.2
Amounts due from related parties (note 20)	1.9	0.4
	<u>129.4</u>	<u>121.6</u>

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

13 Cash and cash equivalents

	2019	2018
	£ m	£ m
Cash at bank	-	0.5
Cash pooling with ultimate parent company	24.2	44.1
	<u>24.2</u>	<u>44.6</u>

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Derivative financial instruments

Derivatives designated as hedging instruments in a cash flow hedge:

	2019	2018
	£m	£m
Foreign currency forward contracts	1.6	-

	2019	2018
	£m	£m
Current	1.6	-
Non-current	-	-
Total	1.6	-

15 Other liabilities

	2019	2018
	£ m	£ m
Trade Creditors	477.5	445.1
Amounts due to related parties (note 20)	17.5	12.4
Bank overdraft	-	1.5
	495.0	459.0

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

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16 Deferred tax

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

	Accelerated capital allowances	Short term timing differences	Financial Instrument	Losses	Total
	£ m	£ m	£ m	£ m	£ m
At 31 December 2017	(186.4)	0.2	-	20.9	(165.3)
Credit/(charge) to income:					
-current year	(79.7)	-	-	26.5	(53.2)
-adjustments in respect of previous years' reported tax charges	(5.2)	(0.2)	-	0.3	(5.1)
Effect of decreased tax rate on opening liability	2.7	-	-	(0.3)	2.4
At 31 December 2018	(268.6)	-	-	47.4	(221.2)
Credit/(charge) to income:					
-current year	(89.3)	-	-	39.0	(50.3)
-adjustments in respect of previous years' reported tax charges	(1.0)	-	-	9.7	8.7
Credit / (Charge) to equity:	-				
Current year	-	-	(0.3)	-	(0.3)
-effect of decreased tax rate on opening liability	-	-	-	-	-
At 31 December 2019	(358.9)	-	(0.3)	96.1	(263.1)

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:

	2019 £ m	2018 £ m
Deferred tax assets	-	-
Deferred tax liabilities	(263.1)	(221.2)
At 31 December	(263.1)	(221.2)

Other factor affecting the tax charge

Changes to the main rate of corporation tax were enacted after the balance sheet date. The impact of the changes is disclosed as a post balance sheet event in account note 21.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £7,046.9m (2018: £7,438.3m)

Prior to adoption of IFRS 16, future minimum rentals payable under non-cancellable land, building and vehicle operating leases were as follows:

	2019 £ m	2018 £ m
Not later than one year	-	3.8
Later than one year and not later than five years	-	13.6
Later than five years	-	18.1
	<u>-</u>	<u>35.5</u>

18 Share capital

Allotted, called up and fully paid shares

	No. 000	2019 £ 000	No. 000	2018 £ 000
Ordinary shares of £0.10 each	<u>2,030,805</u>	<u>203,081</u>	<u>2,030,805</u>	<u>203,081</u>

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.

Capital reserve

The capital reserve has arisen as a result of capital contributions from the shareholders since 2016. In 2019 additional capital of £2,480m (2018: £1,957m) was contributed by shareholders.

These are all 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.

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19 Hedging reserve

	2019	2018
	£m	£m
Balance at start of year	-	-
<i>Cost of hedging</i>	(0.6)	-
Net gains/(losses) arising on changes in fair value of instruments in a cash flow hedge:		
Foreign currency forward contracts	4.0	-
<i>Net gains/(losses) arising on changes in fair value of hedging instruments transferred to profit or loss</i>		
Foreign currency forward contracts	(1.8)	-
Deferred tax on net losses in cash flow hedge	(0.3)	-
Total movement in year	1.3	-
Balance at end of year	1.3	-

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments designated as cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be re-classified to profit or loss account only when the hedged transaction affects the profit or loss, or included as a basis adjustment to the non-financial hedged item in accordance with the Company's accounting policy.

The maturity analysis of the amounts included within the hedging reserve is as follows:

	2019	2018
	£m	£m
Less than one year	1.6	-
Between one to five years	-	-
More than five years	-	-
Total fair value losses on derivatives designated as effective cash flow hedges	1.6	-
Deferred tax	(0.3)	-
Total	1.3	-

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20 Related party transactions

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

Key management personnel for the Company are the Directors of the Company. Please refer to note 8 for details of their remuneration. There are no other transactions with key management personnel during the year (2018: none).

Amounts outstanding with other related parties at 31 December are as follows:

Amounts owed by related parties

	Other related parties £ m
2019	
Trade and other receivables	<u>1.9</u>
	Other related parties £ m
2018	
Trade and other receivables	<u>0.4</u>

Amounts owed to related parties

	Other related parties £ m
2019	
Amounts owed to other Group companies	<u>17.5</u>
	Other related parties £ m
2018	
Amounts owed to other Group companies	<u>12.4</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Post balance sheet events

Taxation

In March 2020, Changes to the main rate of corporation tax were announced in Finance Act 2020. This maintained the main rate of corporation tax at 19%, rather than reducing to 17% on 1 April 2020 (as had been enacted by Finance Act 2016). If the main rate of corporation tax of 19% had been substantively enacted by the balance sheet date, the deferred tax balance at 31 December 2019 would be a liability of £294.1m. This is a movement of £31m compared to the deferred tax recognised on the balance sheet.

Covid 19

Since the year-end significant economic and social disruption has arisen from the Covid 19 pandemic. EDF's priorities are the safety and wellbeing of our people and customers, maintaining access to energy and gas for our customers, keeping our power stations running safely, protecting Hinkley Point C and supporting the most directly exposed businesses, vulnerable people and supply chain. EDF is as well engaging with its suppliers to ensure that service levels can continue to be maintained throughout a prolonged pandemic. The Company is managing the impact of Covid 19, utilizing business continuity and resilience processes where appropriate.

The Company's critical functions have been adapted to ensure appropriate measures in Hinkley Point C, allow a maximum of employees to work from home. The Group IT system has been leveraged in order to support the transition in a most efficient way, time and to protect our systems against cyber threats. The Company is following the guidance and discussing on a regular basis with the Government on the pandemic evolution and deployment of appropriate policies and actions.

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 90 Whitfield Street, London, England, W1T 4EZ.

At 31 December 2019, Électricité 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 Électricité de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.