EQUITIX ESI CHP FINANCE LIMITED

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Registered Number: 09430484

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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DIRECTORS AND ADVISERS

Directors
B M Cashin (resigned 8 April 2019)
E D Archer (resigned 8 April 2019)
D J Harding (appointed 8 April 2019)
J C Smith (appointed 8 April 2019)

Registered office
10-11 Charterhouse Square
London
EC1M 6EH

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

STRATEGIC REPORT

BUSINESS MODEL

The principal activities of Equitix ESI CHP Finance Limited (the "Company") are to invest in and hold Project Shares in accordance with the Shareholders' respective investment policies and the "Green Criteria" applicable to Energy Saving Investments LP and Equitix Energy Efficiency Fund LP, provide debt to the project companies and to manage the Company's investments in project companies.

REVIEW OF THE YEAR

The Company's direct subsidiaries are held at fair value on the Statement of Financial Position with movements recorded through the Statement of Comprehensive Income as explained in note 2. In order to determine the fair value of these investments, the Company takes into consideration the fair value of all the underlying portfolio companies and intermediate holding companies.

The Directors have considered a number of potential outcomes arising from the UK's exit from the European Union in 2019 and believe that the Company has sufficient reserves and business controls to address any financial impact of these outcomes for the foreseeable future and have decided not to make a specific provision in the accounts.

KEY PERFORMANCE INDICATORS

The key performance indicators for the Company are primarily client and financially focused; including those listed below:

- tracking the performance and delivery of the services in conjunction with the KPIs set by local authoirities;
- the progress of the individual project companies;
- the comparison of actual cash flows costs to those that have been forecast;
- the value of investments held in the company portfolio in association with the expected future cash flows; and
- that all operational projects are performing within the restrictions of all project documentation.

The latest operational models show the values of the current portfolio of projects are performing in line with expectations and the project documentation with no material or significant unavailability deductions being suffered in the period.

FUTURE DEVELOPMENTS

The Director of the Company is not aware of any circumstances by which the principal activity of the Company would alter or cease; the Company will continue to invest in and hold Project Shares and to manage the Company's investments in Project Companies. The Company will continue to acquire investment stakes in green energy technology projects with robust clients; the Company will continue to assess and evaluate all opportunities presented by the Manager and invest in projects that best fit the Fund's investment objectives.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's main concerns are attributable to the sound operation of the underlying non domestic energy efficiency infrastructure assets, ensuring that the modelled cash flows, made up of dividends and other fees are received. The Company will monitor actual and projected cash flows to ensure that the returns are as expected. In addition, the Company will also look to optimise returns from the underlying non domestic energy efficiency infrastructure assets through achieving efficiencies at project level.

By order of the Board

J C Smith
Director
05 June 2019

DIRECTORS' REPORT

The Directors of Equitix ESI CHP Finance Limited (the "Company") submit the annual report and the audited financial statements for the year to 31 December 2018. No strategic report has been prepared in accordance with the special provisions relating to small companies under s417 Companies Act 2006. The Director's report has been prepared in accordance with the special provisions relating to small companies under s415a of the Companies Act 2006.

DIRECTORS

The Directors who served throughout the year, are shown on page 1.

PRINCIPAL ACTIVITY

Equitix ESI CHP Finance Limited is the funding company for all Energy Saving Companies (refer to note 16) in which Equitix ESI CHP Limited holds shares. The company subscribes for loan stock issued by the Energy Saving Companies. Equitix ESI CHP Finance Limited is a finance company jointly owned by Energy Saving Invesments LP (49%) and Equitix Energy Efficiency Fund Holdco Limited (51%).

RESULTS AND DIVIDENDS

The Company's performance reflects the position under the various inter-company and inter-group agreements that have been updated during the year. The results for the year ended 31 December 2018 are shown on page 8 in the Statement of Comprehensive Income. This shows a loss before tax of £8,681k (2017: £nil). The Directors do not recommend payment of a dividend (2017: £nil). The Directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease in the foreseable future.

GOING CONCERN

The Company's forecasts and projections, taking account of reasonable possible changes in trading performance show that the Company should be able to operate within the level of its current resources. The Directors of the Company have had regard in this assessment to the support available from other companies within the Energy Saving Investments LP and Equitix Energy Efficiency Fund LP group and their ability to provide this support. As a consequence, the Directors believe the Company is well placed to manage its risks successfully despite the current economic uncertainties and the economic outlook. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, a period of at least 12 months from the date of financial statements, taking into account both the result in the year and the net asset position at the period end. Accordingly, the going concern basis continues to be adopted in preparing the annual report and accounts.

FINANCIAL RISK MANAGEMENT

The Directors' report has been prepared in accordance with the special provisions relating to small companies under s417 Companies Act 2006. As such the Company is exempt from including financial risk management disclosures in the Directors' Report.

AUDITOR

The persons who are Director at the date of approval of this report confirm that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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

J C Smith
Director
05 June 2019

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

The directors are responsible for preparing 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 are required to prepare the financial statements in accordance with IFRSs as adopted by the European Union.

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 its profit or loss 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 its 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EQUITIX ESI CHP FINANCE LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Equitix ESI CHP Finance Limited ("the Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting standards as adopted by the European Union; 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 as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

We have fulfilled our ethical responsibilities under, and we are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard.

2 Key audit matters: *our assessment of risks of material misstatement*

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). 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 developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: - Our Brexit knowledge – We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. - Sensitivity analysis – When addressing the recoverability of loans to related parties and other areas that depend on forecasts, we reviewed the directors' analysis and challenged where appropriate to assess whether or not the analysis encompassed a range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. - Assessing transparency – As well as assessing individual disclosures as part of our procedures to assess the recoverability of loans to related parties, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.
Loans to related parties (£78.0m, 2017: £74.2m) Refer to page 12 (accounting policy) and page 17 (financial disclosures).	The Company's fellow subsidiary companies invest in Special Purpose Vehicle companies (SPVs) that hold contracts to develop and operate infrastructure, PFI and PPP projects. The Company provides debt finance to these SPVs which can also include interest accrued on the principal outstanding. There is a risk that the SPVs will not generate sufficient cash flows to repay the debt owed to the Company. The carrying amount of the loans to related parties represents 83.1% of the Company's total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the Company's financial statement, this is considered to be the area that had the greatest effect on our overall Company audit.	Our procedures included: - **Third party confirmation:** We agreed initial and subsequent drawdowns to loan agreements, and verified any material repayments of loan principal and accrued interest to bank statements. - **Recoverability**: As part of our audit of the ultimate investee entities, Equitix Energy Efficiency Fund LP and Energy Saving Investments LP, we considered the recoverability and fair value of the SPV equity and loans. This includes an assessment as to whether the cash flows from the SPV are sufficient to meet their loan obligations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EQUITIX ESI CHP FINANCE LIMITED

3 Our application of materiality and an overview of the scope of our audit (continued)

Materiality for the financial statements as a whole was set at £705,000 (2017: £860,000), determined with reference to a benchmark of net assets, of which it represents 0.75% (2017: 1%).

In addition, we applied materiality of £530,000 (2017: £645,000) to identify items for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Company.

We agreed to report any corrected or uncorrected identified misstatements exceeding £35,000 (2017: £43,000) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office in London.

4 We have nothing to report on 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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the Company's ability to make interest payments to its lenders.

As this risk could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial

We have nothing to report in this respect, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and directors' report

Based solely on our work on the other information:

- 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 has been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EQUITIX ESI CHP FINANCE LIMITED

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 4, the Directors are responsible for: the preparation of the financial statements including 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.

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, other irregularities, 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, other irregularities 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.

8 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.

Henry Todd (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

05 June 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 £	Period ended 31 December 2017 £
Interest income	7	7,625,732	5,523,520
Impairment loss on trade and other receivables		(8,681,341)	
(Loss)/profit from operations		(1,055,609)	5,523,520
Finance cost	8	(7,625,732)	(5,523,520)
(Loss)/result from operating activities before tax	5	(8,681,341)	-
Tax	9	-	-
(Loss)/result from operating activities after tax		(8,681,341)	-

All the above items relate to continuing operations.

The notes on pages 12 to 18 form part of these financial statements.

The Company has no recognised gains or losses other than reported above, and therefore no separate statement of total recognised gains and losses has been presented.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Notes	As at 31 December 2018 £	As at 31 December 2017 £
Non-current assets			
Loans to related parties	10	78,027,864	74,197,846
		78,027,864	74,197,846
Current assets			
Trade and other receivables	10	7,496,168	12,051,777
		7,496,168	12,051,777
Total assets		85,524,032	86,249,623
Current liabilities			
Payables	11	(16,177,509)	(12,051,777)
		(16,177,509)	(12,051,777)
Net current liabilities		(8,681,341)	-
Non-current liabilities			
Borrowings	12	(78,027,764)	(74,197,746)
		(78,027,764)	(74,197,746)
Total liabilities		(94,205,273)	(86,249,524)
Net (liabilities)/assets		(8,681,241)	100
Equity			
Share capital	13	100	100
Shareholders' funds		(8,681,341)	-
		(8,681,241)	100
Total (deficit)/equity		(8,681,241)	100

The notes on pages 12 to 18 form part of these financial statements.

The financial statements of Equitix ESI CHP Finance Limited, registered number 09430484, were approved by the Board and authorised for issue on 5 June 2019 and were signed on its behalf by:

J C Smith
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Retained earnings	Total
	£	£	£
Balance as at 1 April 2017	100	-	100
Result for the period	-	-	-
Balance as 31 December 2017	100	-	100
Balance as at 1 January 2018	100	-	100
Loss for the year	-	(8,681,341)	(8,681,341)
Balance as 31 December 2018	100	(8,681,341)	(8,681,241)

The notes on pages 12 to 18 form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018	Year ended 31 December 2018 £	Period ended 31 December 2017 £
Cash flows from operating activities		
(Loss)/result after tax	(8,681,341)	-
Impairment loss on trade and other receivables	8,681,341	-
Interest income	(7,625,732)	(5,523,520)
Finance cost	7,625,732	5,523,520
Cash flows from operations	-	-
Net cash flows generated from operating activities	-	-
Investing activities		
Loan principal receivable	(3,830,018)	(2,871,923)
Net cash used in investing activities	(3,830,018)	(2,871,923)
Financing activities		
Issue of Ordinary Share Capital	-	-
Loan principal	3,830,018	2,871,923
Net cash from financing activities	3,830,018	2,871,923
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year/period	-	-
Cash and cash equivalents at end of year/period	-	-

The notes on pages 12 to 18 form part of these financial statements.

Notes to the financial statements for the year 31 December 2018

1 GENERAL INFORMATION

Equitix ESI CHP Finance Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Directors' report on page 3. These financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the company operates.

2 ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"). A summary of the principal accounting policies, all of which have been applied consistently throughout the current and prior year are set out below.

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. This includes the adoption of IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") and IFRS 9 'Financial Instruments' ("IFRS 9"). Given the nature of the business activities in which the Company operates, IFRS 15 does not have a material impact on the Company. The requirements of IFRS 9 represent a significant change from IAS 39. The key changes to the Partnership's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The financial assets and liabilities of the Company are now classified as amortised cost or fair value through profit or loss. Classification is based on the characteristics of the financial asset. All disclosures have been updated where applicable to reflect the requirements of IFRS 9.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity Investments. The new impairment model applies to debt instruments and financial guarantee contracts issued that are not measured at FVTPL. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Company has determined that the application of IFRS 9's impairment requirements had no material impact on the allowance for impairment.

b) Going concern

Notwithstanding net current liabilities of £8,681k and net liabilities of £8,681k as at 31 December 2018, 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 forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through its borrowings from its parents, to meet its liabilities as they fall due for that period. Those forecasts are dependent on the parent entities not seeking repayment of the amounts currently due to the group, which at 31 December 2018 amounted to £8,681k, and providing additional financial support during that period. The parent entities indicated their intention to continue to make available such funds as are needed by the Company, and that they do not intend to seek repayment of the amounts due at the balance sheet date, 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 statements, 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 meet 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.

c) Borrowings

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

d) Cash and cash equivalents

Cash and cash equivalents comprise on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The transactions shown in the statement of cash flows have been funded through intercompany loan balances.

e) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. It is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

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

2 ACCOUNTING POLICIES (CONTINUED)

f) Borrowing costs
All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

g) Accruals and provisions
Accruals and provisions are recognised in the statement of comprehensive income in the period in which they are incurred.

h) Taxation
The tax expense represents the sum of tax currently payable and deferred tax.
Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method . Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other that in a business combination) of other assets and liabilities in a transaction that affect neither the taxable profit nor the accounting profit. Deferred tax assets and liabilities are recognised for temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and the rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on the same taxable company, and the Company intends to settle its current tax assets and liabilities on a net basis.

i) Financial Instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of an instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IFRS 9.

j) Financial assets
Financial assets, including loans to project companies are classified as amortised cost. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

k) Effective interest method
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

l) Loans and receivables
Trade receivables, loans and other receivables that are non-derivative financial assets and that have fixed or determinable payments that are not quoted in an active market are classified as 'amortised cost'. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment. They are included in current assets, except where maturities are in greater than 12 months after the balance sheet date which are classified as non current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

m) Impairment of financial assets
Financial Assets are assessed for impairment under the expected credit loss model ("ECL"). Assessment for impairment is based on a three-stage approach based on changes in credit risk since initial recognition, with each stage representing a change in the credit risk of Financial Assets. If a significant increase in credit risk is identified, the financial instrument is moved from stage one to stage two but is not yet deemed to be credit impaired; financial instruments that are deemed to be credit impaired are moved to stage three. The expected credit loss for stage one financial instruments is equal to the portion of lifetime expected credit losses that result from default events within the next twelve months. The expected credit loss for stage two and three financial instruments is equal to expected credit losses on a lifetime basis. ECLs are recognised in the Statement of Comprehensive Income. Amounts receivable from Financial Assets are written off, when the Company concludes that there is no longer any realistic prospect of recovery of part or all of the receivable. Amounts receivable from Financial Assets are reviewed regularly and write off will be prompted by insolvency, adverse changes in operations and similar events associated with the Financial Asset. For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Notes to the financial statements for the year 31 December 2018

ACCOUNTING POLICIES (CONTINUED)

n) Financial liabilities and equity
Debt instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities, including borrowings, are classified as amortised cost and are initially measured at fair value. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

o) Financial risk management
The Company has loans from Equitix Energy Efficiency Fund LP and Energy Saving Investments LP, the Company's joint owners, with fixed interest rates. The amount of the loan shown on the balance sheet represents the fair value of the loan on that date. The Company does not have any other borrowings, loans or overdrafts that expose the Company to financial risks.

p) Assessable risks
Credit risk
The Company is not susceptible to significant credit risk as diversification is being realised as each project developer is different, different boiler installers, different boiler technology providers and different fuel providers are being used, together with a significant proportion of the portfolio that is not directly exposed to any fuel stock risk. Each counterparty is scored for credit worthiness before contracts are entered into. In addition, between 15% -100% of the income from projects is underpinned through government subsidy rather than derived from the client end user which also reduces credit risk exposure. Credit risk is subsumed in overall performance risk of the underlying project

Liquidity risk
The Company adopts a prudent approach to liquidity management and maintains sufficient cash reserves at group level to meet its

Foreign exchange risk
The Company does not currently have any exposure to foreign currency exchange risk, nor does it have any immediate plans to geographically deviate its focus.

q) Share capital
Ordinary shares are classified as equity.

r) Expenses
All expenses are accounted for on an accruals basis. The Company's fees, finance costs and all other expenses are charged through the statement of comprehensive income.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in certain circumstances that affect reported amounts. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

i) Loans, receivables, and payables
The carrying value less impairment provision of trade receivables and payables are assumed to approximate to their fair values.

ii) Borrowings
Intercompany loans are held at amortised cost. Carrying amount of borrowings are assumed to approximate their fair values.

4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - ADOPTION OF NEW AND REVISED STANDARDS

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

• IFRS 16 Leases (January 2019)

• Annual Improvements to IFRS Standards 2014-2016 Cycle

The Directors do not expect that the adoption of the other standards listed above will have a material impact on the Company in future

5 RESULT FROM OPERATING ACTIVITIES BEFORE TAX

The result from operating activities before tax of the Company is attributable to the principal activity of the Company, all of which was carried out in the United Kingdom.

The audit fee for Equitix ESI CHP Finance Limited of £2,700 (2017: £2,600) has been shared between Energy Saving Investments LP and Equitix Energy Efficiency Fund Holdco LP, Company's joint owners, who will not seek compensation from the Company. There were no non-audit fees (2017: none).

6 DIRECTORS' REMUNERATION

No staff were directly employed by the Company (2017: none). No Directors received any remuneration for services to the Company during the year (2017: none). The Company is managed by secondees from Equitix Limited. No recharge for services rendered has been made during the year (2017: none).

Notes to the financial statements for the year 31 December 2018

7 INTEREST INCOME

	Year ended 31 December 2018 £	Period ended 31 December 2017 £
Interest income on loans to Project companies	7,625,732	5,523,520
Total interest income	7,625,732	5,523,520

8 FINANCE COSTS

	Year ended 31 December 2018 £	Period ended 31 December 2017 £
Interest expense on loans from joint owners	(7,625,732)	(5,523,520)
Total finance cost	(7,625,732)	(5,523,520)

9 TAX ON LOSS FROM ORDINARY ACTIVITIES

Taxation is based on the result for the year and comprises:
The charge for the year can be reconciled to the result per the income statement as follows:

	Year ended 31 December 2018 £	Period ended 31 December 2017 £
UK corporation tax at a rate of 19% (2017: 19%)		
Current tax	-	-
	-	-

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

	31 December 2018 £	31 December 2017 £
Loss on ordinary activities before tax	8,681,341	-
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19%)	1,649,455	-
Losses not utilised in the year/period	(1,649,455)	-
Total current tax expense for the year/period	-	-

A deferred tax asset has not been recognised in respect of timing differences relating to excess management expenses for the period as there is insufficient evidence that the asset will be recovered. A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

10 RECEIVABLES

	Year ended 31 December 2018 £	Period ended 31 December 2017 £
Loan principal receivable from Project Companies	78,027,764	74,197,746
Interest receivable from Project Companies	7,496,168	12,051,777
Other receivables	100	100
Total receivables	85,524,032	86,249,623
Included on the balance sheet as follows:		
Current	7,496,168	12,051,777
Non-current	78,027,864	74,197,846
	85,524,032	86,249,623

Interest receivable represents accrued interest on subordinated debt loans to the Project Companies listed in note 16.

The interest due from underlying investments is as follows; £7,914,019 (2017: £5,050,256) which is 10% interest on a year end loan balance of £29,670,721 (2017: £27,070,164) from Equitix ESI CHP (Sheffield) Ltd, £7,477,237 (2017: £4,558,609) which is 10% interest on a year end loan balance of £29,737,862 (2017: £29,008,401) from Equitix ESI CHP (Nottingham) Ltd, £1,763,429 (2017: £999,598) which is 10% interest on a year end loan balance of £7,824,059 from Ignis Biomass Ltd (2017: £7,324,059), creditor of £977,176 (2017: debtor of £1,443,314) which is 10% interest on a year end loan balance of £10,795,122 (2017: £10,795,122) from Equitix ESI CHP (Wrexham) Ltd.

The intercompany loans have a range of repayment dates from 31 March 2022 to 30 November 2034.

The original value of the interest receivable assets was adjusted for an impairment loss resulting in the net recoverable position presented above. The carrying value of these asstes approximates their fair value. Expected credit loss analysis was performed as per IFRS 9 and due to uncertainty over realisation of cash flow optimisations, the following provision has been made:

	31 December 2018 £	31 December 2017 £
Opening balance	-	-
Additions	(8,681,341)	-
Closing balance	(8,681,341)	-

Notes to the financial statements for the year 31 December 2018

11 PAYABLES

	31 December 2018	31 December 2017
	£	£
Interest payable to joint owners	(16,177,509)	(12,051,777)
	(16,177,509)	(12,051,777)
Included on the balance sheet as follows:		
Current	(16,177,509)	(12,051,777)
	(16,177,509)	(12,051,777)

Interest payable to joint owners in the current and prior year represents accrued interest on loan note borrowings from Equitix Energy Efficiency Fund LP and Energy Saving Investments LP (note 16). The carrying amount of these liabilities approximates their fair value.

12 BORROWINGS

	31 December 2018	31 December 2017
	£	£
Loans from Parent Company	(78,027,764)	(74,197,746)
	(78,027,764)	(74,197,746)
Included on the balance sheet as follows:		
Current		
Non-current	78,027,764	74,197,746
	78,027,764	74,197,746

Amounts owing comprise of £78,028k (2017: £74,198k) of Eurobond Loan Notes, listed on the The International Stock Exchange on 14 December 2018 (2017: 22 December 2017), and subscribed to by EEEF Holdco Limited and ESI Holdco Limited. The loan note agreements fix the loan interest coupon at 10% and are due for repayment on 25 April 2023.

13 SHARE CAPITAL

	31 December 2018	31 December 2017
	£	£
Allotted, called up and unpaid:		
100 Ordinary shares of £1 each	100	100

During the year there were 49 Shares of £1 each issued to Energy Saving Investments LP and 51 Shares of £1 each were issued to Equitix Energy Efficiency Fund Holdco Limited. The rights of the shares include the entitlement to dividends and voting rights. All shares in issue are of the same class.

14 FINANCIAL INSTRUMENTS

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt. The capital structure of the Company borrowings are as disclosed in note 16, equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 13 and 15. The Company is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

The following table details the Company's expected maturity for its non-derivative financial assets. The table below has been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

Assets	**Less than 1 year**	**1-2 years**	**3-5 years**	**5+ years**	**Total**
2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans to related parties	-	-	78,027,864	-	78,027,864
Trade and other receivables	7,496,168	-	-	-	7,496,168
	7,496,168	-	78,027,864	-	85,524,032

Notes to the financial statements for the year 31 December 2018

14 FINANCIAL INSTRUMENTS (CONTINUED)

a) Categories of financial instruments

		31 December 2018	31 December 2017
Financial assets		£	£
Loans and receivables at amortised cost			
	Loan principal	78,027,764	74,197,746
	Interest receivable from Project companies	7,496,168	12,051,777
	Other receivables	100	100
		85,524,032	86,249,623
Financial liabilities at amortised cost			
	Borrowings	78,027,764	74,197,746
	Interest payable to joint owners	16,177,509	12,051,777
		94,205,273	86,249,523

The carrying amount of the loans approximates their fair value

b) Financial risk management objectives

Risk management objectives

The Directors provide advice to the Company on all risks faced and manage the financial risks relating to the operations of the Company through internal risk reports which analyse the exposures faced by degree and magnitude of risk consequences. These risks include market risk, credit risk and liquidity risk.

The Company does not enter into financial derivative contracts.

Market risk

The Company's activities expose it primarily to the financial risks of interest rates.

Interest rate risk management

The Company has limited exposure to interest rate risk as loans held with EEEF Holdco Ltd and ESI Holdco Ltd have fixed interest rates of 10%. The fixed rate borrowings are carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

Performance risk management

Performance risk management refers to the risk that the underlying project companies will not perform in line with expectations, and as such the Company will not receive forecast cashflows as expected. To mitigate this risk, the projects are closely managed by the asset management team and risks of non-performance are passed on to service providers and subcontractors by the PFI contract structure, leaving the PFI investment insulated from issues of non-performance.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. For cash and cash equivalents the Company only transacts with entities that are rated the equivalent to investment grade and above. Other financial assets consist of amounts receivable from related parties. Credit risk is generated through the overall performance risk of the projects, deterioration of which might impact their ability to service equity payments. This risk is mitigated through the PFI contract structure, whereby deductions are passed down to the facilities management and construction sub contractors.

The Company only transacts with creditworthy PFI / PPP concession companies that have a cash flow derived from projects in agreement with government or semi-government authorities.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

Notes to the financial statements for the year 31 December 2018

15 TRANSACTIONS WITH RELATED PARTIES

Profit and loss account transactions

		31 December 2018		31 December 2017	
		Interest income	Interest expense	Interest income	Interest expense
		£	£	£	£
Related party	**Transaction description**				
Equitix ESI CHP (Sheffield) Limited	Interest Receivable	2,863,762	-	2,032,453	-
Equitix ESI CHP (Nottingham) Limited	Interest Receivable	2,918,628	-	2,142,190	-
Ignis Biomass Limited	Interest Receivable	763,830	-	537,039	-
Equitix ESI CHP (Wrexham) Limited	Interest Receivable	1,079,512	-	811,838	-
Energy Saving Investments LP	Interest Payable	-	-	-	(2,467,976)
Equitix Energy Efficiency Fund Holdco Limited	Interest Payable	-	-	-	(2,568,711)
ESI Holdco Limited	Interest Payable		(3,736,608)		(238,548)
EEEF Holdco Limited	Interest Payable		(3,889,124)		(248,285)
		7,625,732	**(7,625,732)**	**5,523,520**	**(5,523,520)**

Balance sheet items

		31 December 2018		31 December 2017	
		Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
Related party	**Transaction description**	£	£	£	£
Equitix ESI CHP (Sheffield) Limited	Interest debtor	7,914,019	-	5,050,256	-
Equitix ESI CHP (Nottingham) Limited	Interest debtor	7,477,237	-	4,558,609	-
Ignis Biomass Limited	Interest debtor	1,763,429	-	999,598	-
Equitix ESI CHP (Wrexham) Limited	Interest (creditor)/debtor	(977,176)	-	1,443,314	-
Equitix ESI CHP (Sheffield) Limited	Loan note debtor	29,670,721	-	27,070,164	-
Equitix ESI CHP (Nottingham) Limited	Loan note debtor	29,737,862	-	29,008,401	-
Ignis Biomass Limited	Loan note debtor	7,824,059	-	7,324,059	-
Equitix ESI CHP (Wrexham) Limited	Loan note debtor	10,795,122	-	10,795,122	-
Energy Saving Investments LP	Interest creditor	-	530	-	132
Equitix Energy Efficiency Fund Holdco Limited	Interest creditor	-	551	-	138
ESI Holdco Limited	Interest creditor	-	(7,927,111)	-	(5,905,503)
EEEF Holdco Limited	Interest creditor	-	(8,250,668)	-	(6,146,544)
Energy Saving Investments LP	Loan note creditor	-	-	-	-
Equitix Energy Efficiency Fund Holdco Limited	Loan note creditor	-	-	-	-
ESI Holdco Limited	Loan note creditor	-	(38,155,896)	-	(36,279,187)
EEEF Holdco Limited	Loan note creditor	-	(39,872,679)	-	(37,919,370)
Energy Saving Investments LP	Share capital	49	-	49	-
Equitix Energy Efficiency Fund Holdco Limited	Share capital	51	-	51	-
		94,205,373	**(94,205,273)**	**86,249,623**	**(86,250,334)**

Energy Saving Investments LP and Equitix Energy Efficiency Fund Holdco Limited are both related parties of Equitix ESI CHP Finance Limited as they have joint control over the Company.

Equitix ESI CHP (Sheffield) Limited, Equitix ESI CHP (Nottingham) Limited and Ignis Biomass Limited are all subsidiaries of Equitix ESI Finance Limited and therefore related parties of the Company.

16 ULTIMATE PARENT

The Company's joint owners are Equitix Energy Efficiency Fund LP (the ultimate parent of Equitix Energy Efficiency Fund Holdco Limited a company incorporated in the United Kingdom) and Energy Saving Investments LP, a limited partnership registered in England and Wales. Copies of those accounts can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

17 POST BALANCE SHEET EVENTS

There were no post balance sheet events to report.