

**Directors' Annual Report and
Financial Statements**

Hywind (Scotland) Limited

For the year ended 31 December 2016



Hywind (Scotland) Limited

Registered No. 08709450

DIRECTORS

T Bokn	(Appointed 11 January 2016)
H Brustad	
D A Caskie	(Appointed 22 November 2016)
M A El Ramahi	(Appointed 22 November 2016)
T I Ulla	
E M Machacek	(Resigned 11 January 2016)

SECRETARY

K H Mørk

AUDITOR

KPMG LLP
15 Canada Square
London
E14 5GL

REGISTERED OFFICE

1 Kingdom Street
London
W2 6BD

Hywind (Scotland) Limited

DIRECTORS' REPORT

The Directors present their annual report with the financial statements of Hywind (Scotland) Limited ("the Company") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND FURTHER DEVELOPMENTS

The principal activity of the Company in the period under review was that of a wind energy developer.

The Company is developing the first floating wind farm off the Scottish coast. The wind farm will be located near Buchan Deep, approximately 25-30 km off the coast of Peterhead in Aberdeenshire. The 30 MW pilot project will consist of five, 6 MW floating turbines.

Construction commenced in 2016 with initial generation expected in the 4th quarter of 2017.

STRATEGIC REPORT

The Company has taken advantage of the exemption contained in section 414B of the Companies Act 2006 not to prepare a Strategic Report as it is eligible to prepare its financial statements in accordance with the small companies regime.

SMALL COMPANY PROVISIONS

The Company qualifies as small in terms of sections 382 and 383 of the Companies Act 2006. This report has been prepared in accordance with the provisions in Part 15 of the Companies Act 2006 applicable to the small companies regime.

GOING CONCERN

On the basis of current financial projections and available facilities, it is expected that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company has adopted the going concern basis in preparing the financial statements.

RESULTS AND DIVIDENDS

The loss for the year ended 31 December 2016 was £1,982,066 (2015 : loss of £16,345,797). The Directors do not recommend the payment of a dividend.

POLITICAL CONTRIBUTIONS

No contributions were made to a political party during either period.

EMPLOYEES

The company has no employees.

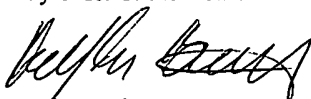
DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the Board of Directors


H. Brustad
Director

27 September 2017

Hywind (Scotland) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law and Section 1A of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (UK Generally Accepted Accounting Practice applicable to Smaller Entities).

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Independent auditor's report to the shareholders of Hywind (Scotland) Limited

We have audited the financial statements of Hywind (Scotland) Limited for the year ended 31 December 2016 set out on pages 5 to 15. The financial reporting framework that has been applied in their preparation is applicable law and Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (UK Generally Accepted Accounting Practice applicable to Smaller Entities).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime, take advantage of the small companies exemption in preparing the directors report and take advantage of the small companies exemption from the requirement to prepare a strategic report.



Juliette Lowes (Senior Statutory Auditor)

Chartered Accountants

15 Canada Square

London

E14 5GL

27 September 2017

Hywind (Scotland) Limited

PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME for the year ended 31 December 2016

	Note	2016	2015
		£	£
Operating and pre-development expenditure		(334,108)	(16,211,471)
GROSS LOSS		(334,108)	(16,211,471)
Administrative expenses		(3,545)	(24,487)
OPERATING LOSS	3	(337,653)	(16,235,958)
Foreign exchange losses		(1,675,759)	5,649
Interest receivable and similar income	5	62,490	958
Interest payable and similar charges	6	(30,164)	(117,276)
LOSS BEFORE TAXATION		(1,981,086)	(16,346,627)
Tax on loss	7	(980)	830
LOSS FOR THE FINANCIAL YEAR		(1,982,066)	(16,345,797)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(1,982,066)	(16,345,797)

All operations are derived from continuing operations.


Hywind (Scotland) Limited

BALANCE SHEET
at 31 December 2016

Registered number 08709450

		2016 £	2015 £
	Notes		
FIXED ASSETS			
Tangible assets	8	117,536,112	10,018,915
CURRENT ASSETS			
Debtors	9	37,452,401	41,054,831
		<u>37,452,401</u>	<u>41,054,831</u>
CREDITORS: amounts falling due within one year	10	(23,848,746)	(9,951,913)
		<u>13,603,655</u>	<u>31,102,918</u>
NET CURRENT ASSETS		13,603,655	31,102,918
TOTAL ASSETS LESS CURRENT LIABILITIES		131,139,767	41,121,833
		<u>131,139,767</u>	<u>41,121,833</u>
NET ASSETS		131,139,767	41,121,833
		<u>131,139,767</u>	<u>41,121,833</u>
CAPITAL AND RESERVES			
Called up share capital	11	162,750,000	70,750,000
Profit and loss account		(31,610,233)	(29,628,167)
		<u>131,139,767</u>	<u>41,121,833</u>
SHAREHOLDER'S FUNDS		131,139,767	41,121,833
		<u>131,139,767</u>	<u>41,121,833</u>

Approved by the Board of Directors on 27 September and signed on their behalf by:


.....
H Brüstad - Director

Hywind (Scotland) Limited

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2016

	Share capital	Profit & loss Account	Total Shareholder's Deficit
	£	£	£
At 1 January 2015	10,750,000	(13,282,370)	(2,532,370)
Issue of share capital	60,000,000	-	60,000,000
Loss for the year	-	(16,345,797)	(16,345,797)
Other comprehensive income	-	-	-
At 31 December 2015	70,750,000	(29,628,167)	41,121,833
Issue of share capital	92,000,000	-	92,000,000
Loss for the year	-	(1,982,066)	(1,982,066)
Other comprehensive income	-	-	-
At 31 December 2016	162,750,000	(31,610,233)	131,139,767

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2016

1. ACCOUNTING POLICIES

Hywind (Scotland) Limited is a company limited by shares and incorporated and domiciled in the UK.

Basis of preparation

The financial statements were prepared in accordance with Section 1A of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (UK Generally Accepted Accounting Practice applicable to Smaller Entities). The presentation currency of these financial statements is sterling.

The financial statements are prepared under the historical cost accounting convention and in accordance with applicable UK accounting standards.

Going concern

On the basis of current financial projections and available facilities, it is expected that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company has adopted the going concern basis in preparing the financial statements.

Cash flow statement

The Company is exempt from the requirement to prepare a cash flow statement, under FRS102, section 1A, on the grounds of its size.

Measurement convention

The financial statements are prepared on the historical cost basis.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency 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. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Research and development

Research expenditure is written off as incurred.

Development costs are expensed in the profit and loss account until the point at which the Company sanctions the wind farm and commits the resources required to complete the project. Once the project is sanctioned and the directors are satisfied as to the technical, commercial and financial viability of the project, development costs will be capitalised and depreciated over the useful production life of the wind farm. The current project ongoing was sanctioned in November 2015.

Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

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.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Expenditure on tangible fixed assets is capitalised in the month in which it is incurred. The Company undertakes a review for impairment of the costs capitalised if events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount that is the higher of net realisable value and value in use, the fixed asset costs are written down to their recoverable amount.

Depreciation

No depreciation is charged during the construction phase of the project.

Once the project is in the production phase, the assets will be depreciated over their useful lives.

Interest receivable and interest payable

Interest payable and similar charges include interest payable. 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 included with interest payable and similar charges.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Related party transactions

The company has taken advantage of the exemption contained within FRS 102.33, "Related Party Disclosures", and has not disclosed transactions with group companies.

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, 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.

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related differences, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Accounting estimates and judgements

Preparation of the financial statements requires management to make significant judgements and estimates.

In the current period, a deferred tax asset relating to pre-trading losses has not been recognised. The directors consider there is not yet reasonable certainty that these amounts can be recovered in the future.

The carrying value of tangible assets is a significant area of judgement principally around any indicators of impairment and going forward, the depreciation policies adopted.

2. STAFF COSTS AND DIRECTORS' EMOLUMENTS

There were no staff costs for the period ended 31 December 2016 (2015: £nil).

The Company has no employees. The directors did not receive, nor were due, any remuneration in respect of their services to the Company in the period.

Key management are defined as the directors of the company.

The directors' of Hywind Scotland Limited were remunerated £65 thousand for their services to the company in the 2016 financial year (2015: 103 thousand). The remuneration disclosed above represents an allocation based on time spent on activities of the Company during the year.

3. OPERATING LOSS

The operating loss is stated after charging:

	2016	2015
	£	£
Pre -development costs	-	16,211,471
Other operating costs	334,108	-
	<u>334,108</u>	<u>-</u>

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2016

4. AUDITOR'S REMUNERATION

	2016	2015
	£	£
Audit of these financial statements	4,500	4,500

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016	2015
	£	£
Interest receivable from related parties	62,490	958

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2016	2015
	£	£
Interest payable to related parties	29,211	117,030
Bank and similar charges	953	246
	30,164	117,276

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2016

7. TAX

a) Tax on loss:

	2016 £	2015 £
<i>Current tax:</i>		
Corporation tax on income for the period	-	194
Prior year adjustment	980	(1,024)
Total current tax (credit) / charge	980	(830)

b) Factors affecting total tax charge:

The tax assessed on the loss for the year is higher (2015: higher) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2016 £	2015 £
Loss before taxation	(1,981,086)	(16,346,627)
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	(396,217)	(3,310,192)
Current year losses for which no deferred tax asset was recognised	396,217	3,310,386
Prior year adjustment	980	(1,024)
Total tax (note 7a)	980	(830)

A deferred tax asset of £5,653,590 (2015: £5,333,740) relating to trading expenditure not yet deductible has not been recognised due to the uncertainty and timing of recoverability of such losses.

c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015 and from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The unrecognised deferred asset balance at 31 December 2016 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2016

8. TANGIBLE FIXED ASSETS

	Assets under Construction £
COST AND NET BOOK VALUE	
At 1 January 2015	-
Additions	10,018,915
At 31 December 2015	10,018,915
At 1 January 2016	10,018,915
Additions	107,517,197
At 31 December 2016	117,536,112

The tangible fixed assets related entirely of the construction of the wind farm, as described in the directors' report.

No depreciation will be applied until the asset is in use.

9. DEBTORS

	2016 £	2015 £
VAT recoverable	1,038,120	94,941
Other debtors	8,164	-
Amounts owed by related parties	36,406,117	40,959,890
	37,452,401	41,054,831

10. CREDITORS: amounts falling due within one year

	2016 £	2015 £
Trade creditors	8,796,199	7,531,074
Accruals	14,190,300	1,042,403
Amounts owed to group undertakings	862,247	1,378,078
Corporation tax	-	358
	23,848,746	9,951,913

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 December 2016

11. SHARE CAPITAL

Ordinary shares of £1 each	Ordinary shares
At 1 January 2016	70,750,000
Issued during the period	92,000,000
	<hr/>
At 31 December 2016	162,750,000
	<hr/> <hr/>

In August 2016, 92,000,000 ordinary shares with aggregate nominal value of £92,000,000 were allotted. The consideration for these shares was settled through an intercompany transaction.

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.

12. RELATED PARTY TRANSACTIONS

During the year, the Company entered into transactions, in the ordinary course of business, with related parties. Transactions entered into and balances outstanding at 31 December are as follows:

	Purchases from related party	Amounts owed by related party	Amounts owed to related party
2016	£	£	£
Statoil ASA	10,617,926	-	858,313
Statoil Petroleum AS	2,290	-	358
Statoil UK Limited	87,094	-	3,576
	<hr/>	<hr/>	<hr/>
	10,707,310	-	862,247
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2016, Hywind (Scotland) Limited is a joint venture owned by Statoil Wind Limited and Masdar Offshore Wind Limited.

Statoil (UK) Limited, Statoil Petroleum AS, Statoil (UK) Limited and Statoil Wind Limited are all 100% owned subsidiaries of Statoil ASA.

No 2015 transactions are shown as during that time the company was a wholly owned subsidiary of Statoil Wind Limited and as such took advantage of the exemption to disclose in section 33, FRS 102.

Hywind (Scotland) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2016

13. CAPITAL COMMITMENTS

At 31 December 2016, the Company had non-cancellable commitments of £26,335 thousand (2015: £5,407 thousand).

14. ULTIMATE CONTROLLING UNDERTAKING

Until November 2016, Hywind (Scotland) Limited was a fully owned subsidiary of Statoil Wind Limited, which in turn is a fully owned subsidiary of Statoil ASA. The ultimate controlling party was the Norwegian government.

In November 2016, Statoil Wind Limited, sold 25% of the share capital in Hywind (Scotland) Limited to Masdar Offshore Wind UK Limited. Under the terms of the shareholder agreement, the 2 parent companies have joint control over Hywind (Scotland) Limited.