

Moray Offshore Windfarm (East) Limited

Annual report and financial statements

Registered number 07101438

For the year ended 31 December 2022



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Strategic report

The directors have pleasure in presenting the strategic report of the Company for the year ended 31 December 2022.

The strategic report has been prepared in accordance with section 414C of the Companies Act 2006.

Principal activities

The principal activity of the Company ('project') is to operate an offshore wind farm in the Moray Firth region. The Company has completed construction and achieved Commercial Operation Date ('COD') on 1 April 2022. The Company has been operating the offshore wind farm since then and its focus is on maintaining the operations of the wind farm to the highest possible standards to generate revenue from sale of electricity generated by the wind farm.

The Company is a wholly owned subsidiary of Moray East Holdings Limited ('MEHL'). The shareholders of Moray East Holdings Limited as at 31 December 2022 are Moray Offshore Renewable Power Limited at 33.3%, Delphis Holdings Limited at 23.3%, Diamond Green Limited 33.4% and China Three Gorges (UK) Limited 10%, none of which have overall control as an agreement between all shareholders is required for any significant transactions and no majority of shareholders can make a decision without all parties agreement.

Review of the business

The key milestone the Company was working towards during the year was achieving COD and subsequent to COD towards becoming a successful generator of electricity.

Key developments during the year are set out below:

- On 8 March 2022, Ofgem has appointed the Preferred Bidder for the purchase of Transmission asset of the project.
- On 1 April 2022, the project achieved COD successfully thus marking its transition from construction to operation of windfarm from that day. The project achieved its full contracted output of 900MW to the UK national transmission grid in that month.
- On 27 June 2022, the project repaid the Equity bridge loan due to banks through Moray Offshore Renewable Power Limited and Delphis Holdings Limited by injection of equivalent shareholder loans from the same shareholders.
- On 3 July 2022, the first repayments to external lenders for the Generation term facilities commenced. On 27 July 2022, the project distributed the excess cash to its shareholders through repayment of the Equity bridge loan ("Diamond Green Limited"), guarantee fees dues and shareholder loans.
- On 26 October 2022, the project was awarded Offshore Wind Project of the Year at the first ever Global Offshore Wind Awards.
- On 3 November 2022, the project hosted a fact-finding mission for Irish Oireachtas members to give them a first-hand experience of its 950MW offshore wind farm.

Summary of key financial information is given as below:

	2022	2021
	£000	£000
Revenue from operations	702,242	184,650
Profit before taxes	387,942	114,554
Net assets/ (liabilities)	335,420	(96,807)
Total assets	3,311,069	3,230,995

Revenue from operations has increased due to completion of construction and the project achieving COD on 1 April 2022. The Wind turbines came online in the previous year from 30 June 2021 in a phased manner up to 31 December 2021, hence power generated in 2021 was lower. The revenues have also been higher due to the high prices in the markets due to international events impacting on the security of supply. Profit before taxes have also grown in line with the Revenues, however, there has been a decrease in the profitability ratios due to certain costs being booked to the Income statement which were earlier eligible for capitalisation when the asset was under construction.

Strategic report (continued)

Review of the business (continued)

The profits earned during the year have led to the increase in the Net asset/ (liabilities) position (which is also the Net equity of the Company). This has been supported also by gains booked in Other comprehensive income on derivatives due to favourable market movements in the fair value of derivatives.

Despite the significant improvement from a net liability to a net asset position, the total asset value has increased marginally, since most of the cash generated from profits earned have been utilised to repay the external borrowings of the Company. The Total assets have grown on account of favourable derivative positions and increase in Trade and other receivables, but these have been offset by decrease in Deferred tax assets (driven by the increase in favourable derivative positions) and decrease in Property, plant and equipment (driven by depreciation for the period and adjustment to decommissioning on windfarm assets). On a net level the increase in the Total assets is largely attributed to the profits of last quarter which have not been distributed at year end.

The Company's key non-financial performance indicators are wind farm availability, which the Company reviews by monitoring the performance of the wind farm and through regular operations and maintenance activities on the windfarm.

The results for the year are detailed in the Income Statement which is set out on page 13. The Balance sheet is set out on page 15.

Principal Risks and Uncertainties

The Company's operation exposes it to a variety of risks. The financial risks are discussed in the Directors' report.

The principal risk and uncertainty facing the business are lower than expected wind speeds or lower generation due to poor availability. Wind risk is managed by monitoring against long term averages and sensitivity testing of cashflows at different levels. Availability is managed through a mix of contractual conditions and incentives with suppliers, regular reporting and monitoring as well as a focus on asset integrity.

Non-compliance with HSE obligations as well as environmental consent conditions are also principal risks. The Company operates a comprehensive HSE framework and monitors performances to identify and introduce improvements.

Non-compliance with regulatory, lenders and consent requirements are also identified as risks. The Company monitors these with the supervision of the Board of Directors and regular interactions and feedback with the concerned stakeholders.

Subsequent events

Delay in Contract for Differences

Subsequent to year end, in accordance with the terms of the Contract for Differences agreement, the Company has opted to further defer the start date of contract until 31 March 2024. This decision does not impact the financial statements of the Company for the year ended 31 December 2022, since the event is non-adjusting in nature. The Company is in the process of reviewing the changes to its hedge and revenue arrangements to ensure that the deferral does not adversely impact the financial risk management objectives of the Company.

Update on OFTO asset sale

The Company was required by the Electricity Act 1989 ('Act') to execute the sale of the transmission assets ('OFTO') to a third party in advance of the Generator Commissioning Clause ('GCC') deadline which originally fell on 15 January 2023, however, it was determined in 2022 that this deadline would not be met due to delays resulting from pending asset integrity assessment that was required to be completed before the OFTO sale can take place.

To mitigate the risk of violating the provisions of the Act, the Company requested the Department for Business, Energy & Industrial Strategy ('BEIS') (now called the Department for Energy Security and Net Zero) and Office of Gas and Electricity Markets ('Ofgem') for an extension of time to comply with the requirements of the Act. BEIS and Ofgem in January 2023 provided Letters of Comfort ('LoC') which stated that they will not prosecute the Company for this breach for a period of 12 weeks from 15 January 2023.

Strategic report (continued)

Subsequent events (continued)

Update on OFTO asset sale (continued)

In addition to the LoC, a statutory defence against money laundering ('DAML') in relation to the Proceeds of Crime Act 2022 was also granted to the Company, the Company's Lenders and the Company's customers. The delay in sale of OFTO asset also triggered a debt covenant violation under the finance agreements. The Company requested and obtained in January 2023 lender's confirmation that they won't exercise their rights available in the event of a default if certain conditions (which include LoC being in place from BEIS and Ofgem) are met.

As at the date of approval of financial statements, the asset integrity assessment on OFTO asset is still ongoing. The Company is working on mitigating these issues with the vendors responsible for installation and maintenance of the respective assets. Given the further delay, a further extension to the LoC and continuation of waiver of debt covenant has been requested and obtained from BEIS, Ofgem and the lenders respectively in April 2023. The current extension covers a period of 6 months starting from the date of its approval.

The directors of the Company have based on a formal assessment concluded that it is likely that the required asset integrity work will be completed along with the OFTO sale in early 2024. The Company has applied for extension of deadlines to cover the delay up to early 2024 and is awaiting feedback from the regulatory authorities.

The repayment of shareholder loans has been deferred as per contractual terms pending the settlement of the OFTO sale. It is now expected that the loans expected to be repaid in 2023 will be settled in early 2024 once the sale of OFTO assets are completed.

Equity Bridge Loan settlement – Diamond Green Limited

Subsequent to year end, Diamond Green Limited in March 2023 have infused shareholder loans amounting to £152,578,641 into MEHL which MEHL has lent further to the Company. This shareholder loan has been used to repay the Equity bridge loans which had been borrowed through Diamond Green Limited. The shareholder loan will be subject to the same interest and repayment terms as the other shareholder loans.

Equity infusion

Subsequent to year end, as required by the Common term's agreement and Equity support agreement, shareholders in MEHL have subscribed to additional share capital amounting to £205,266,976 in MEHL, in proportion of their existing shareholding by converting corresponding amounts of shareholder loan arrangements in March 2023. MEHL has prescribed the similar amount of share capital in the Company to ensure that the shareholder loan positions are settled in a manner to ensure back-to-back arrangements between the Company, MEHL and MEHL's shareholders. The number of shares issued are based on the face value of the shares in MEHL and the Company.

Operations and Maintenance agreements – Ocean Winds Operations UK Limited

The Company has signed an agreement post year end which will be effective from April 2022. Per the terms of the agreement, all employees of the Company would move to Ocean Winds UK Limited. Also, as per the terms of the agreement a revised mechanism of compensation for all existing services will be agreed between the Company and Ocean Winds UK which will be effective from April 2022 onwards. The management along with the Ocean Winds UK management has identified the incremental amount to be billed to align the costs incurred for the period April 2022 – March 2023 with the new agreements in effect.

Electricity Generator Levy

The Chancellor in his Autumn Statement introduced a new tax on exceptional electricity generation receipts of qualifying generating undertakings from 1 January 2023 to 31 March 2028. This measure introduces a temporary 45% charge on exceptional receipts realised from the sale of wholesale electricity by nuclear, renewable, biomass and energy from waste sources. Exceptional receipts are those in excess of a benchmark price of £75 per megawatt hour (adjusted in line with Consumer price index (CPI)). The Company is reviewing the legislation and is in the process of determining the impact of such taxes on its business.

Strategic report (continued)

Future Developments

With the achievement of Commercial Operations Date, the Company has now transitioned to its operations and maintenance phase. The Company has achieved its full contracted power output of 900 MW to the UK National Transmission Grid following the completion of works recently. The Company plans to continue operating the Windfarm, generating and selling of electricity while achieving the following objectives:

- Achieving zero accidents and breaches in environmental standards
- Achieving maximum output from the windfarm at optimum costs
- Maintaining the long-term asset condition and reliability

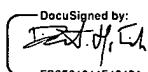
Section 172(1) Statement

Having regard to the matters set out in section 172(1)(a) to (f) of the Companies Act in the decisions taken during the financial year ending 31 December 2022, we advise as follows:

- a) Likely consequences of any decision in the long term – the Company operates an offshore windfarm which has an operational life of at least 25 years. The Directors of the Company are committed to ensuring that any long-term decision is taken with cognizance of impact on business but also on other key stakeholders.
- b) Interests of employees – the Company has a small team of employees responsible for administrative, operational and maintenance tasks. However, these employees are in the process of being transferred on to Ocean Winds UK Limited who have been appointed as the vendor in charge of comprehensive Operations and Maintenance of the windfarm on the Company's behalf.
- c) Fostering relationships with suppliers, customers and others – The Directors of the Company have engaged with/developed business relationships with the Company's customers, suppliers and other business partners.
- d) Impact of operations on the community and the environment – The Directors operate in a manner that intends to minimise the impact of the Company's operations on the environment and avoiding any environmental incidents. The Directors review for various factors in this regard including the regulatory and legal obligations of the Company in the operation and future decommissioning of an offshore windfarm. The Directors also support local community programs with specific levels of expenditure being budgeted specifically for community outreach.
- e) Maintaining a reputation for high standards of business conduct – The Directors review various matters in this regard, including health and safety, financial and operational performance, legal and regulatory compliance, the Company's business strategy, key risks and other significant matters which impact the business.
- f) The need to act fairly between members of the Company – The project is a wholly owned subsidiary, however the interests of all shareholders in its parent – MEHL are managed through shareholder agreements between the shareholders. The resultant impact of the agreement is on the composition of Board of Directors of the Project, all shareholders are adequately represented on the Board of the Project in accordance with their shareholding. The Directors ensure that they operate in the manner set out in the shareholder agreement, which ensures fair play between all shareholders.

The Directors' acknowledge that every decision taken will not necessarily result in a positive outcome for all of the Company's stakeholders. However, by considering the Group's purpose, vision and values, together with its strategic priorities, and having agreed processes in place for decision-making, they do aim to ensure that the decisions are consistent and appropriate in all circumstances.

On behalf of the Board

DocuSigned by:

FBBF81044F4849A...
Daniel H. Finch
Director

Registered Address:
Shepherd And Wedderburn LLP
Octagon Point, 5 Cheapside,
London,
England, EC2V 6AA
30 May 2023

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2022.

Moray Offshore Windfarm (East) Limited (the "Company") is a private company limited by shares incorporated and domiciled in the England and Wales, UK.

The registered number is 07101438 and the registered address is Shepherd And Wedderburn Llp Octagon Point, 5 Cheapside, London, England, EC2V 6AA.

The Company is a wholly owned subsidiary of Moray East Holdings Limited ('MEHL').

Principal activities

The disclosures regarding Principal activities, Business review, Key performance indicators, Subsequent events and Future developments are covered in Strategic Report.

Result and proposed dividend

The directors do not recommend the payment of a dividend (2021: nil).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

S J Altria
O Diaz Martin-Forero
D H Finch
G Gorski
B J R Sanchez
M R Haindaday (Resigned 8 March 2023)
I Herrero
F Kumura (Resigned 21 July 2022)
M M Maino
M Murata (Appointed on 21 July 2022)
S W Thompson (Resigned 20 February 2023)
Y Konda (Appointed on 1 March 2023)
Y Umemura (Resigned 1 March 2023)

Directors' qualifying third party indemnity provisions

As permitted by the Articles of Association the Directors have the benefit of an indemnity provision which is a qualifying indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Statement on engagement with suppliers, customers and others in a business relationship with the Company

The Company strives to maintain an excellent relationship with its stakeholders. The main stakeholders for the Company are its suppliers providing various operations and maintenance services, the customers, the community in which the business operates, the lenders, shareholders in MEHL and the government and regulatory agencies which impact the operation of the business. The Company has some employees on its payroll who are engaged in administrative and maintenance activities, however these are expected to be transferred to Ocean Winds UK Limited in 2023 and get integrated with the Operations and Maintenance team operating in Ocean Winds UK Limited.

The perspectives, insights and opinions of stakeholders are recognised as a key factor in the relevant operations, investment, financing, and business decisions taken by the Company, to ensure that as a whole they are more robust and sustainable.

Political contributions

The Company did not make any political donations or incur any political expenditure during the year (2021: nil).

Directors' report *(continued)*

Financial risk management

The Company is exposed to the following financial risks that include price, liquidity, credit and cash flow risk.

Price risk

The Company is exposed to risk of fluctuating market price of electricity it sells through the power purchase agreements to its customers. The risk is mitigated by having in place Contract for differences ('CfD') arrangements, details of which are further covered in Note 1.7.

Credit risk

The Company's exposure to credit risk is limited given that the Company's counterparties – its customers, lenders and suppliers are entities with robust financial background. The contractual terms ensure that the credit risk of the project is protected, and the Company performs a regular credit risk assessment (both quantitative and qualitative) to ensure that its risk is protected.

Liquidity and cash flow risk

The Company's exposure to liquidity and cash flow risk is managed through a regular review of forecasted cash flows for the project, typically on a quarterly basis. The Company is now self-sufficient with its operational cash flows being adequate to fund its operational cash flows and repayment of borrowings.

Foreign exchange risk

The Company is a GBP functional currency entity which incurs a certain portion of its operation and maintenance costs in EUR, exposing the Company to exchange rate fluctuations between GBP and EUR. 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 operation and maintenance 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

Under the CfD regime, the Company's future revenues from power generation will contractually be 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.

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

The current auditors, PricewaterhouseCoopers LLP, retire at the end of conclusion of the upcoming Annual General Meeting. The Board of Directors at its meeting dated 25-May-2023 have proposed to appoint Deloitte LLP as Statutory auditors for year ending 31 December 2023. A resolution that they be appointed will be proposed at the annual general meeting.

Directors' report *(continued)*

Going concern

As at 31 December 2022, the Company's current liabilities exceeded the current assets by £173,389k (31 December 2021: current assets exceeded their current liabilities £213,533k).

The Company's business activities, together with the factors likely to affect its future development and position are set out in Strategic Report of the Company.

Further the details of the Company's outstanding borrowing facilities is set out in Note 11 to the financial statements.

For the period of at least 12 months from the date of signing the financial statements, the Company is expected to require funds to repay such outstanding borrowing facilities (as described in Note 11) and to fund its operations on a day-to-day basis. These cashflows are expected to be funded from the cash generated from operations and proceeds from sale of Transmission assets (after settlement of Transmission term facilities).

The Directors have reviewed the Company's cash flow forecasts, sources of funding and liquidity, and potential mitigating actions for a period out to 30 June 2024 under both a base case and a severe downside scenario. Following this review, they are satisfied that the Company has access to adequate resources to continue funding its operations and construction project for the foreseeable future.

In addition to the above, the Directors of the Company have also reviewed its regulatory and contractual arrangements with various stakeholders and have concluded that the Company is in a position to meet its obligations to the stakeholders or to take adequate steps to mitigate a potential non-compliance such that there is no impact to the continuous operation of the wind farm.

Accordingly, the directors have prepared the financial statements on a basis of going concern.

Streamlined energy and carbon reporting ('SECR')

Energy Consumption and GHG Emissions

The tables below show the Company's total UK energy consumption and greenhouse gases ('GHG') emissions for the year ended 31 December 2022 in line with the UK Government Streamlined Energy and Carbon Reporting ('SECR') requirements. Energy consumption in this report is given in kilowatt hour ('kWh'), and GHG emissions are reported in tonnes of carbon dioxide equivalent ('t CO₂e').

Energy Consumption

Description of the source	Unit of measurement	2022
Fuel used in transport (Vessels)	kWh	8,972,578.31
Electricity (Buildings and energy imports)	kWh	6,925,632.77
		<hr/> 15,898,211.08 <hr/>

Energy Generated

The total renewable energy generation output for Moray East Wind Farm during the reporting period was 2,563.80 Gigawatt hour (GWh).

GHG Emissions

Summary of Scope 1 (Direct) emissions for the year ended 31 December 2022

Description of the source	Unit of measurement	2022
Fuel used in transport (Vessels)	t CO ₂ e	2,332.87

Directors' report *(continued)*

Streamlined energy and carbon reporting ('SECR') *(continued)*

GHG Emissions (continued)

Summary of Scope 2 (Indirect) GHG emissions for the year ended 31 December 2022

Description of the source	Unit of measurement	2022
Electricity (Buildings and energy imports)	t CO ₂ e	1,339.28

Scope 3 emissions have not been reported.

Carbon Intensity Ratio

The Carbon intensity ratio measured in terms of t CO₂e per GWh of electricity generated during the year ended 31 December 2022 was 1.43 t CO₂e per GWh.

Base year

The data for the year ended 31 December 2022 represents the company's first disclosure under the SECR requirements and shall be used as the baseline year to track performance and trends in future years.

Energy Efficiency Actions

The vessels used by the Company are all chartered. Moray East provides fuel to the Crew Transfer Vessels ('CTVs') used to transport O&M personnel from the base at Fraserburgh harbour to the wind park. During this reporting period, sea state monitoring devices were installed at several locations within the wind park to provide the marine coordination team with live data on the sea state. This measure will assist in reducing the number of sail & fails and unnecessary fuel burn. Where possible, routine O&M team activities are scheduled to reduce the volume and distance of in field CTV transits with the aim of reducing fuel burn.

The Moray East O&M base in Fraserburgh was built in 2021, and as such the building have been fitted with new air conditioning and air handling units, and an automated building control through BEMS/BMS, which identifies normal usage patterns balancing all mechanical and electrical services to minimise energy wastage and ensure comfort. Other energy saving features, such as LED lighting, motion sensors are also in place. All warehouse vehicles are electric, and the base also has an electric vehicle charging point.

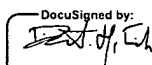
Methodology

The GHG emissions and energy consumption data presented in this report was compiled in line with the Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting requirements, from Department for Energy Security and Net Zero (DESNZ), Department for Environment, Food & Rural Affairs (DEFRA), and Department for Business, Energy & Industrial Strategy (BEIS), last updated in March 2019.

The BEIS and DEFRA UK Government GHG Conversion Factors for Company Reporting 2022 were used to convert data to t CO₂e and kWh as required.

Carbon intensity ratios was estimated in terms of tonnes of CO₂e per MWh of electricity produced. This was obtained by dividing the total CO₂e emissions estimated (i.e., Company's scope 1 and 2 emissions) by total electricity produced by Moray East Wind Farm during the same period.

On behalf of the board

DocuSigned by:

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Daniel H. Finch
Director

Shepherd And Wedderburn LLP
Octagon Point, 5 Cheapside,
London, England,
EC2V 6AA
30 May 2023

*Moray Offshore Windfarm (East) Limited
Annual report and financial statements
For the year ended 31 December 2022*

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

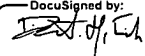
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards and have been prepared in accordance with the requirements of the Companies Act 2006.

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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.

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.

DocuSigned by:

FB5F81044F4849A...
Daniel H. Finch
Director

Shepherd And Wedderburn LLP
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30 May 2023

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 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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: Balance Sheet as at 31 December 2022; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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 Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 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 Strategic report and 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 Annual Report and the Financial Statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulations, health and safety requirements, electricity and gas market regulations and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or profit and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Evaluation of the design effectiveness of management's controls designed to prevent and detect irregularities;
- Inquiries with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of minutes of meetings of the Board of Directors;
- Challenging assumptions made by management in its significant accounting estimates, in particular in relation to carrying values of non-financial assets, capitalisation of assets, wind farm decommissioning provision, useful lives of wind farm assets, hedge accounting and consideration of the fair value of derivative financial instruments; and
- Obtaining the list of all journal entries posted during the year and performing testing of identified higher risk journals, including those involving unusual account combinations or those that could indicate manipulation of the result for the year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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.



Matthew Kaye (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
30 May 2023

Moray Offshore Windfarm (East) Limited
Annual report and financial statements
For the year ended 31 December 2022

Income Statement

For year ended 31 December 2022

	Note	2022 £000	2021 £000
Revenue	2	702,242	184,650
Cost of sales		(156,808)	(47,409)
Gross Profit		545,434	137,241
Other income		46	-
Operations and administrative expenses		(46,522)	(2,882)
Operating Profit	3	498,958	134,359
Finance income	6	2,441	76
Finance costs	6	(113,457)	(19,881)
Finance costs - net		(111,016)	(19,805)
Profit before income tax		387,942	114,554
Income tax expense	7	(96,598)	(27,410)
Profit for the year		291,344	87,144

The results for the year have been derived from continuing activities.

The notes are an integral part of these financial statements.

Statement of Comprehensive Income

For year ended 31 December 2022

	2022	2021
	£000	£000
Profit for the year	291,344	87,144
Other comprehensive income		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Gain on effective portion of cashflow hedges, net of tax	140,883	5,385
Other comprehensive income relating to the year, net of tax	<u>140,883</u>	<u>5,385</u>
Total comprehensive income for the year	<u>432,227</u>	<u>92,529</u>

The results for the year have been derived from continuing activities.

The notes are an integral part of these financial statements.

Balance Sheet

As at 31 December 2022

	Note	2022 £000	2021 £000
Non-current assets			
Property, Plant and equipment	8	2,170,339	2,292,419
Deferred tax assets	7	53,593	113,638
Derivative financial instruments	16	127,304	-
		<u>2,351,236</u>	<u>2,406,057</u>
Current assets			
Trade and other receivables	9	101,206	68,012
Current tax assets		2,537	-
Asset held for sale	8	641,040	-
Other current assets	8	-	640,462
Derivative financial instruments	16	23,014	-
Cash and cash equivalents	10	192,036	116,464
		<u>959,833</u>	<u>824,938</u>
Total assets		<u>3,311,069</u>	<u>3,230,995</u>
Non-current liabilities			
Provisions	14	72,076	139,667
Deferred Income	13	1,054	1,100
Borrowings	11	1,425,177	2,269,144
Derivative financial instruments	16	190,838	226,812
Deferred tax liabilities	7	153,282	79,674
		<u>1,842,427</u>	<u>2,716,397</u>
Current liabilities			
Provisions	14	9,938	-
Deferred Income	13	46	46
Borrowings	11	1,071,558	531,325
Derivative financial instruments	16	6,223	16,886
Trade and other payables	12	45,457	63,148
		<u>1,133,222</u>	<u>611,405</u>
Total liabilities		<u>2,975,649</u>	<u>3,327,802</u>
Net current (liabilities)/ assets		<u>(173,389)</u>	<u>213,533</u>
Net assets/ (liabilities)		<u>335,420</u>	<u>(96,807)</u>
Equity	15		
Share capital	15	10,000	10,000
Retained earnings	15	368,650	77,306
Hedge reserve	15	(43,230)	(184,113)
Total equity		<u>335,420</u>	<u>(96,807)</u>

The notes are an integral part of these financial statements. The financial statements on pages 13 to 45 were authorised for issue by the directors on 30 May 2023 and were signed on behalf of the Board of Directors:

DocuSigned by:

 F8BF8104F4889A...
 Daniel H. Finch
 Director

Company registered number: 07101438
 30 May 2023

Moray Offshore Windfarm (East) Limited
Annual report and financial statements
For the year ended 31 December 2022

Statement of Changes in Equity
For year ended 31 December 2022

	Share capital £000	(Accumulated losses)/ Retained earnings £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2021	10,000	(9,838)	(189,498)	(189,336)
Profit for the year	-	87,144	-	87,144
Other comprehensive income for the year	-	-	5,385	5,385
Balance at 31 December 2021	10,000	77,306	(184,113)	(96,807)
	Share capital £000	Retained earnings £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2022	10,000	77,306	(184,113)	(96,807)
Profit for the year	-	291,344	-	291,344
Other comprehensive income for the year	-	-	140,883	140,883
Balance at 31 December 2022	10,000	368,650	(43,230)	335,420

Share capital represents the value of shares issued and paid. Refer to note 15 for detailed information.

The notes are an integral part of these financial statements.

Refer note 19 for subsequent events.

Cash Flow Statement
for year ended 31 December 2022

	<i>Note</i>	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Cash flows from operating activities			
Profit before tax for the year		387,942	114,554
<i>Adjustments for:</i>			
Depreciation	8	99,785	23,851
Net financial expense	6	111,016	19,805
Amortisation of Deferred income		(46)	-
		598,697	158,210
Increase in trade and other receivables	9	(33,194)	(57,232)
Decrease in trade and other payables	12	(36,952)	(301,451)
Decrease in provisions	14	(95)	(5,657)
		(70,241)	(364,340)
Taxes paid		(12,442)	-
Net cash flow generated from/(used in) operating activities		516,014	(206,130)
Cash flows from investing activities			
Investment in tangible fixed assets		(37,169)	(538,834)
Lease payments		-	461
Bank interest received		2,135	76
Net cash used in investing activities		(35,034)	(538,297)
Cash flows from financing activities			
Financial expense		(72,912)	(36,594)
Proceeds from borrowings		470,385	779,600
Repayment of borrowings		(802,883)	-
Net cash generated from financing activities		(405,410)	743,006
Net increase/ (decrease) in cash and cash equivalents		75,570	(1,421)
Foreign currency effect in cash and cash equivalents		2	(4)
Cash and cash equivalents at 1 January	10	116,464	117,889
Cash and cash equivalents at 31 December	10	192,036	116,464

The notes are an integral part of these financial statements.

Non-cash financing and investing activities include accrual of Guarantee fee and interest on shareholder loans in Borrowings and Loans to related parties amounting to £28,764k (2021: £39,984k).

Notes to the financial statements

1 Accounting policies

Moray Offshore Windfarm (East) Limited (the “Company”) is a private company limited by shares incorporated and domiciled in the England and Wales, UK.

The registered number is 07101438 and the registered address is Shepherd And Wedderburn LLP Octagon Point, 5 Cheapside, London, England, EC2V 6AA.

The Company’s financial statements approved by the directors have been properly prepared in accordance with UK-adopted international accounting standards and have been prepared in accordance with the requirements of the Companies Act 2006. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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 Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

1.3 Recent accounting standards and interpretations issued

Standards, amendments and interpretations issued effective for the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

- Onerous contracts – Cost of Fulfilling a Contract – Amendments to IAS 37;
- Annual Improvements to IFRS Standards 2018-2020; and
- Reference to the Conceptual Framework – Amendments to IFRS 3.

The 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.

Standards, amendments, and interpretations issued but not yet effective for the Company

The standards, amendments and interpretations issued but not yet effective for the Company (whose effective application date has not yet occurred, or, despite their effective dates of application, they have not yet been endorsed by the UK) are the following:

- IFRS 17 – Insurance Contracts (and amendments related to initial application and comparative information);
- IAS 1 (Amended) - Classification of Liabilities as Current or Non-current;
- IAS 1 (Amended) and IFRS Practice Statement 2 - Disclosure of Material Accounting Policies
- IAS 1 (Amended) - Non-current Liabilities with Covenants
- IAS 8 (Amended) - Disclosure of Accounting Estimates;
- IAS 12 (Amended) - Deferred tax related to assets and liabilities arising from a Single Transaction;
- IFRS 10 (Amended) and IAS 28 (Amended) - Sale or contribution of assets between an investor and its associate or joint venture; and
- IFRS 16 (Amended) - Lease Liability in a Sale and Leaseback

Directors do not expect any significant impact on the financial statements for the application of those standards.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.4 Going concern

As at 31 December 2022, the Company's current liabilities exceeded the current assets by £173,389k (31 December 2021: current assets exceeded their current liabilities £213,533k).

The Company's business activities, together with the factors likely to affect its future development and position are set out in Strategic Report of the Company.

Further the details of the Company's outstanding borrowing facilities are set out in Note 11 to the financial statements.

For the period of at least 12 months from the date of signing the financial statements, the Company is expected to require funds to repay such outstanding borrowing facilities (as described in Note 11) and to fund its operations on a day-to-day basis. These cashflows are expected to be funded from the cash generated from operations and proceeds from sale of Transmission assets (after settlement of Transmission term facilities).

The Directors have reviewed the Company's cash flow forecasts, sources of funding and liquidity, and potential mitigating actions for a period out to 30 June 2024 under both a base case and a severe downside scenario. Following this review, they are satisfied that the Company has access to adequate resources to continue funding its operations and construction project for the foreseeable future.

In addition to the above, the Directors of the Company have also reviewed its regulatory and contractual arrangements with various stakeholders and have concluded that the Company is in a position to meet its obligations to the stakeholders or to take adequate steps to mitigate a potential non-compliance such that there is no impact to the continuous operation of the wind farm.

Accordingly, the directors have prepared the financial statements on a basis of going concern.

1.5 Foreign currency

The Company's functional and presentation currency is GBP. 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 Income statement.

1.6 Revenue from Operations

The Company earns revenue from the sale of electricity. This revenue is recognised in the accounting period when the control of the product has been transferred, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

The principles in UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 are applied to revenue recognition using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Fee arrangements

Below are details of fee arrangements and how these are measured and recognised, for revenue from the sale of electricity:

Performance obligations and Transaction price – Sale of Electricity

The main performance obligations to customers consist of supply of electricity to the parties identified in the power purchase agreement ('Offtakers') through the national grid asset network. Due to the nature of power supply the business judgements made in evaluating when control has passed are limited. Sale of electricity is based on power produced and supplied to offtaker in megawatt (MW), which is recognised at the production date.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.6 Revenue from Operations (continued)

Performance obligations and Transaction price – Sale of Electricity (continued)

The Company receives proforma invoices from the offtakers on a monthly basis (post the completion of the month). Once the company has reviewed the proforma invoices and approved them, payment is due by the end of the month in which the proforma invoice is received. The transaction price at which the megawatt is invoiced are driven by the market rates of the electricity prescribed under the power purchase agreement in place.

Performance obligations and Transaction price – Balancing Mechanism and Sale of Renewable Energy Guarantees of Origin (REGO)

Balancing Mechanism

The Company's generation of electricity is subject to a balancing mechanism where there are instances where the Company is required to constrain its generation depending on inputs from National Grid. The Company offers through Elexon, a subsidiary of the National Grid for the constraints on its generation. Once the offer is accepted by National Grid, the Company is compensated for the constrained demand at the offer price.

REGOs

The Company receives REGOs from Office of Gas and Electricity Markets for the electricity generated, which the Company then sells it forward to Offtakers for a consideration. The price per Offtaker is based on the price agreed with the Offtaker in the Power Purchase agreement.

Contract assets and receivables

Where goods or services are transferred to the customer before the customer pays consideration, or before payment is due, Contract assets are recognised. Contract assets are included in the Balance Sheet and represent the right to consideration for products delivered.

Contract receivables (loans and advances) are recognised in the Balance sheet when the Company's right to consideration becomes unconditional.

Contract assets and receivables (Trade receivables) are classified as current or non-current based on the Company's normal operating cycle and are assessed for impairment at each reporting date.

Contract liabilities

Contract liabilities and customer deposits are recognised in the Balance sheet when the Company has received consideration but still has an obligation to deliver products and meet performance obligations for that consideration.

Net basis of measurement of contract balances

Contract assets and contract liability positions are determined for each contract on a net basis. This is because the rights and obligations within each contract are considered inter-dependent. Where two contracts are with the same or related entities, an assessment is made of whether contract assets and liabilities are inter-dependent and if so, contract balances are reported net.

Impairment of contract balances

At each reporting date, the Company determines whether such assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where relevant contracts or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to be complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract specific KPIs that would trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether an onerous contract provision is required and how this is to be measured.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.7 Government Grants

• Arrangements under Contracts for Differences ('CfD')

The CfD scheme is the UK government's current mechanism for supporting low-carbon electricity generation which is delivered through a contract with the Low Carbon Contracts Company ('LCCC'), a government owned company. The general principle of the subsidy mechanism under a CfD is that the electricity generator is, for the lifetime of the support period under the contract, paid or must pay back (in respect of each MWh unit of electricity it generates) the difference between: a fixed 'strike price' and a 'market reference price' (calculated by reference to wholesale prices of electricity at the time the relevant MWh of electricity is generated). The contract enables the generator to stabilise its revenues at the strike price, being a pre-set level, for the duration of the contract. Each CfD Agreement contains an initial Strike Price (as at a Base Year of 2012) of £57.50/MWh. The Current Strike Price as displayed on the CfD Register is £73.71/MWh (as of 9 December 2022).

• 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.

1.8 Classification of financial instruments issued by the Company

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.

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.

1.9 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

For contract assets and receivables, Refer Note 1.6. All 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

These amounts represent the liabilities for goods and services provided to the Company prior to the end of the financial year in which are unpaid. The amounts are unsecured and are usually paid within 30 – 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. 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 include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in creditors: amounts falling due within one year.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.9 Non-derivative financial instruments (continued)

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. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in Income statement over the period of the borrowing using effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in Income statement as Other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

1.10 Property, plant and equipment

Tangible fixed assets (excluding assets under construction) are stated at cost less accumulated depreciation and accumulated impairment losses. Assets under construction includes capitalised elements of our hedging positions when the construction activities against which the hedge was designated are carried out. Borrowing costs relating to both specific and general borrowings directly attributable to assets under construction with a lengthy construction period are recognised in during construction period. Capitalisation ceases when substantially all the activities necessary to prepare the asset for use are complete. 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 on assets under construction commences from the point they are ready for use and transferred to respective fixed assets class. Depreciation is charged to the Income statement 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 25 years
- Decommissioning assets 25 years
- Plant and equipment (Met mast installation) 3 years

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

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the Company from the expenses incurred. Replaced parts are derecognised from the balance sheet, and their carrying amount is recognised in Income statement for the year. All other repair and maintenance expenses are recognised in Income statement for the year as incurred.

1.11 Assets under construction (Transmission assets)

In accordance with the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2009, Transmission assets (also referred to as 'OFTO assets') are required to be sold to an independent third party at completion of construction.

These assets are initially recorded at cost and accounted for as non-current assets under Assets under construction where construction is expected to last over 12 months. Held for sale classification is achieved where the asset is available for immediate sale in its present condition and the sale is highly probable. When sale of the asset is expected within 12 months, the asset is reclassified to other assets (current), even if the asset held for sale criteria have not been met. Profit/loss on sale of assets are recognised when control of ownership pass to the buyer. If it is probable that the final cost of the asset under construction will exceed sales price at project completion, the expected loss on the contract is recognised as an Impairment expense immediately in the Income Statement. These assets are not depreciated or amortised while they are classified as held for sale.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.12 Impairment

Financial assets (including receivables)

The Company has a single material type of financial asset – Trade receivables and contract assets from sale of electricity.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract asset relates to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rate is based on an assessment of the historical rates for default. The historical rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). Prior impairment of non-financial assets is reviewed for possible reversal at each reporting date.

1.13 Financing income and expenses

Financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in Income statement 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). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Finance income and Finance costs are recognised in Income statement 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.

1.14 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 current market assessments of time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance cost.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.15 Decommissioning of Windfarms (continued)

The amount recognised is the estimated cost of decommissioning, discounted of its net present value (at a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the liability), and is reassessed at each balance sheet date. Changes in the estimated timing and value of decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the decommissioning asset. The unwinding of the discount on the provision is included as at finance cost.

1.16 Dividend

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

1.17 Taxation

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

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balance either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred income tax liability is settled. 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax balance relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.18 Derivatives and Hedge accounting

Derivatives are initially recognised at fair values on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative designated as a hedging instrument and, if so, the nature of item being hedged. The Company designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value); or
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges)

At the inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether the changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 16. Movements in the hedging reserve in shareholder's equity are shown in Note 15 and Note 16. The full fair value of hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.18 Derivatives and Hedge accounting *(continued)*

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:

- 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.
- 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.
- 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 de-designated or proportionally designated as appropriate.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement within Finance income/ Finance costs.

Amounts accumulated in equity are equity are reclassified in the periods when the hedged item affects Income statement as follows:

- Where the hedged items subsequently result in the recognition of a non-financial asset (such as property, plant and equipment), both the deferred hedging gains and losses and the deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in Income Statement, since the hedged item affects the Income statement (for example, through depreciation).
- The gains or loss relating to the effective portion of forward contracts hedging Cost of sales or operating and administrative expenditure is recognised in Income statement within the respective cost at the same time as the hedged transaction occurs.
- The gains or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in Income statement within finance cost at the same time as the interest expense on the hedged borrowings.
- The gain or loss relating the effective portion of the inflation swaps hedging forecasted revenue is recognised in Income statement within the Revenue from Operations at the same time as the underlying revenue is recognised.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gains or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition at the time when the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to Income statement.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.19 Leases

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 to the financial statements (continued)

1 Accounting policies (continued)

1.20 Critical Accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of non-financial assets

Refer Note 8 for conclusions drawn on impairment of Property, plant and equipment (including those classified as "Other current assets/ Asset Held for sale") for the year ended 31 December 2022. For Property, plant and equipment, the conclusions were supported by the review of impairment indicators performed by the management with chief focus on expected rate of return on the project through the life of the asset based on conditions existing as at 31 December 2022.

With respect to the Transmission assets, the review was based on expected values expected to be achieved by the Company upon the sale of the Transmission assets. Based on the ongoing assessment of the bidding process, the Company is expected to complete the sale of the Transmission assets in late 2023 and the proceeds from the sale of the Transmission assets is expected to exceed the carrying value of the assets.

Capitalisation of Assets

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 Company has applied judgement in determining the cost of acquisition specific to items of cost eligible to be capitalised like 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. Where such items are no longer incurred in connection solely to the asset under construction, the capitalisation of such costs have been discontinued.

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.

Wind farm decommissioning provision

Estimates of decommissioning provisions are based on management's expectations concerning timing and scope, future cost level, and adopted laws and regulations on decommissioning. The timing of decommissioning provision depends on the useful lives of the assets. The determination of the decommissioning obligations involves the use of inflation rate and discount rate, details of which are provided in Note 14. Discount rates have been estimated on the basis of expectations concerning the future, long term interest level, based on British Pound Sovereign Curve. The inflation rates have been considered based on inflation trends in the United Kingdom as at 31 December 2022. The extent to which decommissioning will be required is also estimated based on current legislation and standards in this area. Expectations concerning the future cost level are based on variables such as expectations concerning the general price trend, demand conditions and the development of existing technologies.

Useful lives of Wind farm assets

The expected useful lives of wind farm assets are determined based on expectations concerning the future use of these assets. The expected future applications may subsequently prove not to be realisable, which may require useful lives to be reassessed.

Notes to the financial statements *(continued)*

2 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2022 £000	2021 £000
Sale of electricity	635,688	178,772
Others	66,554	5,878
	<u>702,242</u>	<u>184,650</u>

The total revenue of the Company for the year has been derived from its principal activity undertaken in the United Kingdom.

The Company commenced generating electricity in 2021 and sold this under power purchase agreement to the Offtakers.

The Company's revenue for 2021 includes pre-completion revenue of £57,570k.

3 Operating profit

Included in Operating profit are the following:

	2022 £000	2021 £000
Depreciation expense (Refer Note 8)	99,785	25,741
Depreciation on Met Mast capitalised (Refer Note 8)	-	(1,890)
Charges paid to TNUoS and BSUoS	46,259	20,164
Fees payable to the Company's auditors and associates:		
<i>Audit services</i>		
Fees payable to auditors for the audit of its statutory financial statements	65	51
<i>Other services</i>		
Audit related services	40	9

4 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	
	2022	2021
Administration	7	24
Technical	16	7
	<u>23</u>	<u>31</u>

The aggregate payroll costs of these persons were as follows:

	2022 £000	2021 £000
Wages and salaries	1,202	1,191
Social security costs	140	132
Other Pension costs	112	110
	<u>1,454</u>	<u>1,433</u>

5 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.

Notes to the financial statements (continued)

6 Finance income / Finance costs

	2022 £000	2021 £000
Finance income		
Bank interest received	2,135	76
Net foreign exchange income	306	-
Total finance income	<u>2,441</u>	<u>76</u>
Finance costs		
Unwind of discount on provisions	1,328	79
Net foreign exchange loss	-	4,036
Hedging ineffectiveness	52	(9)
IFRS 16 Finance Expense	-	21
Borrowing costs and associated depreciation	112,077	76,578
Capitalised borrowing costs and associated depreciation	-	(60,824)
Total finance costs	<u>113,457</u>	<u>19,881</u>

Finance Income & Costs - Borrowing Costs are capitalised as part of the cost of the asset with a capitalisation rate of Nil% (2021: 79%).

7 Income tax expense

Recognised in the income statement

	2022 £000	2021 £000
Current tax expense	9,905	3
Total current tax expense	<u>9,905</u>	<u>3</u>
Deferred tax expense	88,688	27,392
Adjustment in respect of prior years	(1,995)	15
Total deferred tax expense	<u>86,693</u>	<u>27,407</u>
Income tax expense reported in the Income Statement	<u>96,598</u>	<u>27,410</u>

Recognised in Statement of other comprehensive income

	2022 £000	2021 £000
Tax on (profit)/ loss on effective portion of cashflow hedges	<u>(46,960)</u>	<u>16,920</u>

Notes to the financial statements (continued)

7 Income tax credit (continued)

Deferred tax – Movement on deferred taxes

	Derivatives	Fixed assets	Corporate interest - net restriction	Losses	Others	Total
	£000	£000	£000	£000	£000	£000
As at 1 January 2021	44,450	(29,185)	25,125	-	4,061	44,451
Charge to income statement for the period	-	(31,455)	6,070	5,379	(809)	(20,815)
Adjustments in respect of prior years	-	88	(54)	3,138	(3,187)	(15)
Movement due to change in rate of taxes	14,729	(19,122)	9,834	2,689	22	8,152
Charge to Statement of other comprehensive income for the period	2,191	-	-	-	-	2,191
As at 31 December 2021	61,370	(79,674)	40,975	11,206	87	33,964
As at 1 January 2022	61,370	(79,674)	40,975	11,206	87	33,964
Charge to income statement for the period	-	(55,241)	(21,777)	(11,800)	130	(88,688)
Adjustments in respect of prior years	-	(18,367)	5,167	15,280	(85)	1,995
Charge to Statement of other comprehensive income for the period	(46,960)	-	-	-	-	(46,960)
As at 31 December 2022	14,410	(153,282)	24,365	14,686	132	(99,689)

Reconciliation of effective tax rate

	2022 £000	2021 £000
Profit for the year	291,344	87,144
Total tax expense	96,598	27,410
Profit excluding taxation	387,942	114,554
Tax using the UK corporation tax rate of 19.00% (2021: 19%)	73,709	21,765
Adjustments in respect of prior years	(1,995)	18
Non-deductible expenses	3,487	681
Income not taxable	-	(139)
Movement in unrecognised deferred tax	-	(1,493)
Impact due to rate changes	21,285	6,578
Others	112	-
Income Tax expense reported in the Income Statement	96,598	27,410

The UK corporation tax rate for the year ended 31 December 2022 is 19%.

The UK government announced in March 2021 that the UK corporation tax rate will increase from 19% to 25% from 1 April 2023. The rate increase was substantively enacted on 24 May 2021. The opening and closing deferred tax balance have been calculated using the substantively enacted corporation tax rate of 25%.

Notes to the financial statements (continued)

8 Property, Plant and Equipment

	Plant and equipment £000	Windfarm Assets £000	Decommissioning Assets £000	Assets under construction £000	Total £000
Cost					
Balance at 1 January 2021	18,357	-	-	2,220,410	2,238,767
Additions	8,500	-	131,167	596,655	736,322
Transfers/ Adjustments	-	2,169,114	-	(2,809,576)	(640,462)
Balance at 31 December 2021	26,857	2,169,114	131,167	7,489	2,334,627
Accumulated Depreciation and impairment					
Balance at 1 January 2021	(16,467)	-	-	-	(16,467)
Depreciation charge for the year	(1,890)	(23,851)	-	-	(25,741)
Balance at 31 December 2021	(18,357)	(23,851)	-	-	(42,208)
Net book value					
At 31 December 2021	8,500	2,145,263	131,167	7,489	2,292,419
Cost					
Balance at 1 January 2022	26,857	2,169,114	131,167	7,489	2,334,627
Additions	-	-	-	37,169	37,169
Movement from provision	8,503	-	(67,389)	-	(58,886)
Transfers/ Adjustments	-	40,227	-	(40,805)	(578)
Balance at 31 December 2022	35,360	2,209,341	63,778	3,853	2,312,332
Accumulated Depreciation and impairment					
Balance at 1 January 2022	(18,357)	(23,851)	-	-	(42,208)
Depreciation charge for the year	(4,250)	(90,490)	(5,045)	-	(99,785)
Balance at 31 December 2022	(22,607)	(114,341)	(5,045)	-	(141,993)
Net book value					
At 31 December 2022	12,753	2,095,000	58,733	3,853	2,170,339

The depreciation charge for the year of £99,785k (2021: £23,851k) has been included in Cost of sales.

Notes to the financial statements (continued)

8 Property, Plant and Equipment (continued)

Transfers under Asset under construction also include transfers amounting to £578k (2021: £640,462k) which relate to the estimated amount of Transmission assets which are expected to be sold to an independent third party at completion of construction.

Disclosures regarding Asset held for Sale/ Other current assets

Movement in Asset held for Sale/ Other current assets

	2022 £000	2021 £000
Balance as at 1 Jan	640,462	-
Costs reclassified from Capital work in progress	578	640,462
Balance as at 31 Dec	641,040	640,462

Since these assets did not meet all criteria required to reclassify said assets to Asset held for sale as at 31 December 2021, but are expected to be sold within 12 months from the balance sheet date, these were reclassified as "Other current assets" on the balance sheet as at 31 December 2021. The criteria to be classified as 'Held for Sale' has been met as at 31 December 2022, hence the Transmission assets have been classified as Held for Sale as at 31 December 2022.

The Company has through the bidding process run by Ofgem identified the buyer for the Transmission asset. The Company also received the draft Final Transfer Value from Ofgem in 2022, based on which the directors have determined whether the Transmission asset need to be impaired.

The directors have considered the carrying value of the property, plant and equipment (including those classified as "Assets held for sale/ Other current assets") and have identified no impairment indicators. Therefore, they have concluded that the carrying value as at 31 December 2022 is supported by the future cash flows to be derived from generation of electricity and from sale of OFTO assets.

Also, refer note 19 on Delay in sale of OFTO assets.

9 Trade and other receivables

	2022 £000	2021 £000
Other trade receivables	9,586	87
Accrued income	85,803	61,017
VAT Receivable	4,489	6,907
Prepayments	1,328	1
	101,206	68,012

Accrued income includes Accrued income related to billings to related parties. Refer Note 18.

The Accrued income relate to the Company's right to consideration for produced megawatt delivered to Offtakers but not billed at reporting date. The Accrued income transfers to receivables when the rights become unconditional. No provision has been created for recoverability of Accrued income.

10 Cash and cash equivalents

	2022 £000	2021 £000
Cash and cash equivalents	192,036	116,464

Notes to the financial statements (continued)

11 Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

Particulars	Nominal interest rate at year end	Maturity year	Carrying amount – 2022		Carrying amount – 2021	
			Current £000	Non-current £000	Current £000	Non-current £000
<i>Borrowing from a consortium of bankers:</i>						
Transmission Facilities	One Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.0326%) + 1.4% margin	2023	550,854	-	-	541,854
Generation Facilities	Three Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.1193%) + 0.70% - 1.65% margin	2037	59,881	1,425,177	11,903	1,412,897
<i>Borrowing from the Company's parent sourced from its shareholders as below:</i>						
<u>Shareholder loans</u>						
Moray Offshore Renewable Power Limited			152,800	-	6,100	20,004
Delphis Holdings Limited	Three Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.1193%) + 5.5% margin	2038	105,485	-	-	-
China Three Gorges (UK) Limited			48,724	-	9,418	76,040
<u>Equity Bridge loans</u>						
Moray Offshore Renewable Power Limited	One Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.0326%) + 0.7% margin	2022	-	-	220,000	-
Delphis Holdings Limited	One Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.0326%) + 0.75% margin	2022	-	-	169,151	-
Diamond Green Limited	Three Months Sonia with a 5-day end period look back + Credit Adjustment Spread (0.1193%) + 0.475% margin	2023	152,579	-	24,126	218,349
<u>Guarantee Fee Loans</u>						
Moray Offshore Renewable Power Limited	Guarantee fee accrues at 4.6885% of the outstanding Equity bridge loan	2022				
	Interest on outstanding guarantee fee at - EBL Interest terms (see above) + 5.5% margin		-	-	30,975	-
Delphis Holdings Limited	Guarantee fee accrues at 4.5869% of the outstanding Equity bridge loan	2022				
	Interest on outstanding guarantee fee at – EBL Interest terms (see above) + 5.5% margin		-	-	23,552	-
Diamond Green Limited	Guarantee fee accrues at 4.9049% of the outstanding Equity bridge loan	2023				
	Interest on outstanding guarantee fee at - EBL Interest terms (see above) + 5.5% margin		1,235	-	36,100	-
			1,071,558	1,425,177	531,325	2,269,144

Notes to the financial statements *(continued)*

11 Borrowings *(continued)*

Repayment terms as at 31 December 2022:

Transmission term facility will be repaid using funds from the Transmission asset sale transaction, expected in late 2023, before maturity date. Based on the forecasted value of proceeds to be received on sale of Transmission assets, management is confident that these will be adequate to cover the repayment of the entire transmission facility including undrawn amounts as at the balance sheet date.

Generation term facility repayments has commenced from 1 July 2022, is progressing as scheduled and will be fully repaid by 1 April 2037. The Company's projections indicate that the Generation Term Facility repayments can be met from its operational cash flows. Both of these facilities are directly repaid by MOWEL.

The repayment of equity facilities - Shareholder loans, Equity bridge loans and Guarantee fee loans, are driven by the Inter-creditor agreement between the Company, MEHL, the lenders and the shareholders in MEHL. According to the agreement, the repayment of facilities is subject to surplus available cash each quarter after considering certain payments prescribed in the agreement. In accordance with the Inter-creditor agreement, shareholder loans, remaining equity bridge loans and guarantee fees were also repaid on a quarterly basis commencing from July 2022 onwards based on surplus cash in business.

During 2022, Equity bridge loan facilities from two shareholders in MEHL - Moray Offshore Renewable Power Limited and Delphis Holdings Limited were repaid by infusion of equivalent shareholder loans from the same parties. The Equity Bridge loan from Diamond Green Limited is due for repayment in 2023, however partial repayments against the facility have been made as a result of the distributions during the period.

The management expects that all outstanding guarantee fee (including further accruals), shareholder loans outstanding at year end will be repaid in 2023 and has classified the loan as current in its books.

Security for borrowings:

The Generation term facility and Transmission term facility are secured with the property, plant and equipment of the Company.

The Equity bridge loans are guaranteed by shareholders in MEHL.

The shareholder loan facility is unguaranteed and unsecured.

Subsequent events

Refer Note 19 for Subsequent events.

Notes to the financial statements (continued)

12 Trade and other payables

	2022 £000	2021 £000
Current		
Trade payables due to related parties	277	429
Other trade payables – Revolving VAT facility	-	8,211
Other trade payables	22,809	51,678
Accrued interest	22,371	2,830
	<u>45,457</u>	<u>63,148</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 the same as their fair values, due to their short-term nature.

Trade payables due to related parties are interest free and are usually paid within 30 or 45 days depending on the contractual arrangements. Refer Note 18.

Other trade payables include variable interest, Revolving VAT Facility which is repayable on a short-term basis of one or three months depending on the election of the Company.

13 Deferred income

	2022 £000	2021 £000
Non-current - Other payables – Deferred Income	1,054	1,100
Current - Other payables – Deferred Income	46	46

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.

14 Provisions

Decommissioning Provision	2022 £000	2021 £000
Balance at 1 January	139,667	5,578
Unwinding of discounted amount	1,328	79
Utilisation during the year	(95)	(5,657)
Addition/Re-measurement during the year	(58,886)	139,667
Balance at 31 December	<u>82,014</u>	<u>139,667</u>

Met-Mast decommissioning provision:

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. Phase 1 of the decommissioning was completed in 2021 and the utilisation during the period represents progress of the decommissioning work.

It was also determined in 2021, that there will be an additional provision required for Phase 2 of the decommissioning of the Offshore Meteorological Mast amounting to £8,500k which will be spent in 2024. This has been remeasured to £17,003k as at 31 December 2022.

Since the period over which the decommissioning will take place is short, the provision has not been discounted and has been recognised at the estimate of provision expected to be spent. A corresponding asset has been created under the heading "Plant and equipment" under Property, Plant and Equipment. The depreciation of these assets will be written off over the period of decommissioning.

Notes to the financial statements *(continued)*

14 Provisions *(Continued)*

Decommissioning of the wind farm:

The determination of the expected expenditures to be incurred involved significant judgements. The inflation rate of 2% (2021: 2.196%) has been considered and the liabilities have been discounted at 3.704% (2021: 1.0125%). The corresponding asset is disclosed under the heading "Decommissioning Assets" under Property, Plant and Equipment. The assets will be written off over the life of the wind farm.

In determining the costs, management has considered the various aspects of decommissioning that will be required, contingencies in addition to expected costs to be incurred and has also considered practical cost savings expected to be available by the end of the life of the wind farm. Overall, management believes that the provision considered is appropriate, however, if overall costs were to be 10% higher (or lower) than estimated by management in determining the level of the provision, then the estimated decommissioning provision would increase (or decrease) by £6,511k.

Notes to the financial statements *(continued)*

15 Capital and reserves

Share capital

Ordinary shares

Authorised and issued

	2022		2021	
	Number of shares	£000	Number of shares	£000
At the beginning of year	10,000,000	10,000	10,000,000	10,000
At the end of year	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>

	2022		2021	
	Number of shares	£000	Number of shares	£000
At the beginning of year	10,000,000	10,000	10,000,000	10,000
At the end of year	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>

Allotted, called up and fully paid

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 (2021: nil).

Refer Note 19 for subsequent events.

Retained earnings

	2022 £000	2021 £000
Retained earnings/ (Accumulated losses) at 1 January	77,306	(9,838)
Profit for the year	291,344	87,144
Retained earnings at 31 December	<u>368,650</u>	<u>77,306</u>

Hedge reserve

	2022 £000	2021 £000
Accumulated cash flow hedge loss at 1 January	184,113	189,498
Profit on effective portion of cashflow hedge for the year (net of tax)	(140,883)	(5,385)
Total cash flow hedge loss at 31 December	<u>43,230</u>	<u>184,113</u>

Notes to the financial statements (continued)

16 Financial risk management

i) Risk management

Foreign exchange risk – The Company is a GBP functional currency entity which incurs a certain portion of its operation and maintenance costs in EUR, exposing the Company to exchange rate fluctuations between GBP and EUR. 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 operation and maintenance 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 – Under the CfD regime, the Company's future revenues from power generation will contractually be 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 funded the construction of the windfarm through project finance which comprised of borrowings from a consortium of external lenders and shareholders in Moray East Holdings Limited. These facilities are to be repaid over the life of the windfarm with maturities varying based on the type of facility utilised. With the shift to operational phase, the Company is expected to fund its operations from operating cash flow. The objective is to achieve a capital structure which would provide the most optimal return on investment to the equity owners of the project 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 2022. 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 2022.

iii) Hedge Accounting

Refer Note 1.18 of the Accounting policies section.

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 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.

Notes to the financial statements (continued)

16 Derivative Financial instruments (continued)

16 (a)

Cash flow hedges

Fair values and notionals

	Derivative assets December 2021 £000	Derivative liabilities December 2021 £000	Change in fair value in year £000	Notional amounts (GBP) £000
FX Forwards	-	-	3,467	-
Interest rate swaps	-	(78,847)	103,211	1,842,796
Inflation swaps	-	(164,851)	(113,312)	18,781
	-	(243,698)	(6,634)	1,861,577

	Derivative assets - December 2022 £000	Derivative liabilities - December 2022 £000	Change in fair value in year £000	Notional amounts (GBP) £000
FX Forwards	2,392	-	2,392	82,185
Interest rate swaps	147,926	-	226,773	1,104,120
Inflation swaps	-	(197,061)	(32,210)	26,568
	<u>150,318</u>	<u>(197,061)</u>	<u>196,955</u>	<u>1,212,873</u>

Included in the derivative liabilities above of £197,061k (2021: £243,698k) is £6,223k (2021: £16,886k) of current liabilities and £190,838k (2021: £226,812) of non-current liabilities.

Included in the derivative assets above of £150,318k (2021: £Nil) is £23,014k (2021: £Nil) of current assets and £127,304k (2021: £Nil) of non-current assets.

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.

Notional amounts:

31 December:	2022 £000	2023 £000	2024 £000	2025 £000	2026 £000	2027 £000	2028-2036 £000
FX Forwards	82,185	62,069	41,551	20,622	-	-	-
Interest rate swaps	1,104,120	1,059,713	1,009,052	954,474	896,038	833,449	767,090 declining to 57,791 in 2036
Inflation swaps	26,568	28,598	29,429	29,918	30,984	31,506	32,175 declining to 31,759 in 2036

16 (b)

Cash flow hedges - OCI reconciliation and P&L impacts

	Opening OCI- Jan 2021 £000	Amounts deferred in OCI £000	Reclass to assets under construction £000	Missed forecast £000	Closing OCI- Dec 2021 £000	Hedge ineffectiveness £000
FX Forwards	2,713	19,843	(22,481)	(75)	-	18
Interest rate swaps	179,697	(77,133)	(21,932)	-	80,632	(102)
Inflation swaps	<u>51,538</u>	<u>113,313</u>	<u>-</u>	<u>-</u>	<u>164,851</u>	<u>-</u>
	<u>233,948</u>	<u>56,023</u>	<u>(44,413)</u>	<u>(75)</u>	<u>245,483</u>	<u>84</u>

Notes to the financial statements (continued)

16 Derivative Financial instruments (continued)

16 (b)

Cash flow hedges - OCI reconciliation and P&L impacts (continued)

	Opening OCI- Jan 2022 £000	Amounts deferred in OCI £000	Reclass to Income Statement £000	Missed forecast £000	Closing OCI- Dec 2022 £000	Hedge ineffectiveness £000
FX Forwards	-	(2,144)	24	-	(2,120)	-
Interest rate swaps	80,632	(214,051)	(4,217)	-	(137,636)	(52)
Inflation swaps	<u>164,851</u>	<u>32,545</u>	<u>-</u>	<u>=</u>	<u>197,396</u>	<u>-</u>
	<u>245,483</u>	<u>(183,650)</u>	<u>(4,193)</u>	<u>=</u>	<u>57,640</u>	<u>(52)</u>

16 (c)

Contractual maturity analysis - for derivative balances as at 31 December 2021

	0-1 Year £000	1-2 Years £000	2-5 Years £000	More than 5 years £000
Interest rate swaps	(16,309)	(5,926)	(18,750)	(46,954)
Inflation swaps	(206)	(2,503)	(16,574)	(184,652)

Contractual maturity analysis - for derivative balances as at 31 December 2022

	0-1 Year £000	1-2 Years £000	2-5 Years £000	More than 5 years £000
FX Forwards	268	553	1,856	-
Interest rate swaps	22,670	28,872	58,223	68,668
Inflation swaps	(6,766)	(10,943)	(41,733)	(244,914)

16 (d)

Average Strike terms of hedging instruments

	Mean average approach	Notional weighted approach
FX Forwards	0.88%	0.88%
Interest rate swaps	1.92%	1.87%
Inflation swaps	2.30%	2.30%

16 (e)

Sensitivity Analysis

£000

	As at 31 December 2022		As at 31 December 2021	
	10% weakening of GBP	10% strengthening of GBP	10% weakening of GBP	10% strengthening of GBP
FX Forwards	(7,608)	7,643	-	-
	100 bps fall in rates	100 bps rise in rates	100 bps fall in rates	100 bps rise in rates
Interest rate swaps	(68,486)	61,872	(108,938)	97,521
	100 bps fall in inflation curve	100 bps rise in inflation curve	100 bps fall in inflation curve	100 bps rise in inflation curve
Inflation swaps	105,122	(113,917)	147,486	(161,326)

Notes to the financial statements (continued)

16 Derivative Financial instruments (continued)

16 (e)

Sensitivity Analysis (continued)

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.

16(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:

		Carrying Value		Fair value	
		2022	2021	2022	2021
	Note	£000	£000	£000	£000
Financial assets at amortised cost					
Cash and cash equivalents	10	192,036	116,464	192,036	116,464
Other loans and receivables	9	95,303	61,017	95,303	61,017
Derivative financial instruments					
Used for hedging	16	150,318	-	150,318	-
Total financial assets		437,657	177,481	437,657	177,481
Liabilities at amortised cost					
Other interest-bearing loans and borrowings	11	2,496,735	2,800,469	2,496,735	2,800,469
Trade and other payables	12	45,457	63,148	45,457	63,148
Derivative financial instruments					
Used for hedging	16	197,061	243,698	197,061	243,698
Total financial liabilities		2,739,253	3,107,315	2,739,253	3,107,315
Total financial instruments		(2,301,596)	(2,929,834)	(2,301,596)	(2,929,834)

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.

The fair value of Other interest-bearing loans and borrowings is determined using Forward SONIA interest rates. The inputs used are Level 2.

Notes to the financial statements (continued)

16 Derivative Financial instruments (continued)

16(g) Liquidity risk

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

The Company's primary liquidity risk is associated with the settlement of Borrowings. The Company has reviewed its liquidity risk and has linked the repayment of its borrowings to the Company's lenders by projecting future revenues and costs to be generated from the project from Commercial Operation date up to the maturity of its dues based on undiscounted cash flow basis.

	2022				
	Carrying amount	< 1 years	1 to 2 years	2 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities					
Trade and other payables (excluding Accrued interest)	23,086	23,086	-	-	-
Borrowings and Accrued interest	2,519,106	1,219,158	139,163	425,401	1,416,270
2021					
	Carrying amount	< 1 years	1 to 2 years	2 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities					
Trade and other payables	63,148	63,148	-	-	-
Borrowings	2,800,469	193,318	973,877	520,849	1,441,978

17 Commitments

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

	2022	2021
	£000	£000
Property, plant and equipment	12,096	97,314

The capital commitments listed above are in relation to the commitments outstanding as at 31 December 2022 towards building the 400KV Upgrade which will be forming part of the OFTO assets.

Notes to the financial statements *(continued)*

18 Related parties

Identity of related parties with which the Company has transacted

Engie S.A. – Ultimate parent company of GDF International SAS

EDP Renovaeis S.A. – 50% shareholder in OW Offshore, S.L.

GDF International SAS – 50% shareholder in OW Offshore, S.L.

OW Offshore, S.L. – Ultimate holding company of Ocean Winds UK Limited

Ocean Winds UK Limited – Intermediate holding company of Moray Offshore Renewable Power Limited

Moray Offshore Renewable Power Limited – Key shareholder (33.3%) in Moray East Holdings Limited

Delphis Holdings Limited – Key shareholder (23.3%) in Moray East Holdings Limited

Diamond Generating Europe Limited – Key shareholder in Diamond Green Limited

Diamond Green Limited - Key shareholder (33.4%) in Moray East Holdings Limited

International Power Limited – Wholly owned subsidiary forming part of the Engie S.A. Group

Engie UK Markets Limited (formerly IPM Energy Trading Limited) – Wholly owned subsidiary forming part of the Engie S.A. Group

Moray East Holdings Limited – Parent Company of Moray Offshore Windfarm (East) Limited

Details of Transaction during the year

Particulars	2022	2021
	£000	£000
Revenue billed to <i>Engie UK Markets Limited</i>	148,014	40,889
Cost of sales charged by <i>Engie UK Markets Limited</i>	617	132
Staff cost recharged by <i>Ocean Winds UK Limited</i>	2,601	3,163
Seat cost recharged by <i>Ocean Winds UK Limited</i>	361	548
IT Recharges recharged by <i>Ocean Winds UK Limited</i>	371	487
Other recharges by <i>Ocean Winds UK Limited</i>	625	131
Staff cost recharged by <i>Diamond Generating Europe Limited</i>	242	342
Staff cost recharged by <i>International Power Limited</i>	11	398

Details of balances outstanding at year end

Particulars	2022	2021
	£000	£000
Accrued income from <i>Engie UK Markets Limited</i>	19,323	14,211
Payable balances due to <i>Ocean Winds UK Limited</i>	253	305
Payable balances due to <i>International Power Limited</i>	-	66
Payable balances due to <i>Diamond Generating Europe Limited</i>	24	58

Notes to the financial statements *(continued)*

19 Subsequent events

Delay in Contract for Differences

Subsequent to year end, in accordance with the terms of the Contract for Differences agreement, the Company has opted to further defer the start date of contract until 31 March 2024. This decision does not impact the financial statements of the Company for the year ended 31 December 2022, since the event is non-adjusting in nature. The Company is in the process of reviewing the changes to its hedge and revenue arrangements to ensure that the deferral does not adversely impact the financial risk management objectives of the Company.

Update on OFTO asset sale

The Company was required by the Electricity Act 1989 ('Act') to execute the sale of the transmission assets ('OFTO') to a third party in advance of the Generator Commissioning Clause ('GCC') deadline which originally fell on 15 January 2023, however, it was determined in 2022 that this deadline would not be met due to delays resulting from pending asset integrity assessment that was required to be completed before the OFTO sale can take place.

To mitigate the risk of violating the provisions of the Act, the Company requested the Department for Business, Energy & Industrial Strategy ('BEIS') (now called the Department for Energy Security and Net Zero) and Office of Gas and Electricity Markets ('Ofgem') for an extension of time to comply with the requirements of the Act. BEIS and Ofgem in January 2023 provided Letters of Comfort ('LoC') which stated that they will not prosecute the Company for this breach for a period of 12 weeks from 15 January 2023.

In addition to the LoC, a statutory defence against money laundering ('DAML') in relation to the Proceeds of Crime Act 2022 was also granted to the Company, the Company's Lenders and the Company's customers. The delay in sale of OFTO asset also triggered a debt covenant violation under the finance agreements. The Company requested and obtained in January 2023 lender's confirmation that they won't exercise their rights available in the event of a default if certain conditions (which include LoC being in place from BEIS and Ofgem) are met.

As at the date of approval of financial statements, the asset integrity assessment on OFTO asset is still ongoing. The Company is working on mitigating these issues with the vendors responsible for installation and maintenance of the respective assets. Given the further delay, a further extension to the LoC and continuation of waiver of debt covenant has been requested and obtained from BEIS, Ofgem and the lenders respectively in April 2023. The current extension covers a period of 6 months starting from the date of its approval.

The directors of the Company have based on a formal assessment concluded that it is likely that the required asset integrity work will be completed along with the OFTO sale in early 2024. The Company has applied for extension of deadlines to cover the delay up to early 2024 and is awaiting feedback from the regulatory authorities.

The repayment of shareholder loans has been deferred as per contractual terms pending the settlement of the OFTO sale. It is now expected that the loans expected to be repaid in 2023 will be settled in early 2024 once the sale of OFTO assets are completed.

Equity Bridge Loan settlement – Diamond Green Limited

Subsequent to year end, Diamond Green Limited in March 2023 have infused shareholder loans amounting to £152,578,641 into MEHL which MEHL has lent further to the Company. This shareholder loan has been used to repay the Equity bridge loans which had been borrowed through Diamond Green Limited. The shareholder loan will be subject to the same interest and repayment terms as the other shareholder loans.

Equity infusion

Subsequent to year end, as required by the Common term's agreement and Equity support agreement, shareholders in MEHL have subscribed to additional share capital amounting to £205,266,976 in MEHL, in proportion of their existing shareholding by converting corresponding amounts of shareholder loan arrangements in March 2023. MEHL has prescribed the similar amount of share capital in the Company to ensure that the shareholder loan positions are settled in a manner to ensure back-to-back arrangements between the Company, MEHL and MEHL's shareholders. The number of shares issued are based on the face value of the shares in MEHL and the Company.

Notes to the financial statements (continued)

19 Subsequent events (continued)

Operations and Maintenance agreements – Ocean Winds Operations UK Limited

The Company has signed an agreement post year end which will be effective from April 2022. Per the terms of the agreement, all employees of the Company would move to Ocean Winds UK Limited. Also, as per the terms of the agreement a revised mechanism of compensation for all existing services will be agreed between the Company and Ocean Winds UK which will be effective from April 2022 onwards. The management along with the Ocean Winds UK management has identified the incremental amount to be billed to align the costs incurred for the period April 2022 – March 2023 with the new agreements in effect.

Electricity Generator Levy

The Chancellor in his Autumn Statement introduced a new tax on exceptional electricity generation receipts of qualifying generating undertakings from 1 January 2023 to 31 March 2028. This measure introduces a temporary 45% charge on exceptional receipts realised from the sale of wholesale electricity by nuclear, renewable, biomass and energy from waste sources. Exceptional receipts are those in excess of a benchmark price of £75 per megawatt hour (adjusted in line with Consumer price index (CPI)). The Company is reviewing the legislation and is in the process of determining the impact of such taxes on its business.

20 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.

The consolidated financial statements of Moray East Holdings Limited is available at its registered office at Shepherd And Wedderburn LLP Octagon Point, 5 Cheapside, London, England, EC2V 6AA.