Lynemouth Power Limited
Annual report and financial statements
for the year ended 31 December 2018

Registered Number 07866585

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for the year ended 31 December 2018
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Directors and advisers

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Jonathan Paul Scott
Jan Špringl
Tarloke Singh Bains
Carl Andrew Hopper

Company secretary
John Marcus Nettelton

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Independent auditor
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Lynemouth Power Limited

Strategic report for the year ended 31 December 2018

The Directors present their report and the audited financial statements of Lynemouth Power Limited ("the Company"), for the year from 1st January 2018 to 31st December 2018.

Principal Activities
The principal activity of the Company is the production and sale of power. Generated power flows through the Company's sub-station to the local electrical distribution company and then onto the electrical grid system.

Review of Business and Future Developments
Throughout the period reported in these accounts, the Company was a wholly owned subsidiary of EP UK Investments Ltd ("EP UKI").

The Company's priority is the safety and well-being of employees, contractors and visitors with approximately twelve percent (12%) of the workforce being safety representatives.

The power station has for many years been successfully operated as a 420MWe coal fired power station. However, due to environmental legislation, taxes on fossil fuel generation and UK government support mechanisms for renewable power, the Company has migrated from the base of coal fired generation to that of a fully converted, low carbon, sustainable biomass fired power station.

The Company qualified under the FID Enabling for Renewables (FIDER) scheme and was subsequently awarded a Contract for Difference (CfD). On 1st December 2015 the Company successfully achieved State Aid approval from the European Commission. Coal fired generation ceased on the 22nd December 2015 and the conversion of the power station to biomass generation began.

During 2018 the conversion and combustion optimisation of the station continued. Commissioning began in summer 2018 and achieved LCCC (Low Carbon Contracts Company) accreditation on 23rd June 2018, which initiated the CfD mechanism.

As the Lynemouth power station was not generating fully during 2018 funding for the station was obtained in the form of loans which are detailed in these accounts. During December 2018 EP UKI changed the financing structure which resulted in LPL holding two loans, one with EP UKI and another with EP UK Financing ("EP UKF"). At the end of December the two loans totalled £307,408,000 (2017:£196,500,000). LPL also have a rolling credit facility with EP UKF with a principal value of £27,525,000 (2017:£0).

Key Performance Indicators
Management use key performance indicators to monitor and manage the business. The key performance indicators of the business are safety performance, cost control and cash position. The key performance indicators have been monitored by the management during each Lynemouth Power Limited ("LPL") Board meeting. The year-end cash position is £57,580,000 (2017:£15,565,000).

Principal Risks and Uncertainties
The Company reviews the businesses objectives, financial, operational and regulatory risks. These areas are monitored at the LPL Board.

Throughout the period the Company's reporting arrangements monitored business performance against the business plan. Risk logs identifying business risks are considered at Board meetings and mitigation plans are and were established and monitored.

Strategic report for the year ended 31 December 2018 (continued)

Operational Risk

Two key risks for biomass stations are electricity and biomass fuel prices. LPL has largely mitigated electricity price risk through the CfD with the UK Government. In terms of the price of biomass, LPL has entered into up to 10 year fuel supply agreements for >80% of its required fuel. These contracts are based on a fixed price plus indexation and have protected the company from the recent circa $20-25/t increase in the market price of biomass that has incurred since these contracts were struck. The current forward price is expected to remain above contracted prices.

The Company's main risk during 2018 was project commissioning programme risk. This was managed on an on-going basis by management and all areas assessed and reviewed at monthly Board meetings.

Safety of the employees, contractors and visitors is always paramount. LPL safety representatives report to the EP UK Group Safety, Health and Environment Group (SHEC) which is in place to assess risks using both leading and lagging indicators.

Financial Risk

As the Company is also exposed to market movements, notably in foreign exchange, hedges were entered into in order to minimise the risk of exposure to currency movements.

Charitable donations

Charitable donations of £855 were made during 2018 (2017: £2,250).

On behalf of the Board

D Walton

Deborah Walton
Finance Director

28th June 2019

Lynemouth Power Limited
Registered number: 07866585

Lynemouth Power Limited

Directors' report for the year ended 31 December 2018

Results and Dividends

The directors do not propose a dividend for the year ended 31 December 2018.

Directors

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

Deborah Walton
Jonathan Paul Scott
Jan Špringl
Tarloke Singh Bains
Carl Andrew Hopper

Political donations

The Company made no political donations during the current or prior year.

Future developments

Future developments are discussed in the Strategic Report.

Financial risk management

The Company holds financial instruments to finance its operations. The Company's financial instruments comprise principally amounts due to parent undertakings and other group undertakings, items arising from trading such as trade debtors, trade creditors and accruals and hedging instruments including foreign currency swaps and inflation swaps. Further information is included in note 15 and in the Statement of accounting policies.

Audit information

So far as the Directors in office at the date of signing of this report are aware, there is no relevant audit information of which the auditor is unaware. As such each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Independent Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

DWalton

Deborah Walton
Finance Director

28th June 2019

Lynemouth Power Limited
Registered number: 07866585

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report To The Members Of Lynemouth Power Ltd

Opinion

We have audited the financial statements of Lynemouth Power Limited ("the company") for the year ended 2018 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as impairment of property, plant and equipment, valuation of financial instruments, estimates of asset retirement obligations and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardized firm-wide approach in response to that uncertainty, other than in the areas excluded from the scope of the audit, when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Independent Auditor's Report To The Members Of Lynemouth Power Ltd (continued)

Going concern (continued)

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report To The Members Of Lynemouth Power Ltd (continued)

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Moran
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
28 June 2019

Income statement for the year ended 31 December 2018

	Note	2018 £000's	2017 £000's
Revenue	1	**203,432**	59,049
Cost of sales		**(309,579)**	(79,895)
Gross loss		**(106,147)**	(20,846)
Administrative and operating expenses		**(18,993)**	(15,047)
Other operating income	3	**86,345**	9,419
Operating loss		**(38,795)**	(26,474)
Finance costs	2	**(1,720)**	(293)
Finance income	2	**227**	55
Loss on ordinary activities before taxation		**(40,288)**	(26,712)
Tax on loss	6	**8,779**	5,124
Loss for the financial year		**(31,509)**	(21,588)

All of the Company's activities are continuing.

The notes on pages 24 - 36 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2018

	Note	2018 £000's	2017 £000's
Loss for the year		**(31,509)**	(21,588)
Other comprehensive (expense) / income			
Items that are or may be reclassified subsequently to profit or loss:			
Reclassification of hedging gains to income statement	17	**(13,500)**	-
Revaluation of foreign currency cash flow hedges	17	**39,919**	(41,486)
Deferred tax on cash flow hedges	16	**(4,028)**	7,237
Other comprehensive income / (expense) for the year, net of tax		**22,391**	(34,249)
Total comprehensive expense for the year		**(9,118)**	(55,837)

All amounts relate to continuing operations.

The notes on pages 24 - 36 form an integral part of these financial statements.

Lynemouth Power Limited

Balance sheet as at 31 December 2018

	Note	2018 £000's	2018 £000's	2017 £000's	2017 £000's
Non-current assets					
Property plant and equipment	7	**364,982**		334,971	
Derivative financial assets	15	**3,831**		8,340	
Trade and other receivables	9	**-**		1,746	
			368,813		345,057
Current assets					
Inventories	8	**29,111**		21,995	
Trade and other receivables	9	**38,798**		49,485	
Tax receivables	13	**624**		1,390	
Cash and cash equivalents		**57,580**		15,565	
			126,113		88,435
Total assets			**494,926**		433,492
Equity					
Share capital and share premium	10	**-**		-	
Share premium account	10	**9,000**		9,000	
Cash flow hedging reserve	17	**123,730**		101,339	
Retained Earnings		***(63,386)***		(31,877)	
Total equity			69,344		78,462
Non-current liabilities					
Trade and other payables	11	**3,042**		5,376	
Asset retirement obligations	14	**9,530**		7,104	
Interest bearing loan	12	**-**		185,500	
Derivative financial liabilities	15	**8,212**		42,626	
Deferred tax liability	16	**8,673**		13,335	
			29,457		253,941
Current liabilities					
Trade and other payables	11	**57,555**		90,089	
Interest bearing loan	12	**334,933**		11,000	
Derivative financial liabilities	15	**3,637**		-	
			396,125		101,089
Total Liabilities			**425,582**		355,030
Total Equity and Liabilities			**494,926**		433,492

Balance sheet as at 31 December 2018 (continued)

The financial statements on pages 9 to 36 were approved by the Board of directors on 28th June 2019 and were signed on its behalf by:

Deborah Walton
Finance Director

Lynemouth Power Limited
Registered number: 07866585

Lynemouth Power Limited

Statement of changes in Equity for the year ended 31 December 2018

		Attributable to owners of the Company				
		Share Capital	**Share premium**	**Retained earnings**	**Cash flow hedging reserve**	**Total equity**
	Note	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Balance as at 1 January 2017		-	9,000	(10,289)	135,588	134,299
Comprehensive Income						
Loss for the year		-	-	(21,588)	-	(21,588)
Other comprehensive income/(expense)						
Cash flow hedges		-	-	-	(34,249)	(34,249)
Total comprehensive income		-	-	**(21,588)**	**(34,249)**	**(55,837)**
Balance as at 31 December 2017		-	9,000	(31,877)	101,339	78,462
Comprehensive Income						
Loss for the year		-	-	(31,509)	-	(31,509)
Other comprehensive income/(expense)						
Cash flow hedges		-	-	-	22,391	22,391
Total comprehensive Income		-	-	**(31,509)**	**22,391**	**(9,118)**
Balance as at 31 December 2018		-	**9,000**	**(63,386)**	**123,730**	**69,344**

Statement of accounting policies

General information
The Company is a private limited company, which is incorporated domiciled and registered in the United Kingdom. The address of its registered office is Lynemouth Power Station, Ashington, Northumberland, England, NE63 9NW. The company is a subsidiary undertaking of EPUKI Limited, a wholly owned subsidiary of Energetický a průmyslový holding ("EPH").

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statement, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of EPH include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. These judgements are discussed below.

Property, plant and equipment
Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight-line method to reduce their cost to residual values over the estimated useful life of the assets. For plant and equipment this is to the end of the CfD (March 2027), this is unless the estimated useful life of the asset purchased is expected to end prior to March 2027 in which case it will be depreciated over this shorter life.

Repair and maintenance costs associated with major planned outages are capitalised and depreciated over the period until the next major outage is planned, typically 3-4 years. General maintenance and repair costs are recognised as expenses as incurred.

Statement of accounting policies (continued)

Financial assets
The Company classifies its financial assets in the category: loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise, 'trade and other receivables' excluding prepayments and 'cash and cash equivalents' in the balance sheet.

Going concern
As described in more detail in the Strategic Report on page 2, the Company has migrated from coal fired electricity generation to biomass fired electricity generation, and this transition has been financed to date by loans from other group undertakings. At the balance sheet date these loans from group undertakings total £334.9m with all of this being repayable in 2019. The Company's forecasts indicate that its operations will be profitable once biomass fired electricity generation reaches normal operating capacity, anticipated to be in 2019 allowing it to meet its financing and other liabilities from operating cash flows.

Notwithstanding net current liabilities of £270,012,000 as at 31st December 2018 and a loss for the year of £31,509,000, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecast for the full period of the Contract for Difference to March 2027 which indicate that, taking into account possible downsides, the company will have sufficient funds to meets its liabilities as they fall due for that period.

Those forecasts are dependent on the company's fellow subsidiary companies, EPUKI and EPUKF not seeking repayment of the amounts currently due to the group, which at 31st December 2018 amounted to £144,692,000 and £190,241,000. Both EPUKI and EPUKF have indicated that they do not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meets its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Revenue recognition
The Company has adopted IFRS 15 *Revenue from Contracts with Customers* in 2018, this has had no material impact on the amount and timing of revenue recognition within the Company's financial statements. In adopting IFRS 15 the company has applied the retrospective method.

Revenue comprises amounts received or receivable for the sale of power and goods in the ordinary course of the Company's activities.

Revenues from the sale of electricity are measured upon the metered output sent to the grid at the price under the trade itself or prevailing market terms where applicable.

Statement of accounting policies (continued)

Revenue recognition (continued)

Prior to CfD accreditation the company operated under the RO scheme which places an obligation on electricity suppliers to generate an increasing proportion of their electricity produced from renewable sources. Under the RO, Renewable Obligation Certificates (ROCs) are issued to generators when they have demonstrated production of electricity from renewable sources and these are then sold onto other customers. Initial recognition of the ROCs is through other income with an associated asset on the balance sheet, revenue is recognised when the ROCs are sold and transferred to a 3rd party with the original asset being charged to cost of sales.

Other revenue from the sale of goods (for example biomass, scrap metal etc) are recognised at the point at which control of the goods is transferred to the customer.

Inventories

Inventory is stated at lower of cost or net realisable value. Cost is determined using the weighted average method and includes the expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

Trade and other receivables

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

Trade and other payables

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

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.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income. 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.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Statement of accounting policies (continued)

Financial Instruments

IFRS 9 sets out the requirements for recognising and measuring financial instruments, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and has been applied in 2018. The adoption of IFRS 9 had no material impact on the results or net assets. It does require a re-presentation of the income statement in 2018. Hedging gains and losses are now apportioned to the line items impacted by the hedged items, IAS 39 did not prescribe the presentation of hedging gains and losses. The company has opted not to restate the comparatives for classification, measurements and impairment. The hedging gains and losses recorded in 2017 are included within other operating income and expenses (note 3). The company has chosen to defer application of the new general hedging model until the standard resulting from the IASB's project on accounting for dynamic risk management is complete and accordingly continues to apply the hedge accounting requirements of IAS 39 to all hedging relationships.

i. Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets

a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Statement of accounting policies (continued)

Financial Instruments (continued)
On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

b) Subsequent measurement and gains and losses
Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

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.

Statement of accounting policies (continued)

Financial Instruments (continued)
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also recognised in profit or loss.

Intra-group financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

iii. Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below). Where possible the company has taken advantage of the own-use exemptions which allows qualifying contracts to be excluded from fair value mark to market accounting. This applies to certain contracts for physical commodities entered into and held for the company's own use, including forward contracts for purchase of biomass.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged executed future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes the designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Statement of accounting policies (continued)

Financial Instruments (continued)

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on re-measurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

iv. Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk Ii.e the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.
The company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The company considers a financial asset to be in default when:

a) The borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
b) The financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period) if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Statement of accounting policies (continued)

Financial Instruments (continued)
Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Impairment
Financial assets

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Income tax
The income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operate and generate taxable income. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Statement of accounting policies (continued)

Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are not recognised if the temporary difference arises from goodwill.

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Asset retirement obligations

The Company has an obligation to ensure that certain environmental areas are left undisturbed after decommissioning. The liability that pertains to this obligation and dismantling is reflected in our financial statements using an asset retirement obligation.

Asset retirement obligations (continued)

The Company accounts for the asset retirement obligation in accordance with IAS 37, Provisions and Contingent Liabilities. This standard requires the fair value of a liability for an asset retirement obligation (ARO) to be recorded when there is a legal obligation associated with the retirement of a tangible long-lived asset and the liability can be reasonably estimated. The liability is offset by a corresponding amount in the underlying asset. ARO liabilities are recorded at the estimated present value of dismantlement, removal and similar activities associated with the Company's power station. The liability is accreted and the asset is depreciated. Periodically management will review the provision for reasonableness and revalue if the provision value has changed.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Employee benefit plans

The Lynemouth Power Pension Scheme is a group personal pension arrangement (defined contribution) for the employees of Lynemouth Power. The provider is Scottish Widows Limited. The Company doubles the percentage of employee contributions up to a maximum of 10%. The pension cost charge for the year comprises contributions payable.

Statement of accounting policies (continued)

Financing income and expenses

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

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

Cash flows hedges are used to hedge the risk of variability in cash flows related to an asset or liability carried on the balance sheet or related to a highly probable forecast transaction. If a cash flow hedge exists, unrealised gains and losses from the hedging instrument are initially included in other comprehensive income. Such gains or losses are disclosed in the income statement when the hedged underlying transaction has an effect on income.

Other income

The company is party to a Contract for Difference (CfD) with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under this contract the company makes or receives payments in respect of electricity exported to the grid, the payment is calculated by reference to a strike price per MWh which is indexed to CPI and changes in system balancing costs and is revised annually. The strike price at 31st December 2018 was £116.82/MWh.

The Company receives/makes payments from/to LCCC at the CfD strike price less the Base Market Reference Price (BMRP) which is set on a seasonal basis running from April to September and October to March. These payments are in addition to those received from the sale of the power in the market.

The company recognises income from the CfD as other income within the income statement at the point which the company meets its performance obligation under the CfD, this is considered to be the point at which relevant generation is delivered and payment becomes contractually due.

Significant accounting estimates and judgements

Preparation of financial statements pursuant to FRS 101 requires assumptions and estimates to be made, which have an impact on the recognised value of the assets and liabilities carried on the balance sheet, on income and expenses, and on the disclosure of contingent liabilities.

All assumptions and estimates are based on the circumstances and forecasts prevailing on the balance sheet date. Although management uses its best estimates and judgements, actual results could differ from these estimates as future confirming events occur.

During the year the company underwent an exercise to revalue to asset retirement obligation ("ARO") to take into account the newly built facility located at the Port of Tyne and new biomass fuel handling facility located at the station as well as the other converted plant which affected this provision value.

Notes to the financial statements for the year ended 31 December 2018

1 Revenue

	2018 £000's	2017 £000's
Electricity sales	**173,423**	36,191
Biomass sales	**25,919**	22,710
Sale of ROCs	**4,007**	-
Miscellaneous sales	**83**	148
	203,432	59,049

2 Finance costs and finance income

Recognised in profit or loss	2018 £000's	2017 £000's
Asset retirement obligation provision unwind	**204**	(164)
Interest expense on borrowings	**(7,109)**	(2,560)
Mark to Market movement in valuation of interest rate derivatives	**(780)**	-
Interest rate derivative realised charge	**(324)**	-
Bank charges	**(12)**	(3)
Sub-total Finance Costs	**(8,021)**	(2,727)
Less: Borrowing costs capitalised	**6,301**	2,434
Total Finance costs	**(1,720)**	(293)
Interest income on unimpaired financial assets	**227**	11
Interest received from parent undertaking	**-**	44
Finance income	**227**	55
Net finance cost	**(1,493)**	(238)

Notes to the financial statements for the year ended 31 December 2018 (continued)

3 Expenses, other income and auditor remuneration

	2018 £000's	2017 £000's
Loss before income tax is stated after:		
Depreciation on property, plant and equipment	**(27,093)**	(703)
Costs of inventories included in costs of sales	**(142,141)**	(27,926)
MtM movement in valuation of inflation derivatives included in cost of sales	**(12,871)**	-
Reclassification of hedging gains from reserves included in cost of sales (note 17)	**13,500**	-
Realised gain on foreign currency (FX) purchases included in cost of sales	**5,844**	-
Other operating income	**86,345**	9,419

Other operating income can be analysed as follows:

	2018 £000's	2017 £000's
Contract for difference income	**74,332**	-
Fair value of grant of renewable obligation certificates (ROCs)	**6,573**	-
Realised gain on foreign currency (FX) purchases	-	1,545
Liquidated damages	**4,500**	-
Currency revaluation gains	**531**	4
Research and development expenditure credit	**409**	670
Mark to market (MtM) movement in valuation of inflation derivatives	-	7,200
	86,345	9,419

Services provided by the Company's auditor:

During the year the Company obtained the following services from the Company's auditor:

	2018 £000's	2017 £000's
Fees payable to the Company's auditor for the audit of the Company and its financial statements	**51**	33
Amounts receivable by the Company's auditor in respect of taxation compliance services	**31**	66

Notes to the financial statements for the year ended 31 December 2018 (continued)

4 Directors and employee remuneration

The monthly average number of employees during year was 142 (2017: 135).

(a) Employee Remuneration

	2018 £000's	2017 £000's
Wages and salaries	**7,339**	6,672
Social security costs	**853**	735
Other pension costs	**1,028**	849
	9,220	8,256

(b) Directors' Remuneration

	2018 £000's	2017 £000's
Wages and salaries	**364**	326
Pension costs – defined contribution	**32**	26
Social security costs	**50**	45
	446	397

	2018 £000's	2017 £000's
Highest paid director:		
Aggregate emoluments	**141**	124
Company contributions paid to money purchase pension scheme	**12**	14
	153	138

Notes to the financial statements for the year ended 31 December 2018 (continued)

5 Employee benefit plans

The Lynemouth Power Pension Scheme is a group personal pension arrangement (defined contribution) for the employees of Lynemouth Power. The Company contributions for 2018 were £1,028,000 (2017: £849,000).

6 Taxation

Tax recognised in income statement:	**2018** **£000's**	2017 £000's
Current tax:		
Corporation tax on income for the year	-	-
Adjustments to group relief in respect of prior periods	-	-
Adjustments to corporation tax in respect of prior periods	**(89)**	-
Total current tax credit	**(89)**	-
Deferred tax:		
Origination and reversal of temporary differences	**(6,461)**	(4,634)
Adjustments in respect of prior periods	**(1,737)**	(490)
Impact of change in UK tax rate	**(492)**	-
Total deferred tax credit	**(8,690)**	(5,124)
Total tax credit	**(8,779)**	(5,124)
Tax recognised in other comprehensive income:		
Deferred tax – on cash flow hedges	**4,028**	(7,237)
Total other comprehensive income tax charge / (credit)	**4,028**	(7,237)

Notes to the financial statements
for the year ended 31 December 2018 (continued)

6 Taxation (continued)

	2018	2017
	£000's	£000's
Loss for the year	**(31,509)**	(21,588)
Total tax credit	**(8,779)**	(5,124)
Loss excluding taxation	**(40,288)**	(26,712)
Income tax credit at 19.00% (2017: 19.25%)	**(7,655)**	(5,142)
Effects of:		
Expenses not deductible for tax purposes	**132**	168
Impact of change in UK tax rate	**(515)**	598
Adjustments to brought forward values	**(500)**	-
Deferred tax not recognised	**1,669**	(113)
Additional deduction for land remediation expenditure	**(6)**	(16)
Research and development expenditure credits	**(78)**	(129)
Adjustments in respect of prior periods	**(1,826)**	(490)
Corporation tax credit for year	**(8,779)**	(5,124)

Factors affecting the current and future tax charges
Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2017 and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's current tax accordingly. The deferred tax asset at 31 December 2018 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Notes to the financial statements for the year ended 31 December 2018 (continued)

7 Property plant and equipment

	Plant and equipment £000's
Cost	
At 1 January 2018	**344,951**
Additions	54,474
Revaluation of asset retirement obligation (note 14)	2,630
At 31 December 2018	**402,055**
Accumulated depreciation	
At 1 January 2018	9,980
Charge for the year	27,093
At 31 December 2018	**37,073**
Net Book Value	
At 31 December 2018	**364,982**
At 31 December 2017	334,971

Depreciation of property, plant and equipment is included within cost of sales in the income statement. The net book value of assets under construction at the end of 2018 included within plant and equipment totalled £716,000 (2017: £329,461,000). These are not depreciated until the assets are brought into use.

The amount of borrowing costs capitalised during the period was £6,301,000 (2017: £2,434,000), comprising interest payable on the group loan to fund the fixed assets.

8 Inventories

	2018 £000's	2017 £000's
Biomass	**18,048**	17,240
Spares	**8,301**	4,637
ROCs	**2,565**	-
Gas Oil	**183**	115
Domestic Gas	**14**	3
	29,111	21,995

Notes to the financial statements
for the year ended 31 December 2018 (continued)

9 Trade and other receivables

	2018 £000's	2017 £000's
Accrued income	**3,290**	4,093
Amounts owed by group undertakings	**12,178**	36,142
Prepayments	**2,175**	2,306
Other receivables	**21,155**	8,690
	38,798	51,231
Split as:		
Current	**38,798**	49,485
Non-current	**-**	1,746
	38,798	51,231

All current receivables are expected to be recovered within 12 months except for £350,000 lodged with Elexon to cover credit on imbalance of power supply to/from the grid (2017: £350,000).

10 Share capital and reserves

	Number of Shares	Share Capital £000's	Share Premium £000's	Total £000's
Balance as at 31 December 2017	1	-	9,000	9,000
Balance as at 31 December 2018	**1**	**-**	**9,000**	**9,000**

The total authorised number of ordinary shares is 1 share (2017: 1 share), with a par value of £1 per share. All issued shares are fully paid. All shares rank equally in respect of shareholder rights. There has been no final dividend declared for 2017 or 2018.

Notes to the financial statements for the year ended 31 December 2018 (continued)

11 Trade and other payables

	2018 £000's	2017 £000's
Trade payables	**51,805**	44,804
Accruals	**4,664**	803
Deferred income	**3,548**	3,770
Amounts owed to group undertakings	**580**	43,632
Interest on loan owed to group undertakings	**-**	2,456
	60,597	95,465

Split as:

Current	**57,555**	90,089
Non-current	**3,042**	5,376
	60,597	95,465

Further information on financial liabilities is given in note 15.

12 Interest bearing loans and borrowings

	2018 £000's	2017 £000's
Non-current liabilities:		
Amounts owed to group undertakings	**-**	185,500
	-	185,500
Current liabilities:		
Amounts owed to parent undertaking	**-**	11,000
Amounts owed to group undertakings	**334,933**	-
	334,933	11,000

The loans due to group undertakings comprise loans from two separate companies as follows:

i. Loan with EPUK Investments Limited as at 31 December 2018: £144,692,000, repayable on 31st December 2019 with interest is charged at 2.58% pa.
ii. Loan with EPUK Finance Limited as at 31 December 2018: £162,716,000, repayable on 28th June 2019 with interest charged at 6-Month LIBOR +2.6%.
iii. Loan with EPUK Finance Limited as at 31 December 2018: £27,525,000, repayable on 18th January 2019 with interest charged at 1-Month LIBOR + 2.3%.

Notes to the financial statements
for the year ended 31 December 2018 (continued)

13 Tax receivable

	2018 £000's	2017 £000's
Tax receivable from HMRC	**624**	1,390

14 Asset Retirement Obligation

	2018 £000's	2017 £000's
Balance as at 1 January	**7,104**	7,768
Provision reversed in the year	**-**	(828)
Provision revaluation	**2,630**	-
Unwind of discount over year	**(204)**	164
Balance at 31 December	**9,530**	7,104

This liability provides for the decommissioning of the power station. The provision was revalued in June 2018 based on the new converted biomass plant and facility at the Port of Tyne, this is currently estimated to be settled in 2027. The discount rate applied to the provision is 2.74% which is a 7 year average from the CPI forward curve.

15 Financial instruments

Financial assets are held at their recoverable amount. The carrying amounts of financial assets and liabilities as at the balance sheet date, 31 December 2018, split by category are as follows:

Financial assets

	Loans, receivables and cash 2018 £000's	Derivatives 2018 £000's	Total 2018 £000's
Trade and other receivables	36,623	-	36,623
Derivative financial assets	-	3,831	3,831
Cash and cash equivalents	57,580	-	57,580
	94,203	**3,831**	**98,034**

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Financial instruments (continued)

Financial liabilities

	Liabilities at amortised cost	Derivatives	Total
	2018	2018	2018
	£000's	£000's	£000's
Trade and other payables	52,385	-	52,385
Derivative financial liabilities	-	11,849	11,849
Accruals	4,664	-	4,664
Loans	334,933	-	334,933
	391,982	**11,849**	**403,831**

The carrying amounts of financial assets and liabilities as at the balance sheet date, 31 December 2017, split by category are as follows:

Financial assets

	Loans, receivables and cash	Derivatives	Total
	2017	2017	2017
	£000's	£000's	£000's
Trade and other receivables	48,925	-	48,925
Derivative financial assets	-	8,340	8,340
Cash and cash equivalents	15,565	-	15,565
	64,490	**8,340**	**72,830**

Financial liabilities

	Liabilities at amortised cost	Derivatives	Total
	2017	2017	2017
	£000's	£000's	£000's
Trade and other payables	90,892	-	90,892
Derivative financial liabilities	-	42,626	42,626
Accruals	803	-	803
Loans	196,500	-	196,500
	288,195	**42,626**	**330,821**

Notes to the financial statements for the year ended 31 December 2018 (continued)

15 Financial instruments (continued)

Trade and other receivables and trade and other payables
The fair value of trade and other receivables and, trade and other payables at 31 December 2018 is equal to the carrying value stated in the balance sheet at that date.

The contractual maturity profile of financial liabilities is as follows:

	Trade and other payables	Borrowings	Derivatives	Total
	£000's	£000's	£000's	£000's
Due within one year	57,555	334,933	3,637	396,125
Due in more than one year and less than two years	500	-	562	1,062
Due in more than two years and less than five years	1,402	-	1,686	3,088
Due in more than 5 years	1,140	-	5,964	7,104
Total	**60,597**	**334,933**	**11,849**	**407,379**

Notes to the financial statements for the year ended 31 December 2018 (continued)

16 Deferred tax liability / (asset)

	2018 £000's	2017 £000's
The movement in deferred tax is as follows:		
Opening liability	**13,335**	25,696
Current year credit taken to the income statement	**(6,461)**	(4,634)
Current year (credit) / charge to OCI	**4,028**	(7,237)
Prior year credit in income statement	**(1,737)**	(490)
Impact of change in UK tax rate taken to the income statement	**(492)**	-
Closing liability	**8,673**	13,335

Deferred tax recognised on the balance sheet, and the potential amounts of deferred tax assets not recognised, at 17% (2017: 17%) are attributable to the following:

	2018 £000's	2017 £000's
Property, plant and equipment	**(3,221)**	(249)
Short term timing differences – provisions	**(2,717)**	1,224
Cash flow hedges	**25,442**	21,413
Unused tax losses	**(10,831)**	(9,053)
Closing liability	**8,673**	13,335

17 Cash flow hedging reserve

	Total £000's
Balance at 1 January 2018	**101,339**
Reclassification of hedging gains to income statement	**(13,500)**
Revaluation of foreign currency cash flow hedges in other comprehensive income	**39,919**
Deferred tax on cash flow hedges in other comprehensive income	**(4,028)**
Balance at 31 December 2018	**123,730**

All transactions and balances included within the cash flow hedging reserve are related to foreign currency forward purchases.

Notes to the financial statements for the year ended 31 December 2018 (continued)

18 Ultimate parent undertaking

The Company is a subsidiary undertaking of EPUKI Limited, a wholly owned subsidiary of Energetický a průmyslový holding, a.s. (resp. EP Power Europe, a.s.). EP Investment S.a r.l. is the ultimate parent company, incorporated in Luxembourg. The ultimate controlling party is Daniel Křetínský, who is the majority shareholder.

The largest group in which the results of the Company are consolidated is that headed by EP Investment S.a r.l., its registered office is 39, Avenue John F. Kennedy, L-1855 Luxembourg .

The smallest group in which the results are consolidated is that headed by EP Power Europe, a.s. its registered office is Pařížská 26, 110 00 Prague 1, Czech Republic.

The consolidated financial statements of these groups are available to the public and may be obtained from offices of each company.