



Hitachi Buys U.K. Nuclear Power Venture for \$1.1 Billion

By Tsuyoshi Inajima and Yuji Okada - Oct 30, 2012

The Japanese manufacturer [Hitachi Ltd. \(6501\)](#) agreed to buy Horizon Nuclear Power from Germany's two largest utilities for 696 million pounds (\$1.1 billion), ensuring support for the U.K. government's energy program.

The transaction will be completed next month and secure financial backing for as many as six new nuclear reactors at two sites in Britain, according to a statement from Hitachi and the utilities, [RWE AG \(RWE\)](#) and [EON AG. \(EOAN\)](#). The German companies are withdrawing as the nation closes its own nuclear plants.

The deal helps Hitachi's [goal](#) to more than double nuclear sales to 360 billion yen (\$4.5 billion) by 2021 and underpins U.K. Prime Minister [David Cameron](#)'s decision remain one of three western European nations expanding atomic power. Horizon is part of Britain's 110 billion-pound program to replace aging power plants, upgrade grids and cut pollution.

"This is a decades-long, multi-billion pound vote of confidence in the U.K. that will contribute vital new infrastructure to power our economy," Cameron said in a statement released by the government in London today.

The German utilities decided to sell Horizon after opting to close all of its reactors by 2022 following the 2011 atomic disaster in [Japan](#). That raised questions about whether the Horizon venture could go forward.

Investment Program

"Today's investment furthers our investment links in the U.K. with the start of what is likely to be approximately 20 billion-pounds investment program in the U.K.'s energy infrastructure," Tatsuro Ishizuka, vice president and chief executive officer of Power Systems Company of Hitachi, said today at a conference in [London](#).

For EON and RWE, the Horizon deal comes at "a good price and could even cause a little book profit," Daniel Seidenspinner, an analyst at B. Metzler Seel Sohn & Co. KGaA, said today by phone from

Frankfurt. However, it is “no act of liberation” for RWE, which is struggling to reach its asset- sales target of 7 billion euros by the end of 2013.

“No profit is lost by the sale,” Matthias Heck, an analyst at Macquarie Capital Europe Ltd., said by phone from Frankfurt. He said the purchase price was “reasonable.”

For Hitachi, the investment represents a “leap of faith” that the British government will backstop the profitability of the venture by ensuring higher electricity prices, said George Borovas, head of nuclear projects at law firm Pillsbury Winthrop Shaw Pittman LLP.

EDF Talks

The U.K. government is in talks with Electricite de France SA about the price it will pay for power from nuclear plants. EDF has warned it won't move forward with funding for replacing its plants without a commercial price. Environmental groups say nuclear power will be too expensive and should be scrapped.

“Instead of waiting years to find out how much bill-payers will end up subsidising this project, the government should join Japan and Germany, abandon nuclear, and invest instead in clean, renewable energy,” said Leila Deen, an energy campaigner for Greenpeace.

Britain, which gets about 22 percent of its power from nuclear plants, must replace those facilities within the next two decades. It's seeking to support the industry through changes to rules governing the electricity markets.

'Strike Price'

Energy Secretary [Ed Davey](#) said at the London conference he will put the final proposals for a vote by lawmakers in Parliament “within weeks.” He said the government and Hitachi will start discussions similar to those currently on going with EDF over the so-called “strike price.”

“The British government should not take this preliminary investment as an irreversible commitment to build new nuclear plants in the U.K., but should illustrate to investors that they will find a willing and supportive partner in the U.K. government,” Borovas said. The deal opens up the possibility of access to Japanese export credit agency and commercial financing, he said.

U.K. companies [Babcock International Group Plc \(BAB\)](#) and [Rolls- Royce Holdings Plc \(RR/\)](#) and Canada's [SNC-Lavalin Group Inc. \(SNC\)](#) have agreed to join Hitachi to “plan and deliver” the construction project, the Japanese company said.

“Today starts our 100 year commitment to the U.K. and its vision to achieve a long-term, secure, low-

carbon, and affordable energy supply,” Hitachi President Hiroaki Nakanishi said in a statement.

Plants Planned

Hitachi plans to build two to three nuclear plants with capacity of about 1,300-megawatts each at Wylfa, Anglesey, and Oldbury, Gloucestershire, it said. The company plans to start operation of one of the units in the first half of the 2020s.

The Japanese company expects to create as many as 6,000 jobs at each site during the construction period and another 1,000 permanent jobs per site after starting operations, it said. Cameron said the venture will support 12,000 jobs during construction and “thousands more” skilled ones when the plant begins operating.

“Hitachi bring with them decades of expertise, and are responsible for building some of the most advanced nuclear reactors on time and on budget,” Davey said. “New nuclear isn’t only about keeping the lights on and emissions down, it’s an industrial strategy with big potential wins,” he said, also welcoming Hitachi’s plans for a U.K. module assembly facility.

Partners Sought

Masaharu Hanyu, Hitachi’s vice president, indicated the company may seek other partners in the venture as it would be difficult to raise the “massive construction costs” alone.

[Mizuho Financial Group Inc. \(8411\)](#) and [Evercore Partners Inc. \(EVR\)](#) have been hired as financial advisers for the projects, Hanyu told reporters in [Tokyo](#) today.

Hitachi sold its profitable hard-disk drive unit to [Western Digital Corp. \(WDC\)](#) in March and earlier sold a stake in Elpida Memory Inc. as it expanded into infrastructure and power businesses from electronics.

An earthquake and tsunami in March 2011 caused triple meltdowns at [Tokyo Electric Power Co. \(9501\)](#)’s Fukushima Dai-Ichi nuclear station, causing mass evacuations and leaving some areas uninhabitable for decades. On Sept. 14 this year, Japan Prime Minister [Yoshihiko Noda](#) approved a policy to stop building atomic plants and to phase out nuclear power by 2040.

‘Overseas Markets’

“Nakanishi is targeting overseas markets as nuclear business prospects have dimmed at home” since Japan adopted a policy to phase out atomic power, [Yoshiharu Izumi](#), an analyst at [JPMorgan Chase & Co \(JPM\)](#) in Tokyo, said by phone before the announcement.

In contrast, U.K. industry has set out plans to build 16 gigawatts of nuclear power by 2025 and the government has designated eight sites for plants. Those goals appeared at risk when [Areva SA \(AREVA\)](#) and China Guangdong Nuclear Power Group Co. pulled out of the bidding for Horizon this month. That left [Electricite de France SA \(EDF\)](#), [Iberdrola SA \(IBE\)](#) and [GDF Suez \(GSZ\)](#) SA as the only developers advancing U.K. nuclear projects.

Hitachi's Advanced Boiling Water Reactor, which it makes with [General Electric Co. \(GE\)](#), has been licensed in the U.S., Taiwan and Japan. While it is yet to seek U.K. approval through a process known as Generic Design Assessment, the reactor equipment already operates in Japan. Hitachi's Ishizuka said today he expected the GDA approval process to take three to four years.

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