

**Company Registration No. 03689741**

**BAGLAN GENERATING LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 March 2019**



# **BAGLAN GENERATING LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

### **CONTENTS**

### **Page**

<b>Officers and professional advisers</b>	<b>1</b>
<b>Strategic report</b>	<b>2</b>
<b>Directors' report</b>	<b>3</b>
<b>Directors' responsibilities statement</b>	<b>5</b>
<b>Independent auditor's report to the member of Baglan Generating Limited</b>	<b>6</b>
<b>Statement of income and retained earnings, incorporating the profit and loss account</b>	<b>9</b>
<b>Statement of financial position</b>	<b>10</b>
<b>Notes to the financial statements</b>	<b>11</b>

# **BAGLAN GENERATING LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

E Metcalfe  
G Parsons  
K McCullough  
M Higginbotham  
I Otero-Novas

### **COMPANY SECRETARY**

Alter Domus (UK) Limited

### **REGISTERED OFFICE**

Severn Power Station  
West Nash Road  
Nash  
Newport  
Gwent  
NP18 2BZ

### **AUDITOR**

Deloitte LLP  
Statutory Auditor  
Cardiff  
United Kingdom

### **BANK**

HSBC Plc  
Midsummer Place  
Milton Keynes  
Buckinghamshire  
MK9 3GB

# **BAGLAN GENERATING LIMITED**

## **STRATEGIC REPORT**

### **PRINCIPAL ACTIVITY**

The Company acts as a holding company and its subsidiary companies are listed in note 7 to the financial statements. The Company is registered in England and Wales.

### **BUSINESS REVIEW**

The loss for the year, after taxation, amounted to £32,000 (2018: £16,780,000). The directors cannot recommend the payment of a dividend (2018: £nil). The Company has net liabilities of £382,000 at 31 March 2019 (2018: £350,000).

During the prior year the Calon Energy group of companies made a loss for the year which triggered an impairment event. As a result, an impairment of £16,714,000 in the investment in Baglan Operations Limited and Baglan Pipeline Limited was recognised in the Company in the prior year.

### **FUTURE OUTLOOK AND FINANCIAL RISK MANAGEMENT**

The future prospects of the Company are dependent on the performance of its investment in subsidiaries. The investment in Baglan Operations Limited has been reviewed and the carrying value is considered to be recoverable based on forecast performance.

However, the directors recognise that the valuation of the company is dependent on the UK commodity market and in particular gas and electricity price movements. To date, the risk has been managed on a Group basis by Calon Energy Limited which uses commodity hedge contracts to mitigate the price risk. The Group comprises the Company, its subsidiaries and parent companies.

The directors have reviewed the impact of Brexit on the longer-term outlook of the business. The directors consider that at this stage it is difficult to anticipate the long-term consequences, given the uncertainties over the terms of the UK's departure from the European Union. The directors believe that the impact of Brexit is most likely to be broadly neutral to the power industry as a whole and also to the Company. The directors will continue to assess this as a business risk as Brexit discussions develop and will monitor changes in fuel prices, CO2 prices and macro-economic data such as GDP growth, which could affect price curves.

### **KEY PERFORMANCE INDICATORS**

As the principal activity of the Company is that of a holding company, it is not measured against key performance indicators.

Approved by the Board of Directors  
and signed on behalf of the board



G Parsons

Director

Date: 30 January 2020

# **BAGLAN GENERATING LIMITED**

## **DIRECTORS' REPORT**

The directors of Baglan Generating Limited (the "Company") present the annual report and the audited financial statements for the year ended 31 March 2019.

### **DIRECTORS**

The directors who served during the year and subsequently were as follows:

E Metcalfe  
G Parsons  
K McCullough  
M Higginbotham  
I Otero-Novas

### **DIRECTORS' INDEMNITIES**

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

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks and uncertainties are based on the Company's investments in subsidiary undertakings. The management of the Company and the execution of the Company's strategy are subject to risk typically associated with the operation of a power plant in the UK. The key business risks and uncertainties affecting the Company and other power plants in the UK market include volatility within the UK and European energy markets, health and safety and plant availability.

#### *Health and Safety risk*

The Health and Safety ("H&S") of all contractors and visitors who attend the site is a key risk for the Company. H&S KPIs are key statistics managed by the senior staff in the parent company. Feedback systems and other H&S initiatives are used to help create a culture that has H&S as one of its key priorities.

#### *Market risk*

Market risk, the fluctuation in the price of electricity, gas and carbon which directly impact the gross margin at the operating and parent company of Baglan Operations Limited is managed through the use of commodity hedge contracts which mitigate any downward movements in the market price. Management actively manages other market risks through daily trading calls which ensures it responds quickly to changing market conditions.

### **GOING CONCERN**

The company is a wholly-owned subsidiary within the MPF Holdings group of companies which is headed by MPF Holdings Limited. As a result of this, the company's financial outlook is heavily influenced by the group and the considerations set out below are relevant to both the Group and the company.

To assess the ability of Calon Energy Limited ("Group"), being part of the MPF Holdings group, to continue as a going concern, the directors have prepared a business plan and cash flow forecast for the period to 31 March 2021 which, together, represent the directors' best estimate of the future development of the Group.

During the course of 2019, the directors conducted a sales process to dispose of the shares of the Group. However, during that period, several external factors such as uncertainty around the UK's exit from the EU and the suspension of the UK Capacity Market adversely affected the efficiency and deliverability of the sale process. As a result, the directors concluded that continuing with the process, in the absence of the anticipated resolution of the aforementioned uncertainties was not in the best interests of the Group. Instead any sale should be postponed until stable market conditions have resumed. This change in strategy meant that a solution to medium-term funding for the business had not been agreed in advance given the previously held assumption, held by all stakeholders, that the shares of the Group would have been sold by the end of 2019. Therefore, at the date of these financial statements, discussions have been commenced with the Group's stakeholders (namely lenders and shareholders) in order to put in place support to meet the Group's medium-term cash requirements.

## **BAGLAN GENERATING LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **GOING CONCERN (continued)**

The directors' cash flow forecast includes an assumption that further support will need to be provided within the next 12 months. Whilst the company may require short term support at various stages in the trading cycle (the quantification of which will depend on the Group's trading over the course of the next 12 months), the stakeholders are also considering the parameters of a longer term financing solution which would ensure that the Group has robust financial resources for the longer term. Having consulted with stakeholders, the directors consider that the Group has a realistic prospect of securing the additional support that will be required.

However, the negotiations are at an early stage and there remains uncertainty on the exact nature, timing and source of this support, thus giving rise to a risk that the required level of new support will not be received in the necessary timescales or at all. This constitutes a material uncertainty. As a consequence, there is a material uncertainty related to the assumptions described above which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern. In the event the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, to their recoverable amount and providing for any further liabilities that might arise.

Notwithstanding the material uncertainties described above, on the basis of sensitivities applied to the cash flow forecast and that further support can be agreed in the relevant timescale, the directors have a reasonable expectation that the company can continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of this report.

#### **FUTURE OUTLOOK AND USE OF FINANCIAL INSTRUMENTS**

Details of the Company's future outlook and use of financial instruments are disclosed in the Strategic Report.

#### **AUDITOR**

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming Annual General Meeting.

The shareholder has approved the financial statements being prepared under the reduced disclosures framework.

Approved by the Board of Directors  
and signed on behalf of the board



G Parsons

Director

Date: 30 January 2020

## **BAGLAN GENERATING LIMITED**

### **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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF BAGLAN GENERATING LIMITED**

### **Opinion**

In our opinion the financial statements of Baglan Generating Limited (the Company):

- give a true and fair view of the state of the Company's affairs as at 31 March 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of income and retained earnings incorporating the profit and loss account;
- the statement of financial position; and
- the related notes 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 Financial Reporting Council's (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.

### **Material uncertainty related to going concern**

We draw attention to note 1 in the financial statements, which indicates that access to further support may be necessary to meet the Group's cash requirements. Discussions remain ongoing between the Group's stakeholders with a view to agreeing the terms for such support to be provided. The Company is a wholly-owned subsidiary within the Calon Energy group of companies (Group) which is headed by MPF Holdings Limited. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF BAGLAN GENERATING 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF  
BAGLAN GENERATING LIMITED (continued)**

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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 member 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 member those matters we are required to state to it 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 member, for our audit work, for this report, or for the opinions we have formed.



**Andrew Woodhead (Senior statutory auditor)**  
**for and on behalf of Deloitte LLP**  
Statutory Auditor  
Cardiff, United Kingdom

Date: 31 January 2020

**BAGLAN GENERATING LIMITED****STATEMENT OF INCOME AND RETAINED EARNINGS, INCORPORATING THE  
PROFIT AND LOSS ACCOUNT  
For the year ended 31 March 2019**

	Note	2019 £'000	2018 £'000
<b>PROFIT AND LOSS ACCOUNT</b>			
Administrative expenses		(13)	(51)
Impairment charge	4	-	(16,714)
<b>OPERATING LOSS</b>		<u>(13)</u>	<u>(16,765)</u>
Finance costs (net)	5	(19)	(15)
<b>LOSS BEFORE TAXATION</b>	2	<u>(32)</u>	<u>(16,780)</u>
Tax on loss	6	-	-
<b>LOSS FOR THE FINANCIAL YEAR</b>		<u>(32)</u>	<u>(16,780)</u>
Retained loss at 1 April		(372,687)	(355,907)
Loss for the year		<u>(32)</u>	<u>(16,780)</u>
Retained loss at 31 March		<u>(372,719)</u>	<u>(372,687)</u>

All activities derive from continuing operations.

There was no comprehensive income or expense in either period other than the loss for the current and preceding year. Accordingly, no statement of total comprehensive income has been presented.

# BAGLAN GENERATING LIMITED

## STATEMENT OF FINANCIAL POSITION As at 31 March 2019

	Note	2019 £'000	2018 £'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiary companies	7	-	-
<b>CREDITORS: amounts falling due within one year</b>	8	(382)	(350)
<b>NET CURRENT LIABILITIES</b>		(382)	(350)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES, BEING NET LIABILITIES</b>		(382)	(350)
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	9	353,259	353,259
Share premium account	9	19,078	19,078
Profit and loss account	9	(372,719)	(372,687)
<b>SHAREHOLDER'S DEFICIT</b>		(382)	(350)

The financial statements of Baglan Generating Limited, registration number 03689741, were approved by the Board of Directors and authorised for issue on 28 January 2020.

Signed on behalf of the board of directors



G Parsons  
Director

# **BAGLAN GENERATING LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2019**

### **1. ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### **General information and basis of accounting**

Baglan Generating 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 registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

The financial statements are prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The entity has applied the amendments to FRS 102 issued by the FRC in July 2015 and the amendments to Company law made by the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2016.

A single statement of income and retained earnings has been prepared in place of a statement of comprehensive income and statement of changes in equity, as the only changes to equity during the year arise from the loss for the year.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Baglan Generating Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to presentation of a cash flow statement, key management personnel and financial instruments.

#### **Consolidation**

The Company is itself a subsidiary company and is exempt from the requirement to prepare group financial statements by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

#### **Going concern**

The company is a wholly-owned subsidiary within the MPF Holdings group of companies which is headed by MPF Holdings Limited. As a result of this, the company's financial outlook is heavily influenced by the group and the considerations set out below are relevant to both the Group and the company.

To assess the ability of Calon Energy Limited ("Group"), being part of the MPF Holdings group, to continue as a going concern, the directors have prepared a business plan and cash flow forecast for the period to 31 March 2021 which, together, represent the directors' best estimate of the future development of the Group.

During the course of 2019, the directors conducted a sales process to dispose of the shares of the Group. However, during that period, several external factors such as uncertainty around the UK's exit from the EU and the suspension of the UK Capacity Market adversely affected the efficiency and deliverability of the sale process. As a result, the directors concluded that continuing with the process, in the absence of the anticipated resolution of the afore mentioned uncertainties was not in the best interests of the Group. Instead any sale should be postponed until stable market conditions have resumed. This change in strategy meant that a solution to medium-term funding for the business had not been agreed in advance given the previously held assumption, held by all stakeholders, that the shares of the Group would have been sold by the end of 2019. Therefore, at the date of these financial statements, discussions have been commenced with the Group's stakeholders (namely lenders and shareholders) in order to put in place support to meet the Group's medium-term cash requirements.

The directors' cash flow forecast includes an assumption that further support will need to be provided within the next 12 months. Whilst the company may require short term support at various stages in the trading cycle (the quantification of which will depend on the Group's trading over the course of the next 12 months), the stakeholders are also considering the parameters of a longer term financing solution which would ensure that the Group has robust financial resources for the longer term.

## **BAGLAN GENERATING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 March 2019**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Going concern (continued)**

Having consulted with stakeholders, the directors consider that the Group has a realistic prospect of securing the additional support that will be required.

However, the negotiations are at an early stage and there remains uncertainty on the exact nature, timing and source of this support, thus giving rise to a risk that the required level of new support will not be received in the necessary timescales or at all. This constitutes a material uncertainty. As a consequence, there is a material uncertainty related to the assumptions described above which may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group or Company were unable to continue as a going concern. In the event the Group and Company ceased to be a going concern, the adjustments would include writing down the carrying value of assets, to their recoverable amount and providing for any further liabilities that might arise.

Notwithstanding the material uncertainties described above, on the basis of sensitivities applied to the cash flow forecast and that further support can be agreed in the relevant timescale, the directors have a reasonable expectation that the company can continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of this report.

##### **Investments**

Investments in subsidiary companies are stated at cost less provision for impairment.

##### **Impairment of assets**

Assets, other than those measured at fair value, are assessed for indicators of impairment at each statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of income and retained earnings as described below:

##### ***Non-financial assets***

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The recoverable amount is calculated based on the directors' best estimate of the present value of the future cash flows of the business.

##### ***Financial assets***

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

##### **Taxation**

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 or substantively enacted by the statement of financial position date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the statement of financial position date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the statement of financial position date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

## **BAGLAN GENERATING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 March 2019**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Taxation (continued)**

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date that are expected to apply to the reversal of the timing difference.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### **Financial instruments**

###### ***Financial assets***

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price.

Financial assets are derecognised when substantially all the risks and rewards of the ownership of the asset are transferred to another party.

###### ***Financial liabilities***

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow Group companies are initially recognised at transaction price.

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

##### **Finance costs**

Finance costs of debt are recognised in the statement of income and retained earnings over the remaining term of such instruments, at a constant rate on the carrying amount.

##### **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described above, the directors 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 the Company's accounting policies***

The following are the critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognised in the financial statements.

##### ***Critical judgements – going concern***

In order to assess whether it is appropriate for the Group to be reported as a going concern, the Directors apply judgement, having considered the business activities, the Group's principal risks and uncertainties, cash flow projections and external factors. In arriving at this judgement there are a large number of assumptions and estimates involved in calculating these future cash flow projections and the prospect of securing the additional support that will be required.

# BAGLAN GENERATING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 March 2019

### 1. ACCOUNTING POLICIES (continued)

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

##### Key source of estimation uncertainty – Carrying value of investments

Determining whether investments are impaired requires an estimation of the value in use of the underlying business of the power stations within the group. This value in use calculation requires the directors to estimate the future cash flows expected to arise from the power stations and a suitable discount rate in order to calculate present value. The future cash flows of the power stations are based on estimates of commodity prices, plant activity and market conditions which are inherently uncertain.

### 2. LOSS BEFORE TAXATION

During the year the auditor received remuneration of £2,000 (2018: £2,000) for the audit of the Company's financial statements. The charge during the year is borne by another group company and not recharged. No other services were provided by the auditor during the year (2018: none).

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no remuneration for their services during the year (2018: £nil). There is no remuneration of key management personnel.

The Company had no employees during the year (2018: none).

### 4. IMPAIRMENT CHARGE

During the prior year the Calon Energy group of companies made a loss for the year which triggered an impairment event. As a result, an impairment of £16,714,000 in the investment in Baglan Operations Limited and Baglan Pipeline Limited was recognised in the Company in the prior year.

### 5. FINANCE COSTS (NET)

	2019 £'000	2018 £'000
Interest payable and similar charges		
Interest payable on inter-company loans	(19)	(15)

### 6. TAX ON LOSS

	2019 £'000	2018 £'000
Current taxation		
United Kingdom corporation tax charge	-	-
Tax on loss on ordinary activities	-	-

The tax assessed for the year is more than that resulting from applying the standard rate of corporation tax in the UK of 19% (2018: 19%).



# BAGLAN GENERATING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 March 2019

### 6. TAX ON LOSS (continued)

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax are as follows:

	2019 £'000	2018 £'000
Loss on ordinary activities before taxation	(32)	(16,780)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	(6)	(3,188)
Effect of:		
Tax losses not recognised	2	10
Corporate interest restriction adjustment	4	3
Impairment adjustment	-	3,175
Total tax for year	-	-

The Company has unused tax losses of £381,000 (2018: £350,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of these losses because in the opinion of the directors there is insufficient certainty of suitable taxable profits against which they can be offset. Under present tax legislation, these losses and timing differences may be carried forward indefinitely.

The Finance Act 2017, which provides for the main rate of corporation tax to reduce to 17% from 1 April 2020, was substantively enacted on 6 September 2016. This is reflected in the calculation of deferred tax at the statement of financial position date.

### 7. INVESTMENTS IN SUBSIDIARY COMPANIES

	£'000
<b>Cost</b>	
At 1 April 2018 and 31 March 2019	484,046
<b>Impairment</b>	
At 1 April 2018 and 31 March 2019	(484,046)
<b>Net book value</b>	
At 31 March 2018 and 31 March 2019	-

## BAGLAN GENERATING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 March 2019

#### 7. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

During the prior year the Calon Energy group of companies made a loss for the year which triggered an impairment event. As a result, an impairment of £16,714,000 in the investment in Baglan Operations Limited and Baglan Pipeline Limited has been recognised in the Company in the prior year.

Details of the Company's subsidiaries are set out below, both of which are incorporated in England and Wales:

Name and nature of business	Activity	Class of shares held	Percentage of shares held
Baglan Operations Limited	Production and distribution of electricity	Ordinary shares of £1 each	100%
Baglan Pipeline Limited	Operate and own gas pipeline	Ordinary shares of £1 each	50%

BP Chemicals Limited has a legal charge over the issued share capital of Baglan Pipeline Limited.

The registered office of Baglan Pipeline Limited is 16 Axis Court, Mallard Way, Swansea Vale, Swansea, SA7 0AJ. The registered office of the other subsidiary company is c/o Severn Power Station, West Nash Road, Nash, Newport, Gwent, NP18 2BZ.

#### 8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Amounts owed to Group companies	382	350

Amounts owed to Group companies are unsecured, bear interest at 4.55% above LIBOR and are repayable on demand.

#### 9. CALLED-UP SHARE CAPITAL AND RESERVES

	2019 £'000	2018 £'000
Allotted, called-up and fully paid		
1 'A' redeemable share of £1	-	-
353,258,688 'B' ordinary shares of £1 each	353,259	353,259
	<u>353,259</u>	<u>353,259</u>

The Company has one class of ordinary share and one class of redeemable share, both of which carry no right to fixed income.

The Company's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

## **BAGLAN GENERATING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)** **For the year ended 31 March 2019**

#### **10. COMMITMENTS**

The Company has entered into a long-term Advisory Service Agreement with MPF Holdings Limited whereby MPF Holdings Limited will supply certain advisory services to the Company and its subsidiaries.

On 30 April 2015 Calon Energy Limited and all its subsidiary companies entered into a new five-year group facilities agreement with Beal Bank. During March 2019 this agreement was extended by a further 18 months to 29 October 2021. The group facilities agreement provides group debt and letter of credit facilities. The shares in Calon Energy Limited and its subsidiary companies were provided as security for the facilities.

#### **11. RELATED PARTIES**

In accordance with section 33 of FRS 102 'Related party disclosures', the Company is exempt from disclosing transactions with entities that are part of the Company or investees of the Company qualifying as related parties, as it is a wholly-owned subsidiary of a parent, which prepares consolidated financial statements which may be obtained from its registered office: 1<sup>st</sup> Floor, Waterloo House, Don Street, St Helier, Jersey, Channel Islands, JE1 1AD.

#### **12. PARENT UNDERTAKING AND CONTROLLING PARTY**

Calon Energy (Baglan Bay) Limited wholly-owns the Company and is considered to be the immediate parent company.

Calon Energy Limited heads the smallest group for which consolidated financial statements are prepared which will include the results of the Company. Copies will be available from its registered office: Severn Power Station, West Nash Road, Nash, Newport, Gwent, NP18 2BZ.

MPF Holdings Limited heads the largest group for which consolidated financial statements are prepared and is also regarded as the Company's ultimate parent company and controlling party. MPF Holdings Limited is a company incorporated in Jersey. Copies of that company's consolidated financial statements are available from its registered office: 1<sup>st</sup> Floor, Waterloo House, Don Street, St Helier, Jersey, Channel Islands, JE1 1AD.