

Moray Offshore Windfarm (East) Limited

Annual report and financial statements

Registered number 07101438

31 December 2019



Contents	Page
Directors' report	1
Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements	4
Independent auditors' report	5
Income Statement	8
Statement of comprehensive income	9
Balance Sheet	10
Statement of Changes in Equity	11
Cash Flow Statement	12
Notes to the financial statements	13

Directors' report

The directors' report has been prepared in accordance with the special provisions relating to small companies within section 15 of the Companies Act 2006.

Moray Offshore Windfarm (East) Limited (the "Company") is a company incorporated and domiciled in the UK.

The registered number is 07101438 and the registered address is Condor House, 10 St Paul's Churchyard, London, EC4M 8AL effective from 1 March 2019, previously 14/18 City Road, Cardiff, CF24 3DL.

Principal activities

The principal activity of the Company during the year was to develop and construct an offshore windfarm in the Moray Firth and this activity is set to continue until construction is complete.

Business Review

The key milestone the Company was working towards during the year was ongoing construction of the windfarm.

Key developments during the year are set out below:

- On 28th February 2019, the Onshore Cable civils enabling works for the transition joint bay were completed.
- On 30th May 2019, the first pile in the Substructures piling campaign was installed. The piling campaign is due to complete in February 2020.
- On 20th June 2019, the Onshore Substation SHE-T enabling works were completed.
- By 25th August 2019, the Substructures piling campaign was 50% complete.
- On 24th October 2019, the Offshore Cable OEC 2 onshore HDD at Landfall was completed.
- On 7th December 2019, the Offshore Cable OEC 3 onshore HDD at Landfall was completed.
- On 17th December 2019, the Offshore Cable OEC 1 onshore HDD at Landfall was completed.
- On 31st December 2019, the Onshore Substation MOWEL enabling works were complete

Subsequent events

Since December 2019, the COVID-19 Coronavirus has spread from China to other countries, including the United Kingdom. This event has affected the regular economic activity but to date there has been some, but not a significant, impact on the operations and financial results of the Company. Whilst the extent to which the COVID-19 Coronavirus will impact the Company in the future will depend on future developments that are not known today, including actions to contain the disease, treat it and mitigate its impact on the economy, among others, the Company has an ongoing process of analysis of potential effects on its operations and critical impacts on programme or budget are not yet observed.

Key performance indicators

Given the company's current activities and status of the construction project, analysis of performance for the year to 31 December 2019 by the directors and senior management is conducted using specific KPIs including metrics focused on health & safety, quality, and the project's status and position versus forecasts. The directors are satisfied with the development of the construction during the year and its position at the year-end.

Result and proposed dividend

The company's loss for the year was £1,355k (2018: a loss of £1,885k). The directors do not recommend the payment of a dividend (2018:nil).

Directors

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

J P Nogueira de Sousa Costeira (appointed 10 December 2009 and resigned 15 February 2019)
B J Rodriguez Sanchez (appointed 10 December 2009 and resigned on 14 May 2019)

Directors' report *(continued)*

Directors *(Continued)*

D H Finch
K Suzuki (appointed 23 March 2018 and resigned 31 March 2020)
D G Alcock (appointed on 7 July 2017 and resigned 14 February 2019)
M M Maino
I Herrero
C L Brown (appointed 18 January 2019 and resigned 24 December 2019)
D C M Cherel-Sparham (appointed 14 February 2019)
F Kumura (appointed 18 January 2019)
S Martinis Spettel (appointed 18 February 2019)
O Diaz Martin-Forero (appointed 14 May 2019)
T Nobuhara (appointed 23 March 2018 & resigned 18 January 2019)
S W Thompson (appointed 9 November 2018 & resigned 18 January 2019)
Y Umemura (appointed 1 April 2020)
M R Haindaday (appointed 17 February 2020)
S J Altria (appointed 27 March 2019 and resigned 24 December 2019)
T S J Hay (appointed 16 July 2019 and resigned 8 August 2019)
K Horiguchi (appointed 26 August 2019 and resigned 29 August 2019)

Principal risks and uncertainties

The principal risks facing the Company are listed below:

Construction risk:

Cost overruns and delays to construction of the windfarm are short to medium risks facing the company. To mitigate against this risk the company has entered into several EPCI contracts which were signed and completed prior to financial close.

Financial risk management:

Foreign exchange risk – The Company is a GBP functional currency entity which incurs a certain portion of its construction costs in EUR and USD, exposing the Company to exchange rate fluctuations between GBP and EUR and GBP and USD. The Company's risk management strategy is to protect the Company against adverse fluctuations in foreign exchange rates by using FX forward contracts to reduce its exposure to variability from foreign exchange impacting cash flows arising from Company's foreign currency denominated fixed asset construction cost cash flows to the extent that it is practicable and cost effective to do so.

Interest rate risk – The Company is partially funded using long-term floating rate GBP loans that expose the Company to potential variability in interest rates. The Company's risk management strategy is to protect the Company against adverse fluctuations in interest rates utilising pay fixed receive float interest rate swaps to reduce its exposure to variability in cash flows on the Company's forecasted floating-rate debt facility to the extent that it is practicable and cost effective to do so.

Inflation risk – The Company future revenues from power generation will be contractually indexed to UK CPI, exposing the Company to variability in future forecast revenue from changes in UK CPI. The Company's risk management strategy is to protect the Company against adverse fluctuations in UK CPI rates by reducing its exposure to variability in cash flows on the Company's forecasted revenues using receive fixed pay float inflation swaps to hedge the contractually specified CPI component of future forecasted revenues to the extent that it is practicable and cost effective to do so.

Note 14 provides quantitative information on the arrangements in place to address the foreign exchange, interest rate and inflation risks set out above.

Directors' report *(continued)*

Liquidity and Capital Risk – The company manages both liquidity and capital risk by way of the utilisation of funding facilities in order to meet the contractual commitments to capital expenditure as per the commitments detailed in note

14. Funding facilities have been provided and agreed based on an economic model for the development of the Offshore Windfarm project. Details of the funding facilities can be found in note 9.

Credit Risk – the company currently evaluates the risk associated with receivables and due to the current operations of the business such risk will be minimal until the construction of the Offshore Windfarm is complete and operational activity begins. The company does not currently have significant receivables due.

Political contributions

The Company did not make any political donations or incur any political expenditure during the year (2018:nil).

Going concern

As at 31 December 2019, the Company's current liabilities exceeded their current assets by £51,852k (31 December 2018: £22,325 k). Subsequent to year end, the COVID 19 virus has also affected the regular economic activity but to date there has been some, but not a significant, impact on the operations and financial results of the Company. The directors have assessed that the Company has adequate resources to meet its liabilities as they fall due for a period of at least twelve months following the approval of these financial statements. The ultimate shareholders have indicated they will continue to provide such funds as are necessary to enable Moray Offshore Windfarm (East) Limited to continue to trade and to meet its liabilities as they fall due and that the shareholders will not seek repayment of the amounts currently made available.

Based upon the undertaking of financial support outlined above, and after making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the company's annual financial statements.

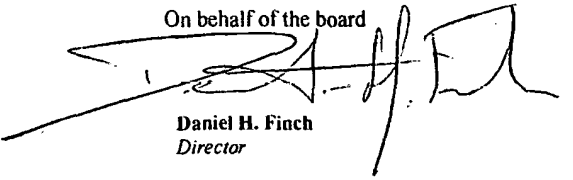
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

Following an audit tender conducted in 2017 by EDP Renovaveis Group, PricewaterhouseCoopers LLP were selected as Auditors for the Group in the 2018-2020 triennium. The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the board


Daniel H. Finch
Director

Condor House,
10 St Paul's Churchyard,
London, EC4M 8AL

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

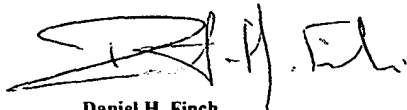
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Daniel H. Finch
Director

Condor House,
10 St Paul's Churchyard,
London, EC4M 8AL

Independent auditors' report to the members of Moray Offshore Windfarm (East) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Moray Offshore Windfarm (East) Limited's 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 and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

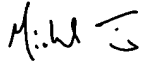
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 May 2020

Income Statement
for year ended 31 December 2019

	Note	2019 £000	2018 £000
Administrative expenses		(814)	(769)
Operating Loss		(814)	(769)
Finance income	4	1,119	45
Finance costs	4	<u>(1,659)</u>	<u>(442)</u>
Finance costs-net		(540)	(397)
Loss before income tax		<u>(1,355)</u>	<u>(1,166)</u>
Income tax expense	5	719	(719)
Loss for the year		<u>(636)</u>	<u>(1,885)</u>

Statement of Comprehensive Income

for year ended 31 December 2019

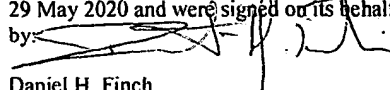
	2019 £000	2018 £000
Loss for the year	(636)	(1,885)
Other comprehensive expense		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Loss on effective portion of cashflow hedges, net of tax	(63,386)	(66,637)
Other comprehensive expense relating to the year, net of tax	<u>(63,386)</u>	<u>(66,637)</u>
Total comprehensive expense for the year	<u>(64,022)</u>	<u>(68,522)</u>

Balance Sheet

As at 31 December 2019

	Note	2019 £000	2018 £000
Non-current assets			
Property, Plant and equipment	6	1,173,805	446,086
Deferred tax assets	5	42,915	16,923
Derivative financial instruments	14	370	19,264
Right of use assets	6	<u>5,933</u>	=
		1,223,023	482,273
Current assets			
Trade and other receivables	7	7,647	3,705
Cash and cash equivalents	8	<u>132,426</u>	<u>55,947</u>
		140,073	59,652
Total assets		<u>1,363,096</u>	<u>541,925</u>
Non-current liabilities			
Provisions	12	5,474	5,372
Deferred Income	11	1,145	1,145
Borrowings	9	1,148,181	419,516
Derivative financial instruments	14	129,797	96,772
Deferred tax liabilities	5	16,284	4,018
Lease Liabilities	6	<u>1,187</u>	=
		1,302,068	526,823
Current liabilities			
Derivative financial instruments	14	30,605	2,778
Trade and other payables	10	156,574	79,199
Lease Liabilities	6	<u>4,746</u>	=
		191,925	81,977
Total liabilities		<u>1,493,993</u>	<u>608,800</u>
		(130,897)	(66,875)
Net liabilities			
Equity			
Share capital	13	10,000	10,000
Accumulated losses	13	(10,874)	(10,238)
Hedge reserve	13	(130,023)	(66,637)
Total equity		<u>(130,897)</u>	<u>(66,875)</u>

These financial statements have been prepared in accordance with the special provisions relating to small companies within section 15 of the Companies Act 2006. These financial statements were approved by the board of directors on 29 May 2020 and were signed on its behalf by:


Daniel H. Finch
Director

Company registered number: 07101438

Statement of Changes in Equity
for year ended 31 December 2019

	Share capital £000	Accumulated losses £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2018	<u>10,000</u>	<u>(8,353)</u>	=	<u>1,647</u>
Loss for the year	-	(1,885)	-	(1,885)
Other comprehensive expense for the year	-	-	(66,637)	(66,637)
Transactions with owners, recorded directly in equity issue of shares	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-
Balance at 31 December 2018	<u>10,000</u>	<u>(10,238)</u>	<u>(66,637)</u>	<u>(66,875)</u>
	Share capital £000	Accumulated Losses £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2019	<u>10,000</u>	<u>(10,238)</u>	<u>(66,637)</u>	<u>(66,875)</u>
Loss for the year	-	(636)	-	(636)
Other comprehensive expense for the year	-	-	(63,386)	(63,386)
Balance at 31 December 2019	<u>10,000</u>	<u>(10,874)</u>	<u>(130,023)</u>	<u>(130,897)</u>

Cash Flow Statement
for year ended 31 December 2019

	<i>Note</i>	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cash flows from operating activities			
Loss before tax for the year		(1,355)	(1,166)
<i>Adjustments for:</i>			
Depreciation		-	2,522
Movement in provisions		102	100
Net financial expense		450	297
Fair value adjustment to derivatives		<u>(66,764)</u>	<u>25</u>
		(67,567)	1,778
Increase in trade and other receivables	7	(19,839)	(16,784)
Increase in trade and other payables	10	<u>72,117</u>	<u>84,117</u>
		52,278	67,333
Net cash flow (used in)/generated from operating activities		(15,289)	69,111
Cash flows from investing activities			
Investment in tangible fixed assets		<u>(725,196)</u>	<u>(359,772)</u>
Net cash used in investing activities		(725,196)	(359,772)
Cash flows from financing activities			
Net financial expense		34,159	(297)
Proceeds from borrowings		783,693	419,516
Repayment of borrowings		=	<u>(73,424)</u>
Net cash generated from financing activities		817,852	345,795
Net increase in cash and cash equivalents		77,367	55,134
Foreign currency effect in cash and cash equivalents		(888)	-
Cash and cash equivalents at 1 January		55,947	813
Cash and cash equivalents at 31 December	8	<u>132,426</u>	<u>55,947</u>

Notes to the financial statements

1 Accounting policies

Moray Offshore Windfarm (East) Limited (the "Company") is a company incorporated and domiciled in the UK.

The registered number is 07101438 and the registered address is Condor House, 10 St Paul's Churchyard, London, EC4M 8AL effective from 1 March 2019, previously 14/18 City Road, Cardiff, CF24 3DL.

The company financial statements have been prepared and approved by the directors in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

All operations of the company are considered to take place in one operating segment.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value

1.2 Going concern

As at 31 December 2019, the Company's current liabilities exceeded their current assets by £51,852k (31 December 2018: £22,325 k). The Company is dependent upon shareholder funding. The shareholders have indicated through support letters that they will continue to provide such funds as are necessary to enable Moray Offshore Windfarm (East) Limited to continue to trade and to meet its liabilities as they fall due and that the shareholders will not seek repayment of the amounts currently made available.

Based upon the undertaking of financial support outlined above, and after making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the company's annual financial statements.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.
- (c) To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes (continued)

1 Accounting policies (continued)

1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.6 Property, plant and equipment

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Windfarm assets (under construction) 25 years
- Plant and equipment 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Plant & equipment refers to the Offshore Meteorological Mast. As a consequence of an incident in 2014, the estimated useful life has been reduced from 30 years to 5 years. The asset has been formally commissioned and has been fully operational since October 2016. In line with company policy, depreciation for the Offshore Meteorological Mast is subsequently capitalised to the Windfarm asset.

Assets under construction includes capitalised elements of our hedging positions when the construction activities against which the hedge was designated are carried out.

1.7 Cost Contribution from The Crown Estate

Cost contribution from The Crown Estate in respect of capital expenditure is credited to the profit and loss account over the period of the estimated useful life of the relevant fixed assets. The cost contributions shown within Deferred Income in the balance sheet represent cost contributions received or receivable to date, less the amounts so far credited to profits.

Notes (continued)

1 Accounting policies (continued)

1.8 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

1.9 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

1.10 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.11 Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.13 Derivatives

Hedge accounting

The Company expects that for all designated hedge relationships, changes in value of both the hedging instrument and the hedged transaction will offset and systematically move in opposite directions given the critical terms of the hedging instrument and the Hedged transactions are closely aligned. The Company performs periodic qualitative prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The Company has elected to early adopt the FRS 102 Interest Rate Benchmark Reform Amendment.

The potential sources of hedge ineffectiveness are as follows:

1. Credit risk - movements in the Company's and hedging counterparty's credit spread could result in movements in fair value of the hedging instrument that would not be reflected in the movements in the value of the hedged transactions.
2. Redesignated hedges - The Company's hedges were restructured prior to financial close to better match the expected exposures at that date. These changes to the hedge instruments require redesignation under IFRS 9, resulting in hedges that had a non-zero fair value at redesignation date. The redesignation of hedges with a non-zero fair value creates hedge ineffectiveness due to the unwind of the discounting on the fair value of the derivative instrument at the designation date.
3. The possibility of changes to the critical terms of the hedged transactions due such that they no longer match those of the hedging instrument. The Company would reflect such mismatch when modelling the hedged item for the purpose of measuring hedge ineffectiveness.

Each hedging instrument is designated in a 1:1 hedge ratio against an equivalent notional amount of hedged item. Should an insufficient amount of hedged item be available the hedging instrument will be redesignated or proportionally designated as appropriate.

Notes (continued)

1 Accounting policies (continued)

1.14 Accounting estimates and judgements.

Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is then estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the profit and loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in circumstances that caused the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Capitalisation of Assets

Property, plant & equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

The cost of acquisition includes interest on external financing and personnel costs and other internal expenses directly or indirectly related to work in progress accrued solely during the period of construction.

Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial instruments to hedge certain economic exposures. The Company fair values its derivative financial instruments and records the fair value of those instruments on the Balance Sheet. No market prices are available for these instruments and consequently the fair values are determined by calculating the present value of the estimated future cash flows based on observable forward curves. There is also a judgment on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying item being hedged.

1.15 Decommissioning of Windfarms

A provision is made for the decommissioning of the windfarm based on the Company's best estimate of the cost of decommissioning, these costs are a contractual obligation when the planning consent is granted to ensure appropriate restoration of the land.

Provisions for the decommissioning are recognised in full when the related facilities are constructed and a contractual obligation under an agreed decommissioning plan exists. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related plant and equipment as a decommissioning asset. The amount recognised is the estimated cost of decommissioning, discounted of its net present value, and is reassessed at each balance sheet date. Changes in the estimated timing and value of decommissioning costs estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the decommissioning asset cost. The unwinding of the discount on the decommissioning provision is included as at finance cost.

We have accounted for our obligations to decommission the assets in accordance with the agreements signed with the Crown Estate. These set out that the Company must pay the costs of decommissioning the project to return the land and sea bed to its original state upon the expiry of the lease. The agreements state that a decommissioning plan must be formally agreed with the Secretary of State as per Energy Act, 2004, setting out the way in which this will be executed. As at 31 December 2019, the decommissioning plan had not yet been agreed, therefore no liability for decommissioning has been recorded. When the plan is agreed, the company expects to record its estimation of the financial obligation to decommission the assets in accordance with the decommissioning plan.

Notes (continued)

1 Accounting policies (continued)

1.16 Leases

The company currently has a land lease agreement with a 15-month duration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the company under residual value guarantees;
- the exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases; and
- makes adjustments specific to the lease, for example term, country, currency and security.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Notes (continued)

Accounting policies (continued)

1.17 New and amended standards adopted by the company

The company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16, 'Leases';
- Prepayment Features with Negative Compensation – Amendments to IFRS 9;
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28;
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle;
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19; and
- Interpretation 23 'Uncertainty over Income Tax Treatments'.

The company had to change its accounting policies as a result of adopting IFRS 16. The company elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 6(b). The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the company. These standards are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

Changes in accounting policies

The adoption of IFRS 16 has had no material impact on the financials of the Company as at January 1, 2019.

Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Notes (continued)

2 Expenses and Auditors' remuneration:

Included in Operating Loss are the following;

	2019 £000	2018 £000
Accrual in relation to the audit of the 2019 annual financial statements	<u>18</u>	<u>18</u>

3 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2019	2018
Administration	9	8
Technical	<u>11</u>	<u>10</u>
	<u>20</u>	<u>18</u>

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	336	228
Social security costs	36	26
Other Pension costs- defined contribution	<u>32</u>	<u>20</u>
	<u>404</u>	<u>274</u>

Directors' Remuneration

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by group companies of the Respective Shareholder Companies and were remunerated through those companies. The directors did not provide any material qualifying services to the Company.

4 Finance income costs

	2019 £000	2018 £000
Finance income		
Bank interest received	<u>1,119</u>	<u>45</u>
Total finance income	1,119	45
Finance costs		
Unwind of discount on provisions	102	100
Net foreign exchange loss	888	295
Hedging ineffectiveness	669	47
Borrowing costs and associated depreciation	55,256	4,331
Capitalised borrowing costs and associated depreciation	<u>(55,256)</u>	<u>(4,331)</u>
Total finance costs	<u>1,659</u>	<u>442</u>

Finance Income & Costs - Borrowing Costs are capitalised as part of the cost of the asset with a capitalisation rate of 100% (2018: 100%).

Notes (continued)

5 Income tax expense

Recognised in the income statement

	2019 £000	2018 £000
Corporation tax expense	-	-
Current tax expense	-	-
Deferred tax expense	(719)	719
Income Tax Expense reported in the Income Statement	<u>(719)</u>	<u>719</u>

This note provides an analysis of the company's income tax expense, and shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the company's position.

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit/(Loss) for the year	<u>(1,355)</u>	<u>(1,166)</u>
Total tax expense	-	-
Profit/(Loss) excluding taxation	<u>(1,355)</u>	<u>(1,166)</u>
Tax using the UK corporation tax rate of 19.00%	(257)	(221)
Adjustments in respect of prior years	(719)	-
Non-deductible expenses	28	19
Losses foregone	-	47
Capitalised amounts brought into account	-	2,137
Effects of group relief	2	-
Tax rate changes	-	(85)
Deferred tax movements	<u>227</u>	<u>(1,178)</u>
Income Tax Expense reported in the Income Statement	<u>(719)</u>	<u>719</u>

The company has not recognised all available deferred tax assets due to uncertainty as to the recoverability of these assets, and uncertainty over the exact value of the benefit which will be available from these assets in future periods. The best estimate of these unrecognised assets at the balance sheet date is considered to be £6,425,514 (2018: £6,822,256).

Reductions in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

A change to the future UK corporation tax rate was announced in the March 2020 Budget. The rate will no longer drop to 17% with effect from 1 April 2020 but will remain at the previous rate of 19%. This change had not been substantively enacted at the balance sheet date and therefore is not recognised in these financial statements. The effect of this change, if it applied to the deferred tax balance at 31 December 2019, would be to increase the deferred tax asset by £3,133,093.

Deferred tax

	2019 £000	2018 £000
Provision at start of period	12,905	-
Adjustments in respect of prior years	743	-
Temporary differences on derivatives	12,983	13,648
Fixed asset and other timing differences	-	<u>(743)</u>
Deferred tax	<u>26,631</u>	<u>12,905</u>

Notes (continued)

6 Non-financial assets and Liabilities

6(a)

Property, Plant and Equipment

	Plant and equipment £000	Assets under construction £000	Total £000
Cost			
Balance at 1 January 2018	18,357	79,379	457,509
Additions	=	<u>359,773</u>	<u>359,773</u>
Balance at 31 December 2018	18,357	439,152	457,509
Accumulated Depreciation and impairment			
Balance at 1 January 2018	(8,901)	-	(8,901)
Depreciation charge for the year	<u>(2,522)</u>	=	<u>(2,522)</u>
Balance at 31 December 2018	(11,423)	-	(11,423)
Net book value			
At 31 December 2018	6,934	439,152	446,086
Cost			
Balance at 1 January 2019	18,357	439,152	457,509
Additions	=	<u>730,241</u>	<u>730,241</u>
Balance at 31 December 2019	18,357	1,169,393	1,187,750
Accumulated Depreciation and impairment			
Balance at 1 January 2019	(11,423)	-	(11,423)
Depreciation charge for the year	<u>(2,522)</u>	=	<u>(2,522)</u>
Balance at 31 December 2019	<u>(13,945)</u>	=	<u>(13,945)</u>
Net book value			
At 31 December 2019	<u>4,412</u>	<u>1,169,393</u>	<u>1,173,805</u>

The amount of borrowing costs capitalised during the period was £55,255,927 (2018: £4,331,488) with a capitalisation rate of 100% (100%).

Notes (continued)

6 Non-financial assets and Liabilities (Continued)

6(b)

Leases	2019 £000
Right of use assets	
Land Lease	<u>5,933</u>
	<u>5,933</u>
Lease Liabilities	
Current	4,746
Non-current	<u>1,187</u>
	<u>5,933</u>

The company has entered into a land lease agreement, which will become effective from July 2020 onwards with a 15 months duration. The committed value that results from this agreement was recorded considering the discounted average interest rate of the company. Currently, since no payment is due, no depreciation has been charged.

7 Trade and other receivables

	2019 £000	2018 £000
Other trade receivables	7,641	1,136
Prepayments	<u>6</u>	<u>2,569</u>
	<u>7,647</u>	<u>3,705</u>

8 Cash and cash equivalents

	2019 £000	2018 £000
Cash and cash equivalents	<u>132,426</u>	<u>55,947</u>

Cash and cash equivalents comprise proceeds received from borrowings towards construction of the wind farm and related payments. The utilisation of cash held by the Company is restricted towards the settlement of Generation Asset Eligible Costs or Transmission Asset Eligible Costs.

9 Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 14.

	2019 £000	2018 £000
Non-current liabilities		
Interest bearing Loans	754,627	352,062
Transmission Term Facility	276,954	67,454
Generation Term Facility	<u>116,600</u>	<u>-</u>
	<u>1,148,181</u>	<u>419,516</u>

Notes (continued)

9 Borrowings (continued)

	Year of Maturity	2019 £000	2018 £000
Payables: falling due more than one year			
Transmission Term Facility	2038	276,954	67,454
Generation Term Facility	2038	<u>116,600</u>	=
Borrowing from the Company's parent sourced from its shareholders as below:		393,554	67,454
<u>Shareholder loans</u>			
Moray Offshore Renewable Power Ltd	2038	30,874	14,084
China Three Gorges (UK) Limited	2038	76,350	35,209
<u>Equity Bridge loans</u>			
Moray Offshore Renewable Power Ltd	2022	212,258	102,796
Delphis Holdings Limited	2022	168,707	81,777
Diamond Green Limited	2023	242,111	117,208
<u>Guarantee Fee Loans</u>			
Moray Offshore Renewable Power Ltd	2022	7,927	332
Delphis Holdings Limited	2022	6,506	259
Diamond Green Limited	2023	<u>9,894</u>	<u>397</u>
		754,627	352,062
Total		<u>1,148,181</u>	<u>419,516</u>

Repayment terms:

Transmission Term Facility and Shareholder loan repayments will commence at Commercial Operation Date (COD) and will be fully repaid by the maturity date.

Generation Term Facility repayments will commence 3 months after the Commercial Operation Date (COD) and will be fully repaid by the maturity date.

Equity Bridge and Guarantee fee loan repayments will be repaid at COD or COD + 1 year depending on the year of maturity.

The borrowings listed above are all considered to be at market interest rates, and the security on the loans is the project's going concern, if the borrower defaults on the loan repayments then the project's future is at risk.

Notes (continued)

10 Trade and other payables

	2019	2018
	£000	£000
Current		
Trade payables due to related parties	1,258	467
Other trade payables	119,972	78,677
Accrued interest	<u>35,344</u>	<u>55</u>
	<u>156,574</u>	<u>79,199</u>

Trade payables are unsecured and are usually paid within 30 or 45 days depending on the contractual arrangements. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

11 Deferred income

	2019	2018
	£000	£000
Other payables – Deferred Income	<u>1,145</u>	<u>1,145</u>
	<u>1,145</u>	<u>1,145</u>

Deferred income in relation to income received from Crown Estate in relation to the Zone Development agreement and relates to contribution towards the costs of developing the Windfarm. This income will be released to the Income Statement on a straight-line basis over the life of the Windfarm asset once operational.

12 Provisions

	Decommissioning Provision
	£000
Balance at 1 January 2019	5,372
Unwinding of discounted amount	<u>102</u>
Balance at 31 December 2019	<u>5,474</u>

A decommissioning provision was recognised at the end of 2014 in respect of the removal of the Offshore Meteorological Mast and the obligation to restore the seabed at the end of the asset's useful life, with an additional provision recognised in 2015 in line with the revised useful life of 5 years. The asset became operational in October 2016 and so unwinding of the provision has commenced from this date. A corresponding decommissioning asset was also recognised at this date.

Notes (continued)

13 Capital and reserves

Share capital

	Ordinary shares	
	2019	2018
	£000	£000
Authorised and issued		
1 January	10,000	10,000
Issued for cash	=	=
31 December	<u>10,000</u>	<u>10,000</u>
	2019	2018
	£000	£000
Allotted, called up and fully paid	10,000	10,000
Shares classified in shareholders' funds	<u>10,000</u>	<u>10,000</u>

Ordinary shares have a par value of £1.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. No dividends have been proposed and declared in the year (2018: nil).

Accumulated losses	2019	2018
	£000	£000
Accumulated losses at 1 January	10,238	8,353
Loss for the year	<u>636</u>	<u>1,885</u>
Total accumulated losses at 31 December	<u>10,874</u>	<u>10,238</u>

Hedge reserve

Hedging reserve	2019	2018
	£000	£000
Accumulated cash flow hedge loss at 1 January	66,637	-
Loss on effective portion of cashflow hedge for the year (net of tax)	<u>63,386</u>	<u>66,637</u>
Total cash flow hedge reserve at 31 December	<u>130,023</u>	<u>66,637</u>

Notes (continued)

14 Derivative Financial instruments

(i) Risk management

Foreign exchange risk – The Company is a GBP functional currency entity which incurs a certain portion of its construction costs in EUR and USD, exposing the Company to exchange rate fluctuations between GBP and EUR and GBP and USD. The Company's risk management strategy is to protect the Company against adverse fluctuations in foreign exchange rates by using FX forward contracts to reduce its exposure to variability from foreign exchange impacting cash flows arising from Company's foreign currency denominated fixed asset construction cost cash flows to the extent that it is practicable and cost effective to do so.

Interest rate risk – The Company is partially funded using long-term floating rate GBP loans that expose the company to potential variability in interest rates. The Company's risk management strategy is to protect the Company against adverse fluctuations in interest rates utilising pay fixed receive float interest rate swaps to reduce its exposure to variability in cash flows on the Company's forecasted floating-rate debt facility to the extent that it is practicable and cost effective to do so.

Inflation risk – The Company future revenues from power generation will contractually indexed to UK CPI, exposing the Company to variability in future forecast revenue from changes in UK CPI. The Company's risk management strategy is to protect the Company against adverse fluctuations in UK CPI rates by reducing its exposure to variability in cash flows on the Company's forecasted revenues using receive fixed pay float inflation swaps to hedge the contractually specified CPI component of future forecasted revenues to the extent that it is practicable and cost effective to do so.

ii) Capital, liquidity and credit risk management

The Company funds its operations from operating cash flow, and shareholders' loans. The objective is to achieve a capital structure with an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding to accommodate any material investment requirements.

The Company's principal financial instruments comprise borrowings, cash and other items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Company's operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments is undertaken for speculative purposes. There has been no significant change to the Company's exposure to market risks during 2019. The principal risks arising are liquidity risk, with the secondary risk being interest rate risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged since the beginning of 2019.

(iii) Hedge Accounting

The Company expects that for all designated hedge relationships, changes in value of both the Hedging Instrument and the Hedged Transaction will offset and systematically move in opposite directions given the critical terms of the Hedging Instrument and the Hedged Transactions are closely aligned. The company performs periodic qualitative prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument. The potential sources of hedge ineffectiveness are as follows:

1. Credit risk - movements in the Company's and hedging counterparty's credit spread could result in movements in fair value of the Hedging Instrument that would not be reflected in the movements in the value of the Hedged Transactions.
2. Redesignated hedges – The Company's hedges were restructured prior to financial close to better match the expected exposures at that date. These changes to the hedge instruments require redesignation under IFRS 9, resulting in hedges that had a non-zero fair value at redesignation date. The redesignation of hedges with a non-zero fair value creates hedge ineffectiveness due to the unwind of the discounting on the fair value of the derivative instrument at the designation date
3. The possibility of changes to the critical terms of the Hedged Transactions due such that they no longer match those of the Hedging Instrument. The Company would reflect such mismatch when modelling the hedged item for the purpose of measuring hedge ineffectiveness.

Notes (continued)

14 Derivative financial instruments (continued)

Each hedging instrument is designated in a 1:1 hedge ratio against an equivalent notional amount of hedged item. Should an insufficient amount of hedged item be available the hedging instrument will be dedesignated or proportionally designated as appropriate.

iv) Valuation approach

Fair value estimates of derivatives are based on relevant market information and information about the financial instruments which are subjective in nature. The fair value of these financial instruments is estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the reporting date.

The inputs for the valuation of FX forwards are spot rates, FX forward rates, and the interest rate curve of the relevant currency. The inputs for the valuation of interest rate swaps are forward curves for GBP Libor and SONIA. For the UK CPI inflation swaps, a UK CPI forward curve is constructed by using zero-coupon RPI swap rates and adjusting for a spread to CPI. Derivative valuations are adjusted to reflect the impact of both counterparty credit risk the Company's non-performance risk as required by IFRS 13.

v) Fair Value Hierarchy

The fair value of financial instruments that are not traded in an active market (for example OTC derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to value an instrument are observable, the instrument is included in Level 2 of the fair value hierarchy. All of the Company's financial instruments held at fair value fall into this categorisation.

14 (a)

Cash flow hedges

Fair values and notionals

	Derivative assets December 2018 £000	Derivative liabilities December 2018 £000	Change in fair value in year £000	Notional amounts (GBP) £000
FX Forwards	19,264	(1,734)	17,530	1,351,185
Interest rate swaps	-	(46,987)	(46,987)	111,295
Inflation swaps	-	(50,829)	(50,829)	26,568
	19,264	(99,550)	(80,286)	1,489,048
	Derivative assets December 2019 £000	Derivative liabilities December 2019 £000	Change in fair value in year £000	Notional amounts (GBP) £000
FX Forwards	370	(45,274)	(61,924)	988,715
Interest rate swaps	-	(107,127)	(21,665)	319,771
Inflation swaps	370	(8,001)	5,015	26,568
	370	(160,402)	(78,574)	1,335,054

Included in the derivative liabilities above of £160,402k (2018: £99,550k) is £30,605k (2018: £2,778k) of current liabilities and £129,797k (2018: £96,772k) of non-current liabilities.
Note that the notionals disclosed for the interest rate and inflation swaps are based on the notionals used for the next payment calculation. These notionals will accrete and then amortise over the life of the swaps.

Notes (continued)

14 Derivative Financial instruments (continued)

14 (a) (continued)

Notional amounts:

31 DECEMBER:	2019 £000	2020 £000	2021 £000	2022 £000	2027 £000	2032 £000
FX FORWARDS	<u>988,715</u>	<u>501,884</u>	<u>467,911</u>	<u>4,150</u>	-	-
INTEREST RATE SWAPS	<u>319,771</u>	<u>1,144,414</u>	<u>1,842,874</u>	<u>1,104,120</u>	<u>833,449</u>	<u>450,325</u>
INFLATION SWAPS	<u>26,568</u>	-	-	<u>26,568</u>	<u>82,818</u>	<u>105,849</u>
TOTAL	<u>1,335,054</u>	<u>1,646,298</u>	<u>2,310,785</u>	<u>1,134,838</u>	<u>916,267</u>	<u>556,174</u>

14 (b)

Cash flow hedges - OCI reconciliation and P&L impacts

	Opening OCI- Jan 2018 £000	Amounts deferred in OCI £000	Reclass to assets under construction £000	Closing OCI- Dec 2018 £000	Hedge ineffectiveness £000
FX Forwards	-	(10,587)	(6,859)	(17,446)	(3)
Interest rate swaps	-	46,937	(58)	46,879	50
Inflation swaps	-	<u>50,829</u>	-	<u>50,829</u>	-
	-	<u>87,179</u>	<u>(6,917)</u>	<u>80,262</u>	<u>47</u>

	Opening OCI- Jan 2019 £000	Amounts deferred in OCI £000	Reclass to assets under construction £000	Closing OCI- Dec 2019 £000	Hedge ineffectiveness £000
FX Forwards	(17,446)	65,611	(4,925)	43,240	96
Interest rate swaps	46,879	60,879	(2,343)	105,415	46
Inflation swaps	<u>50,829</u>	<u>(42,828)</u>	-	<u>8,001</u>	-
	<u>80,262</u>	<u>83,662</u>	<u>(7,268)</u>	<u>156,656</u>	<u>142</u>

14 (c)

Contractual maturity analysis - for derivative liabilities as at December 2018

	0-1 Year £000	1-2 Years £000	2-5 Years £000	More than 5 years £000
FX Forwards	282,280	-	-	-
Interest rate swaps	1,049	3,711	20,606	27,439
Inflation swaps	-	-	1,452	69,374

Contractual maturity analysis - for derivative liabilities as at December 2019

	0-1 Year £000	1-2 Years £000	2-5 Years £000	More than 5 years £000
FX Forwards	445,737	467,911	4,150	-
Interest rate swaps	6,412	17,207	35,446	55,785
Inflation swaps	-	-	1,759	(10,945)

Notes (continued)

14 Derivative Financial instruments (continued)

14 (d)

Average Strike terms of hedging instruments

FX Forwards (EUR)	0.90
FX Forwards (USD)	1.33
Interest rate swaps	1.69%
Inflation swaps	2.30%

14 (e)

Sensitivity Analysis

FX forwards

	10% weakening of GBP 2019 £000	10% strengthening of GBP 2019 £000	10% weakening of GBP 2018 £000	10% strengthening of GBP 2018 £000
FX Forwards (EUR)	(59,375)	104,069	(114,346)	114,913
FX Forwards (USD)	5,888	(8,464)	(15,129)	18,491

	100 bps fall in rates 2019 £000	100 bps rise in rates 2019 £000	100 bps rise in rates 2018 £000	100 bps rise in rates 2018 £000
Interest rate swaps	(137,699)	121,626	(133,408)	115,786

Inflation swaps

	100 bps fall in inflation curve 2019 £000	100 bps rise in inflation curve 2019 £000	100 bps rise in inflation curve 2018 £000	100 bps rise in inflation curve 2018 £000
Inflation swaps	164,363	(194,337)	174,522	(195,365)

Being as these hedging instruments are all designated in effective hedge relationships the impact of these changes would largely be to equity. The sensitivity analysis performed is based upon the management's view of reasonably possible outcomes.

Notes (continued)

14 Derivative Financial instruments (continued)

14(f)

Fair values of financial instruments

The fair values of all financial assets and financial liabilities with their carrying amounts shown in the balance sheet are as follows:

	Notes	2019 £000 Carrying value	2018 £000 Carrying value	2019 £000 Fair value	2018 £000 Fair value
Financial assets at amortised cost					
Cash and cash equivalents	8	132,426	55,947	132,426	55,947
Other loans and receivables	7	87	17,274	87	17,274
Derivative financial instruments					
Used for hedging	14a	370	19,264	370	19,264
Total financial assets		<u>132,883</u>	<u>92,485</u>	<u>132,883</u>	<u>92,485</u>
Liabilities at amortised cost					
Other interest-bearing loans and borrowings	9	1,148,181	419,516	1,148,523	372,529
Trade and other payables	10	156,574	93,545	156,574	93,545
Lease Liabilities	6	5,933	-	5,933	-
Derivative financial instruments					
Used for hedging	14a	160,402	99,550	160,402	99,550
Total financial liabilities		<u>1,471,090</u>	<u>612,611</u>	<u>1,471,432</u>	<u>565,624</u>
Total financial instruments		<u>(1,338,207)</u>	<u>(520,126)</u>	<u>(1,338,549)</u>	<u>(473,139)</u>

14(g) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effects of netting arrangements:

	Carrying amount £'000	< 1 years £'000	2019			Over 5 years £'000
			1 to 2 years £'000	2 to 5 years £'000		
Non-derivative financial liabilities						
Trade and other payables	156,574	156,574	-	-	-	-
Borrowings	1,148,181	24,272	24,272	706,113	695,495	-
Lease liabilities	6,042	2,433	3,609	-	-	-
	Carrying amount £'000	< 1 years £'000	2018			Over 5 years £'000
			1 to 2 years £'000	2 to 5 years £'000		
Non-derivative financial liabilities						
Trade and other payables	79,199	79,199	-	-	-	-
Borrowings	419,516	8,481	8,481	325,600	183,839	-
Lease liabilities	-	-	-	-	-	-

Notes (continued)

15 Commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities as follows:

	2019	2018
	£000	£000
Property, plant and equipment	1,392,531	2,006,128

The capital commitments of £1.393 billion listed above are in relation to the EPCI contracts contracted and entered into prior to year ended 31 December 2019, these are all in relation to the construction of the Windfarm.

16 Subsequent events

Since December 2019, the COVID-19 Coronavirus has spread from China to other countries, including the United Kingdom. This event has affected the regular economic activity but to date there has been some, but not a significant, impact on the operations and financial results of the Company. Whilst the extent to which the COVID-19 Coronavirus will impact the Company in the future will depend on future developments that are not known today, including actions to contain the disease, treat it and mitigate its impact on the economy, among others, the Company has an ongoing process of analysis of potential effects on its operations and critical impacts on programme or budget are not yet observed.

17 Related parties

Identity of related parties with which the Company has transacted

During the year, EDPR UK Limited recharged staff costs of £2,193,000 (2018: £4,784,000), of which £2,193,000 (2018: £4,784,000) was capitalised. At the year end, a total of £497,613 remains outstanding.

During the year Diamond Generating Europe Limited recharged staff costs of £298,061 (2018: £524,068) of which the full amount was capitalised. At the year end, a total of £103,282 remains outstanding.

During the year International Power Limited recharged staff costs of £1,314,079 (2018: £306,447) of which the full amount was capitalised. At the year end, a total of £657,039 remains outstanding.

18 Ultimate parent company and parent company of larger group

The company is controlled by its shareholders. The current shareholder is Moray East Holdings Limited (100%). Moray East Holdings Limited is controlled by several parties, none of which has overall control, as such there is no ultimate controlling party. Moray Offshore Windfarm (East) Limited does not form part of a larger group.