Financing of New Nuclear

NERS Annual Conference on Nuclear Energy – 2024

11/2024

New nuclear project is in the first preparatory stage

Stage	End date	Permitting and licensing	Contract with technology supplier
A 1. Preparation, supplier selection	2024	EIA Site decision License for the siting	Tender process and contract signature B
2. Preliminary works	2029	License for construction Building permit	"LWA - Limited Work Authorization" phase
3. Construction, commissioning	2036	License for commencement of trial operation	Construction
4. Warranty period	2038	Operation license	Warranty period operation C

A Framework contract

B First implementation contract

C Purchase Contract (PC)
Repayable Financial Assistance (RFA)
Investor Agreement (IA)

Expected timeline of "Preparation, supplier selection" stage

- Q3 2024 – KHNP selected as the winner of the tender
- Q4 2024 – governmental working group should propose financing for second new unit
- Q1 2025 – Finalization and signing of the contract with the supplier
- Q1 2025 – PC, RFA, IA finalization and signing with the Czech State

The terms of financing and purchase of electricity were agreed between the State and the Investor, the support scheme was notified to the EC

Contract term-sheets agreed between the State and the Investor

Assumed financing structure ✓
- The Investor will fund Stage 1 entirely through equity
- Stage 2 onwards will be financed by the repayable financial assistance from the State (RFA)

Repayable Financial Assistance from the State (RFA) ✓
- 0% interest during the RFA drawdown (corresponding to the construction period) until granting of the licence for the operation of the New Nuclear Power Plant (NNPP)
- Interest during the operating period: cost of State debt financing plus 1% but not less than 2% p.a.
- Duration of RFA: 30 years from the start of operation of the NNPP

Cost overrun financing mechanism ✓
- The Investor will not bear any risk of additional costs in case of “Legitimate grounds”
- In case of cost overruns caused by „Non-legitimate grounds“, the exposure of the Investor is limited

Overcompensation test will be implemented in the Purchase Contract (PC) ✓
- The mechanism according to the Low-carbon Act will ensure adequacy of the purchase price and return (regular review every 5 years)

Notification of the State support to the European Commission (driven by the State with the support of the Investor and EDU II) ✓

Finalization of the contractual documentation: **In preparation**
- Purchase contract (PC)
- Repayable Financial Assistance from state (RFA)
- Investor Agreement (IA)

Incentives and instruments protecting the State / Investor

State

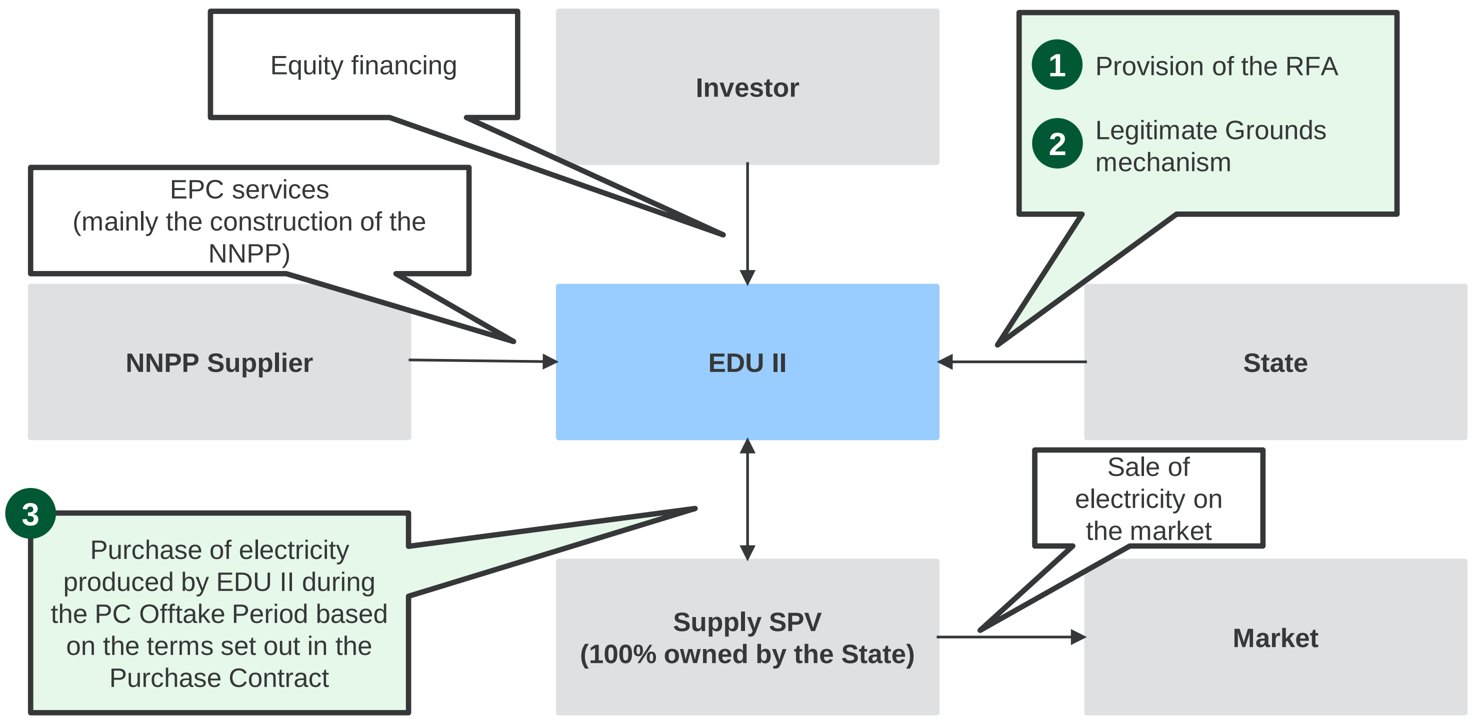
- **Overcompensation test over the entire lifetime of the project** (60 years):
  - The return achieved by the investor is continuously reviewed and in the case of IRR higher than the agreed limit, profit is shared (Gain-share mechanism)
- **Incentive for EDU II to reduce production of electricity when there is an oversupply on the market:**
  - The compensation formula motivates EDU II to maximize power production at high market prices (electricity shortage) and, conversely, to reduce production at low prices (electricity surplus)
- **Sale of electricity via the State Supply SPV:**
  - The State controls the sale of electricity from the NNPP through its fully owned Supply SPV
  - Electricity from the NNPP can also be sold through open and non-discriminatory auctions

Investor

- **Incentive of EDU II to respond to market signals:**
  - The agreed compensation scheme incentivises financially EDU II to respond to changes in market prices
  - This mechanism is also favourable for the state: EDU II is motivated to maximize production during electricity shortages (high prices)
- **Purchase price adjustments when conditions (costs) change due to Legitimate grounds:**
  - The Legitimate grounds include, for instance, changes in legislation, unpreparedness of infrastructure or changes in the RFA conditions
  - This measure protects the Investor from risks that can fundamentally jeopardize the project and are not under his control
- **Limited exposure of the Investor:**
  - This measure is necessary due to the requirements of rating agencies and to maintain the Investor's ability to operate effectively in the financial markets

Back-up

State supports NNPP through three measures: 1) Repayable Financial Assistance, 2) Legitimate Grounds mechanism and 3) Purchase Contract



Note:
NNPP – New Nuclear Power Plant
PC – Purchase Contract
RFA – Repayable Financial Assistance
EPC - Engineering, Procurement and Construction
SPV – Special Purpose Vehicle

During the public support notification process, the motivation of the power plant to respond to market signals was a key requirement of the European Commission

Summary of the European Commission (EC) press release related to the approved notification (the decision has not yet been published):

NNPP revenues	▪ For each megawatt hour of electricity produced, **EDU II receives a payment from the State Supply SPV corresponding to the market price.** Therefore, to operate efficiently, the power plant must remain flexible and **respond to market signals**. ▪ If the **market price is below the power plant's variable costs for a longer period**, EDU II is **motivated to reduce / stop production**. ▪ To ensure optimal level of support for the NNPP, **ex-post compensation will take place**: in case of low market prices, the power plant will receive an additional payment. In case of high market prices, it will pay additional funds to the State Supply SPV.
Sale of electricity	▪ **Electricity from EDU II is sold to the market by the State Supply SPV.** ▪ **Throughout the life** of the power plant**, most of the production will be sold on the open energy exchange**. ▪ **The remaining production** can be sold by the State Supply SPV **in the form of open and non-discriminatory auctions open the broad market.** Also in this case, **the reference price for EDU II is based on power exchange prices**.
Strike price	▪ Strike price is determined based on financial model including detailed parameters of the project. ▪ **Strike price is set to ensure market return for the EDU II shareholders: this is the return other investors would require for comparable investment.**

Source: State aid to support construction of nuclear power plant (europa.eu)