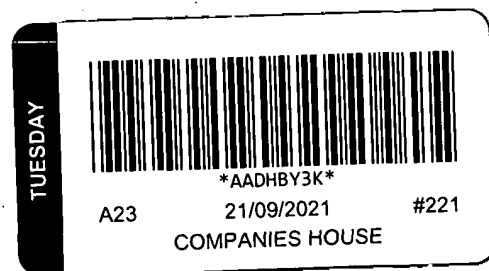


# Gresham House Energy Storage Holdings plc

(Company registration number 12696914)

## Annual Report and Financial Statements

For the period from 25 June 2020 (incorporation date) to 31 December 2020



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## 1. STRATEGIC REPORT

The Directors present their Strategic Report for the period ended 31 December 2020. Details of the Directors who held office during the period and as at the date of this report are given on page 47 of the Annual Report and Accounts. This Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006 and best practice. Its purpose is to inform the members of the Company and help them to assess how the Directors have performed their duty to promote the success of the Company, in accordance with Section 172 of the Companies Act 2006.

### Business Review and Future Outlook

The Company was incorporated on 25 June 2020. The purpose of the Company is to hold investments in companies which own Battery Energy Storage Systems (BESS). The company acquired the majority of its investments in October 2020 as part of a re-organisation of its parent company, Gresham House Energy Storage Fund plc ("GHESF"). The Company made additional acquisitions in late October and November 2020 and has continued to make acquisitions during 2021. The assets owned by the operating companies are managed by Gresham House Asset Management Limited (GHAM) with the aim of achieving revenue and capital growth.

The Company generated £6,220,848 of profit in the period ended 31 December 2020, including interest receivable from subsidiaries and fair value gains on investments. At the end of the year the fair value of investments in subsidiaries was £260,391,580, bonds payable were £15,088,826 (including accrued interest) and a shareholder loan of £242,678,326 was in place.

After challenging market conditions in the spring and summer related to the COVID-19 pandemic, the underlying performance of the Company's investments recovered and performed above expectations in Q4 2020, largely due to attractive revenues earned by the majority of the portfolio following the launch of National Grid's Dynamic Containment service on 2 October 2020.

The launch of Dynamic Containment also saw much higher prices achievable from frequency response and therefore the portfolio has remained focused on maximising revenues through Dynamic Containment and FFR services, while it has also taken advantage of trading opportunities as they have arisen, allowing it to capture additional value above the levels available from trading or Dynamic Containment alone.

The Directors are of the view the investment strategy, incorporating both additional acquisitions and the asset upgrade programme for the Seed Assets has performed well. The Company has a strong portfolio of investments which are well positioned to take advantage of a growing opportunity. One of the Board's key objectives for 2021 is to ensure an effective and efficient deployment of capital into a portfolio of accretive assets that are in line with the Company's Investment Policy. In addition, the Company is undertaking a debt review process to further improve cost of capital and efficiency of capital deployment.

On 14 October 2020 the Company issued 5% fixed rate secured bonds of £7,935,000 and a £7,000,000 loan note to the Gresham House BSI Infrastructure LP Fund with a 5% coupon for 12 months.

### Key Performance Indicators

The Board believes that the key performance indicators, which provide balanced information to assess how the Company is performing, include the value of investments in subsidiaries and also project capacities and battery sizes of the assets owned by the underlying investments.

The total value of investments in subsidiaries as at 31 December 2020 was £264,393,793. During the period the Company recorded an increase in investments at fair value through the profit and loss of £7,467,796.

The capacity of the grid connection (in MW) and the capacity of the batteries (in MWh) are also crucial to ensure the underlying investments are able to operate at full capacity: the Investment Manager has ensured grid capacities (both import and export) are continually optimised and symmetrical wherever possible. As at 31 December 2020 the total operational capacity of battery storage projects owned by the Company was 315MW.

## 1. STRATEGIC REPORT (continued)

### Amendments to Investment Policy

The Company invests in a diversified portfolio of utility scale energy storage systems, which utilise batteries and may also utilise generators. The projects may be located in diverse locations across Great Britain, the Republic of Ireland and Northern Ireland. Individual projects are held within special purpose vehicles in which the Company invests through equity and / or debt instruments. The Company invests primarily in projects which use lithium-ion battery technology as such technology is considered by the Company to offer the best risk/return profile but is adaptable as to which energy storage technology is used by the projects.

The Company intends that the BESS projects in which it invests will primarily generate revenue from in front of meter services but may also provide behind-the-meter services.

BESS projects are selected with a view to achieving geographical diversification, diversification of revenue sources to spread risk across a number of projects.

At a General Meeting held in November 2020 the shareholders of Gresham House Energy Storage Fund plc approved a resolution to allow the Company to acquire battery storage projects or rights to acquire battery storage projects which are ready to build that as a minimum have in place a completed lease, lease option or agreement for lease, on satisfactory terms in relation to the land where that project is situated, full planning permission enabling the construction of a suitable battery storage project on that land, a grid connection offer, and an agreed form EPC contract or EPC management contract suite ("Ready to Build Projects"). Prior to this change the investment policy prevented investment into projects where construction was not materially complete.

### Dividend policy

The Board does not recommend a dividend and is not expecting to pay dividends in the near term. The Board expects to repay loans due to Gresham House Energy Storage Fund plc from loan repayments received from investments owned by the Company.

### Going Concern Statement

The Directors confirm they have a reasonable expectation that the Company has adequate resources to continue its operations for at least 12 months from the date of signing these financial statements.

As at 31 December 2020, the Company had total assets of £265.9 million including current assets of £5.6 million and had total liabilities of £259.7 million including a shareholder loan of £242.7 million which is repayable on demand. The Company also has a £7.0 million bond which is repayable on 30 November 2021 and other bonds of £7.9 million which are repayable on 14 October 2025.

The parent company has provided a letter of support, which confirms that it will not request repayment of the shareholder loan to the detriment of the Company's ability to meet its liabilities as they fall due. As such, the Directors have adopted the going concern basis in preparing the Annual Report and Financial Statements.

### Principal and Emerging Risks and Uncertainties

The Board operates a regular risk review process to identify both current and emerging risks. The Investment Manager regularly reports progress on mitigation actions and new and emerging risks.

The key risks can be summarised in several main areas:

1. Emerging business model for the electricity sector;
2. Regulation and potential changes to National Grid procurement for services;
3. COVID-19 pandemic;
4. Environmental, social and governance (ESG);
5. Other risks, including borrowing, construction risk and new technologies.

#### 1. Emerging Business Model for the electricity sector

The Company's investment model is reliant on the underlying performance of the project companies (SPVs) in which the Company invests. These SPVs rely on several sources of income: National Grid based Firm Frequency Response, CM payments and TRIAD income and Merchant trading income or "Asset Optimisation" outside of the relationship with National Grid.

## 1. STRATEGIC REPORT (continued)

### Principal and Emerging Risks and Uncertainties (continued)

The National Grid income streams have contributed a large portion of the income to the SPVs in the period ended 31 December 2020. The future business model for the SPVs may seek less reliance on these income streams in future as historic National Grid contract structures expire and are replaced with other non-contractual income streams. The Company's investments could therefore become more reliant on Asset Optimisation over time. The emerging market for the electricity sector will change the balance of contracted and non-contracted revenues at SPV level with a consequential change in risk to these SPVs.

The Investment Manager is undertaking activities to mitigate the asset configuration risk which include:

- Further investment in the existing portfolio assets to ensure grid connection capacity and battery capacity are upgraded in both absolute levels and import / export symmetry where possible to maximise opportunities. This has largely been completed and has included replacement of diesel generation sets with further expansion of battery capacity and gas engines;
- Improvement of remote supervisory and control systems and despatch technologies to "iron-out" and test before full scale asset optimisation is launched; and
- Testing of relationships with several asset optimisation partners and models to enhance Asset Optimisation

## 2. Regulation and potential changes to National Grid procurement for services

### Changes to Energy Market Codes and Regulations

The revenue generated by each of the Project Companies and its associated costs will be dependent on various energy market codes and regulations. The Gas and Electricity Markets Authority within the Office of Gas and Electricity Markets (Ofgem) regulates Great Britain's energy markets through licensing certain activities such as generation (with batteries being a proposed sub-set of generation), supply, and distribution/transmission network operation. A series of industry codes and agreements sit alongside these licences, which include more detailed rules and market processes. These include the Connection and Use of System Code, the Balancing and Settlement Code, the Grid Code, the Distribution Use of System Agreement and the Distribution Code.

A future change in UK Government or Ofgem's direction regarding the design of the energy market, network charges, access to networks or a change in industry consensus around detailed market rules could lead to unfavourable energy or grid policies which may negatively affect the future income streams of the SPVs.

### Changes in procurement of balancing services by National Grid

The revenues generated will depend, in part, on the price each Project Company is able to obtain for providing various balancing services to National Grid. National Grid has an ongoing programme of change to its procurement approach. Changes that shorten the standard duration of contracts could force the SPVs to re-contract more frequently in the future, which may create higher administrative costs and exposure to more frequent occurrences of failing to secure contracts. Furthermore, the Company cannot guarantee that market prices of balancing services will remain at levels which will allow the Company to maintain rates of return on the battery energy storage systems within the Portfolio.

Changes in the specification of services, such as response time or duration of delivery, may require the SPVs to incur additional investment and set-up costs which may adversely affect the Company's NAV and revenues and returns to Shareholders.

Changes to procurement may lead to an increased emphasis on asset optimisation partners to manage the pursuit of short term revenue streams, rather than relying on longer term contracted revenue upfront.

### Embedded benefits – Transmission Network Use of System (TNUoS) charges and Distribution Use of System (DUoS) charges

An element of the revenue expected to be generated by the Portfolio will be dependent on the savings of TNUoS and DUoS charges that the Company's battery energy storage systems can offer to its industrial and commercial customers through the deployment of behind-the-meter batteries. Ofgem is currently implementing its reviews of network charging arrangements.

## 3. COVID-19 pandemic

The ongoing COVID-19 pandemic could still adversely impact the operations of Project Companies, and therefore could adversely affect the ability of the Company to deliver income and capital returns to shareholders in the following ways:

## 1. STRATEGIC REPORT (continued)

### Principal and Emerging Risks and Uncertainties (continued)

#### 3. COVID-19 pandemic (continued)

- The Project Companies operate with supply chain partners with strong business continuity arrangements and the BESS Projects are operated by remote monitoring and despatching. However, there is a residual risk that suitable specialist personnel are unable to attend sites when required to ensure the BESS Projects are operating to their full potential. The Manager carefully monitors the operational arrangements of the supply chain partners in order to minimise this risk of operational failure.
- The ability to construct or commission BESS Projects within the pipeline may be adversely impacted.
- Global and/or regional travel restrictions may delay the commissioning of BESS Projects and may constrain supply chains. However, as BESS Projects that are in the process of construction represent important infrastructure for the electricity system in the UK and the ROI, the Manager expects that suitable arrangements will be continuing to be put in place in order to overcome any such restrictions.
- The energy markets into which BESS Projects are operating saw some disruption due to the COVID-19 pandemic in the first half of 2020 although the situation normalised later in 2020. Dysfunctional markets could adversely impact the trading operations of the Project Companies and the returns to the Company. The Manager monitors these markets and trading performance to maximise overall performance. The BESS Projects are able to switch between revenue streams to maximise value when price volatility is reduced.
- Energy supply was a key industry during the pandemic and was able to continue to operate and required personnel were able to access the sites as required. The BESS Projects are remotely operated reducing the impact of travel restrictions.

#### 4. Environmental, Social and Governance

##### Environmental liabilities, particularly on “brownfield” sites

It is anticipated that a significant proportion of the battery energy storage systems to be acquired by the Company will be located on agricultural, commercial and industrial properties. Such sites can have a greater likelihood of environmental liabilities and/or requiring a higher degree of due diligence in the permitting steps.

To the extent that there are environmental liabilities arising in the future in relation to any sites owned or used by a SPV including, but not limited to, clean-up and remediation obligations, such operating company may, subject to its contractual arrangements, be required to contribute financially towards any such liabilities, and the level of such contribution may not be restricted by the value of the sites or by the value of the total investment in the relevant battery energy storage system.

The battery suppliers or EPC contractors may offer the SPVs end of life battery disposal options where the supplier or EPC contractor shall be responsible for the removal, collection, recycling and disposal service for batteries but it is not guaranteed that all the suppliers or contractors will offer or be able to deliver such options and the SPVs may incur battery disposal costs at the end of the battery life.

In addition, while the Company structures its investments to ensure statutory recycling obligations at law remain with its suppliers and/or EPC contractors, it remains a risk that the Company's investments could attract such liabilities.

In addition, there can be no guarantee that environmental costs and liabilities will not be incurred in the future. Environmental regulators may seek to impose injunctions or other sanctions that affect the Company's investments operations that may have a material adverse effect on the Company's results of operations, financial conditions or impose compliance costs such as data collection or reporting obligations.

##### Health and safety risks

The physical location, maintenance and operation of a battery energy storage asset may pose health and safety risks to site workers, other local buildings or nearby residents. The operation of a battery energy storage plant may result in bodily injury or industrial accidents (including fires). If an accident were to occur in relation to one or more of the Company's battery energy storage plants, the Company and/or the relevant SPV could be liable for damages or compensation to the extent such loss is not covered under existing insurance policies.

##### Borrowing risk

The Company has issued five-year fixed term secured bonds (the “GRID Power Bonds”) to certain investors (the “Bond Offering”) and a bond on similar terms with a maturity date of 30 November 2021 to BSIF Infrastructure (the “BSIF Bond”) in an aggregate principal amount of £15 million. Under the terms of the Bond Offering, the Company may raise up to £40 million in aggregate by issuances of bonds in series from time to time on or before 14 October 2021. Finance raised under the Bond Offering and by the BSIF Bond has been used for investment purposes and to refinance existing loans in the Company.

## 1. STRATEGIC REPORT (continued)

### Principal and Emerging Risks and Uncertainties (continued)

#### 5. Other risks, including borrowing, construction risk and new technologies (continued)

Under the terms of the Bond Offering and the BSIF Bond, the Company's bank account has been charged to BSIF Infrastructure and the shares of two SPVs (HC ESS4 Limited and HC ESS7 Limited) have been pledged to BSIF Infrastructure and the Security Trustee. Should the Company default on the terms of the Bond Offering or the BSIF Bond, security may be enforced over the bank account or the shares. Any enforcement of security is likely to have a material adverse effect on the Company's business, revenues and financial condition.

In addition to the Bond Offering and the BSIF Bond, the Company intends to assess its ability to raise debt and is expected to introduce leverage in the future to the extent funding is available on acceptable terms. In addition, it may, where the Board deems it appropriate, use short term leverage to acquire assets, which could be achieved through a loan facility or other types of collateralised borrowing instruments.

While the use of borrowings can enhance the total return on the shares where the return on the Company's underlying assets is rising and exceeds the cost of borrowing, it will have the opposite effect where the return on the Company's underlying assets is rising at a lower rate than the cost of borrowing or falling, further reducing the total return on the shares. As a result, the use of borrowings by the Company may increase the volatility of the NAV per share.

Any reduction in the value of the Company's investments may lead to a correspondingly greater percentage reduction in its NAV. To the extent that a fall in the value of the Company's investments causes gearing to rise to a level that is not consistent with the Company's gearing policy or borrowing limits, the Company may have to sell investments in order to reduce borrowings, which may give rise to a significant loss of value compared to the book value of the investments, as well as a reduction in income from investments.

#### Construction risk

The Company may acquire Ready to Build Projects or the rights to acquire Ready to Build Projects and may provide loan finance to such Ready to Build Projects which cannot be classed as being for equipment. As a result, the Company may be exposed to certain risks associated with owning or funding a Ready to Build Project prior to commissioning, such as cost overruns, construction delay and construction defects which may be outside the Company's control and which could result in the anticipated returns of the Company from any loan finance provided to such BESS Project Companies being adversely affected or the Company being unable to recover some, or all, of the amounts lent. The Company is confident that the taking on of a small percentage of construction risk can be managed on a satisfactory basis using normal commercial contractual mechanisms. These will include liquidated damages and EPC contracts with high quality experienced counterparties.

#### New energy storage technologies

The battery storage projects in the portfolio utilise lithium-ion batteries. The Company does not presently see any energy storage technology which is a viable alternative to lithium-ion batteries for the target markets and activities for the BESS Projects, due to their widespread use in mobile phones, electric cars and other devices and consequent pricing, safety, performance track record and established infrastructure benefits. However, there are a number of technologies being researched which, if successfully commercialised, could eventually prove more favourable than lithium-ion. SPVs that use existing lithium-ion batteries may, as a result, prove less economical in the future and therefore earn lower returns in comparison or be outbid for competitively procured services (such as frequency response).

The Company will closely monitor such developing battery technologies (such as sodium and zinc derived technologies) and other forms of energy storage technology (such as flow batteries/machines and compressed air technologies) and will consider adopting such technologies for new projects where appropriate.

#### Volatility of electricity prices affecting asset optimisation opportunities

Asset optimisation through trading activity is a major source of revenue for the SPVs. This is dependent on the spread of the price at which electricity can be imported and exported. Lower than expected volatility in the market price of electricity, or a smaller spread between buy and sell prices, could adversely affect the Company's revenues and financial condition.

The SPVs have contracted with third party service providers to undertake energy trading optimisation services. There are no minimum revenue requirements or guarantees in the asset optimisation arrangements and the Company's protection against underperformance is limited primarily to exercising termination rights under the optimisation services contracts.

## 1. STRATEGIC REPORT (continued)

### Principal and Emerging Risks and Uncertainties (continued)

#### 5. Other risks, including borrowing, construction risk and new technologies (continued)

##### **Batteries are subject to degradation and the risk of equipment failure**

Battery systems degrade gradually with reduced capacity and cycle life due to chemical changes to the electrodes over their lifetime. Although the battery manufacturers provide certain warranties on a battery degradation based on certain operating conditions and the lifespan of the battery, the operation of the battery may fall outside of the warranty conditions due to unexpected events. There is also a risk of equipment failure due to wear and tear, design error or operational errors in connection with the battery energy storage system.

As a result, and to the extent not covered by the warranties, any such excess battery degradation may necessitate greater than expected repair and maintenance expenses or the requirement for replacement of some or all of the battery modules or components earlier than anticipated.

The Company's investments take into account the realistic degradation profile of the batteries and the need to augment capacity from time to time, based on an assessment of the supplier's battery technology.

##### **Balance-of-plant equipment is subject to degradation and the risk of equipment failure**

Battery energy storage plants contain a multitude of technical, electrical, electronic, mounting structures and other components, commonly referred to as "balance-of-plant". Balance-of-plant components are subject to degradation, technical deterioration, possible theft of components and other loss of efficiency and effectiveness over a battery energy storage plant's lifespan. There is a risk of unexpected equipment failure or decline in performance over the life cycle of the plant which would adversely affect the plant's technical and financial performance.

##### **Capacity market contracts and pricing**

Some revenues generated by the Portfolio will be dependent on the price the Project Companies are able to secure for providing capacity through Capacity Market auctions. The Company will generally seek to acquire Project Companies with long term Capacity Market contracts in place. If such contracts are not in place there will be uncertainty on the amount of revenue that will be generated under such Capacity Market contracts, which will be subject to change on an annual basis.

##### **Climate change risks**

A by-product of climate change could be a change to the continuing penetration of new renewable generation assets (i.e. different electricity generation technologies) which may alter the need to "balance" the grid by battery storage. If this penetration is slower than anticipated by industry forecasters and the pricing curves used by the Company to value its assets, then the underlying volatility of power pricing might be lower than expected and impact negatively on valuations.

#### **Streamlined Energy and Carbon Reporting: Quantification and Reporting Methodology**

We have followed the 2013 UK Government environmental reporting guidance: associated greenhouse gases have been calculated using the 2020 conversion factors published by the Department for Business, Energy & Industrial Strategy.

The reporting period is 25 June 2020 to 31 December 2020

##### **Boundaries**

We have used the equity share approach.

The Company itself is not an emitter of Greenhouse Gas. However, the underlying assets within the Company's portfolio companies import and export electricity which are sourced from either the grid or from gas or diesel generators at each site, these have been included in our emissions disclosures. The energy used and produced by the companies is fully metered and carefully monitored.

UK energy use covers the battery storage activities across all the portfolio companies owned directly or indirectly by the Company from the date of ownership. It does not cover energy use of assets under construction where construction is being carried out by third parties. All operations are in the UK.



## 1. STRATEGIC REPORT (continued)

### Streamlined Energy and Carbon Reporting: Quantification and Reporting Methodology (continued)

Energy used:

	2020
<b>Scope 1: Emissions in metric tonnes CO<sub>2</sub>e</b>	
Gas consumption	205
Diesel consumption	7
<b>Total Scope 1</b>	<b>212</b>
<b>Scope 2: Emissions in metric tonnes CO<sub>2</sub>e</b>	
Consumption of electricity(1)	854
<b>Total Scope 2</b>	<b>854</b>
<b>UK energy consumption used to calculate emissions (MWh) (1)</b>	
Gas	1,114
Diesel	27
Electricity (1)	3,372
<b>Total UK energy consumption</b>	<b>4,513</b>
<b>Intensity ratio</b> CO <sub>2</sub> emissions per weighted average battery capacity (Tonnes per MW)	15.8

(1) The figures shown are the net import / (export) of electricity from the grid

#### Scope 3 Emissions

We have identified the following are Scope 3 Emissions which have not been quantified:

- Carbon emissions from end-to-end manufacturing, transport and installation of BESS
- Investment Manager emissions (i.e. offices).

#### Intensity measurement

The chosen intensity measurement ratio is gross emissions in metric tonnes CO<sub>2</sub>e per weighted average MW capacity. This is considered a more appropriate ratio than MWh due to variability in operation of assets and difference service types.

#### Measures taken to improve energy efficiency

The usage of diesel generators within the operational portfolio has been significantly reduced. Sites which have diesel generators no longer use the generators day-to-day, but they are in place to meet Capacity Market contract requirements and TRIAD operations on three of the sites. The Company is not currently making new investments in projects which require diesel generators.

### Stakeholder Engagement and Statement Under Section 172

The Board recognises that the Company should be run for the benefit of shareholders, but that the long term success of a business is dependent on maintaining relationships with stakeholders and considering the external impact of the company's activities.

The Company has identified the following key stakeholders:

- The Company's shareholder;
- The Company's Investment Manager;
- The communities in which the Company's assets are located;
- The Company's business partners and key service providers; and
- Investment Trading Partners

#### Engagement with the Shareholder

##### Who they are?

The Company is a wholly owned subsidiary of Gresham House Energy Storage Fund plc.

##### Why is it important to engage with this group of stakeholders?

The Company may require further funding to continue the investment strategy and obtain the additional pipeline investments. The Company follows the Investment policy set out by its parent. As such, existing and prospective equity investors in the Shareholder are vitally important stakeholders. Through our engagement activities, we strive to obtain investor buy-in into our strategic objectives and how they are executed.

## 1. STRATEGIC REPORT (continued)

### Engagement with the Shareholder (continued)

#### *How the Company engaged with the equity investors*

The Company engaged with the stakeholder group in the period through the following:

- Directors of the Company attended meetings held by the directors of Gresham House Energy Storage Funds plc;
- Regular news and quarterly NAV updates from the Shareholder.

#### *What came out of the engagement?*

Through these engagement activities, the Company has been able to ensure its investment pipeline and fundraising programme have been aligned and funds have been available to secure the current asset portfolio. The Company will continue to engage with the Shareholder in future as further expansion becomes necessary.

### Engagement with the Investment Manager

#### *Who they are?*

The Investment Manager oversees the investment strategy of the Company including acquisition identification and manages the value enhancement in the underlying SPVs.

#### *Why is it important to engage with the Investment Manager?*

Constructive engagement with the Investment Manager is important in order to ensure that the expectations of the shareholders are being met and that the Board is aware of challenges being faced by the Investment Manager. The Investment Manager is crucial for the Company to meet growth expectations.

#### *How the Company engages with the Investment Manager*

The Board and the Investment Manager maintain an ongoing open dialogue on key issues facing the Company with a view to ensuring that key decisions such as investment decisions, trading partner performance in the SPVs and the Company's strategy are aligned with achieving long term shareholder value.

This open dialogue takes the form of adhoc board meetings and more informal contact, as appropriate to the subject matter.

#### *What came out of the engagement?*

The Company and Investment Manager have aligned interests to ensure the future success of the Company as the Investment Manager sees the growth of the Company as both a key element of its strategy and a Company which fits well with the Environmental Social Governance Strategy of the Investment Manager.

Furthermore, the Company, through the activities of its parent company, conducts an annual review of the Investment Manager's performance and the terms of engagement of the Investment Manager. This review is focused on constructive engagement with the Investment Manager in order to ensure that the expectations of the shareholders are being met and that the Board is aware of challenges being faced by the Investment Manager. The Board and the Investment Manager maintain an ongoing open dialogue on key issues facing the Company with a view to ensuring that key decisions and the Company's strategy are aligned with achieving long term shareholder value.

### Engagement with Communities

The Company remains committed to proactively engaging with the Communities within which the Company operates. The Investment Manager is part of the Gresham House plc group and is focused on a sustainability agenda. For example, the Investment Manager planted 9 million trees in 2020 and its forestry portfolio absorbed 1.5 million tonnes of CO<sub>2</sub> in the year (with 35 million tonnes of CO<sub>2</sub> absorbed in the forestry portfolio in total). In addition, the Investment Manager operates 230MW of wind farms and solar parks: these generated enough electricity to power 136,000 homes and save 216,000 tonnes of CO<sub>2</sub> per annum.

### Engagement with Business Partners and Key Service Providers

#### *Who they are?*

The Company has various key service providers who provide management services.

#### *Why is it important to engage with the key service providers?*

The intention of the Company is to maintain long term and high-quality business partnerships to ensure stability while the Company pursues its growth strategy.

## 1. STRATEGIC REPORT (continued)

### Engagement with Communities (continued)

#### *How the Company engages with the key service providers*

The Company reviews all key service providers to the Company and the terms of their engagement. During the period, the Company conducted a review of the terms of all service provider engagements along with their fee levels to ensure appropriate levels of support to the Company during the period. The Company seeks two-way engagement between the Board and key service providers on service delivery expectations and feedback on important issues experienced by service providers during the period. The intention of the Company is to maintain long term and high-quality business partnerships to ensure stability while the Company pursues its growth strategy.

#### *What came out of the engagement?*

The Company has ensured that the interests of key service providers are aligned with the Company.

This Strategic Report is approved on behalf of the Board by



**Stephen Beck**

Director

**15 September 2021**

## 2. DIRECTORS' REPORT

The Company was incorporated on 25 June 2020. The Directors present the first Annual Report and Financial Statements of the Company from incorporation to 31 December 2020.

The Directors who served during the period were:

Bozkurt Aydinoglu (appointed 25 June 2020)

Stephen Beck (appointed 25 June 2020)

Benjamin Guest (appointed 25 June 2020)

Gareth Owen (appointed 25 June 2020)

### Company Performance

The Directors have reviewed the performance of the Company throughout the period. Details of the performance of the Company is included in the Strategic Report on page 3.

### Financial Risk Management

The Board believes that the main financial risks of the Company relate to the requirement to ensure the capital commitments of the Company are commensurate with the capital available and the ability of the underlying investments to generate income to the Company to ensure loan repayments can be made to investors. The Board constantly monitors these financial risks.

#### • Counterparty risk

The Company is exposed to third party credit risk in several instances and the possibility that counterparties with which the Company and its subsidiaries, together the Group, contracts may default or fail to perform their obligations in the manner anticipated by the Group. Such counterparties may include (but are not limited to) manufacturers who have provided warranties in relation to the supply of any equipment or plant, EPC contractors who have constructed the Company's plants, who may then be engaged to operate assets held by the Company, property owners or tenants who are leasing ground space and/or grid connection to the Company for the locating of the assets, contractual counterparties who acquire services from the Company underpinning revenue generated by each project or the energy suppliers, or demand aggregators, insurance companies who may provide coverage against various risks applicable to the Company's assets (including the risk of terrorism or natural disasters affecting the assets) and other third parties who may owe sums to the Company. In the event that such credit risk crystallises, in one or more instances, and the Company is, for example, unable to recover sums owed to it, make claims in relation to any contractual agreements or performance of obligations (e.g. warranty claims) or require the Company to seek alternative counterparties, this may materially adversely impact the investment returns. Further the projects in which the Company may invest will not always benefit from a turnkey contract with a single contractor and so will be reliant on the performance of several suppliers. Therefore, the key risks during battery installation in connection with such projects are the counterparty risk of the suppliers and successful project integration.

The Investment Manager regularly assesses the creditworthiness of its counterparties and enters into counterparty arrangements which are financially sound and ensures, where necessary, the sourcing of alternative arrangements in the event of changes in the creditworthiness of its present counterparties.

#### • Concentration risk

The Company's investment policy is limited to investment in energy storage infrastructure, which will principally operate in the UK. This means that the Company has a significant concentration risk relating to the UK energy storage infrastructure sector. Significant concentration of investments in any one sector may result in greater volatility in the value of the Company's investments and consequently the Net Asset Value and may materially and adversely affect the performance of the Company and returns to Shareholders.

The Fund's ESS projects generate revenues primarily from Firm Frequency Response (FFR), Asset Optimisation (Trading), CM and other grid connection-related charges, including TRIADs. Revenues from the portfolio's seed ESS projects are currently skewed to FFR revenues, FFR being the provision to the National Grid of a dynamic response service to maintain the grid's electrical frequency at 50Hz. In 2021, operations are expected to be increasingly targeted towards Asset Optimisation, as this becomes the more profitable business activity. There are several additional revenue opportunities emerging for the portfolio as a series of regulatory changes are implemented.

The Investment Manager is of the view that the UK's exposure to renewable energy generation has increased significantly over the last few years and the pace has not lessened despite the removal of legacy subsidies to onshore wind and solar. This is largely because the development of offshore wind installations has continued apace. As a result, generation from wind is having a growing impact on the grid, generating a volatile supply of energy which underpins the opportunity for ESS.

## 2. DIRECTORS' REPORT (continued)

### Financial Risk Management (continued)

- **Credit risk**

Cash and other assets that are required to be held in custody will be held at bank. Cash and other assets may not be treated as segregated assets and will therefore not be segregated from the bank's own assets in the event of the insolvency of a custodian. Cash held with the bank will not be treated as client money subject to the rules of the FCA and may be used by the bank in the ordinary course of its own business. The Company will therefore be subject to the creditworthiness of the bank. In the event of the insolvency of the bank, the Company will rank as a general creditor in relation thereto and may not be able to recover such cash in full, or at all.

The Investment Manager regularly assesses its credit exposure and considers the creditworthiness of its customers and counterparties. Cash and bank deposits are held with Barclays Bank plc, a reputable financial institution with a Moody's credit rating Baa2.

Investments held at fair value through profit or loss are not subject to IFRS 9 impairment requirements.

For interest receivables on cash balances and loans receivable, the Company uses a 12-month expected loss allowance. The Company has completed some high-level analysis and forward looking qualitative and quantitative information, to determine if the interest and receivables are low credit risk. Based on this analysis the expected credit loss on interest and receivables are not material and therefore no impairment adjustments were accounted for.

- **Liquidity risk**

The objective of liquidity management is to ensure that all commitments made by the Company which are required to be funded can be met out of readily available and secure sources of funding. As noted below, this may include debt funding.

ESS Projects have limited liquidity and may not be readily realisable or may only be realisable at a value less than their book value. There may be additional restrictions on divestment in the terms and conditions of any sale agreement in relation to a particular ESS Project.

GRID assessed its ability to raise debt after sufficient assets were acquired and to the extent funding was available on acceptable terms. Accordingly it has introduced leverage into the Company, being its wholly owned subsidiary as explained in note 1. In addition, it may from time to time use borrowing for short-term liquidity purposes which could be achieved through a loan facility or other types of collateralised borrowing instruments. The Company is permitted to provide security to lenders in order to borrow money, which may be by way of mortgages, charges or other security interests or by way of outright transfer of title to the Company's assets. The Directors will restrict borrowing to an amount not exceeding 50% of the Company's Net Asset Value at the time of drawdown. There will be no cross collateralization between the Projects.

The Company's financial liabilities are long term bonds payable and shareholder's loans, and short term participation loans and trade and other payables. The Company has sufficient cash reserves to cover these in the short to medium term. The Company's cash flow forecasts are monitored regularly to ensure the Company is able to meet its obligations when they fall due.

- **Market risk**

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. The objective is to minimise market risk through managing and controlling these risks to acceptable parameters, while optimising returns. The Company uses financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

Price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. At 31 December 2020, the valuation basis of the Company's investments was valued at market value. This investment is driven by market factors, refer to the investment manager report for assessing the impact of the market risk on the valuation of the investments. The Company relies on market knowledge of the Investment Manager, the valuation expertise of the third-party valuer Grant Thornton and the use of third-party market forecast information to provide comfort with regard to fair market values of investments reflected in the Financial Statements.

- **Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to interest rate risk on its cash balances held with counterparties, bank deposits, loans receivable, advances to counterparties and through loans to subsidiaries. Bank deposits and Treasury fixed term deposits carry a fixed rate of interest for a definite period and loans to subsidiaries carry a fixed rate of interest until repayment at the earlier of written demand from the lender or 31 December 2030.

The Company is also exposed to interest rate risk on its financial liabilities, being shareholder's loans and the bonds payable, both which carry a fixed rate of interest until repayment.

- The Company may be exposed to changes in variable market rates of interest as this could impact the discount rate and therefore the valuation of the projects as well as the fair value of the loan receivables.

## 2. DIRECTORS' REPORT (continued)

### Financial Risk Management (continued)

- **Currency risk**

All transactions and investments during the current period were denominated in Pounds Sterling, thus no foreign exchange differences arose. The Company does not hold any financial instruments at period end which are not denominated in Pounds Sterling and is therefore not exposed to any significant currency risk. Subsidiary entities may, from time to time, incur expenditure in currencies other than Pounds Sterling.

- **Capital risk management**

The capital structure of the Company at period end consists of equity attributable to equity holders of the Company, comprising issued capital and reserves. The Board continues to monitor the balance of the overall capital structure so as to maintain investor and market confidence. The Company is not subject to any external capital requirements.

- **Other risks**

The Company is exposed to other risks. Refer to a number of other risks disclosed in the Prospectus dated 10 November 2020.

At the year end the Company has loans payable to its shareholder of £242,678,326 and bonds payable to third parties with a principal value of £14,935,000 and a fixed interest rate of 5%.

### Share capital and dividends

At the period end, the Company had in issue 50,000 Ordinary Shares. There are no other share classes in issue. All shares have voting rights; each Ordinary Share has one vote. All Ordinary Shares are entitled to receive dividends. The Company is a wholly owned subsidiary of Gresham House Energy Storage Fund plc.

The directors do not recommend the payment of a dividend for the current period.

### Annual General Meeting

The Company's first AGM was held in June 2021. The Notice of the Annual General Meeting and Form of Proxy will be circulated to the shareholders in advance of this meeting.

### Auditor

BDO LLP were appointed as auditors on 1<sup>st</sup> April 2021 and a resolution proposing the reappointment of BDO LLP will be submitted at the AGM.

### Insurance cover

Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors.

### Other matters

Information in respect of greenhouse emissions has been disclosed within the Strategic Report on page 8.

The Going Concern Statement is detailed within the Strategic Report on page 4.

### Future Developments

Future developments in the Company are detailed in the Strategic Report.


### Post Balance Sheet Events

Post Balance Sheets are disclosed in Note 27 of the Accounts on page 46.

### Statement as to disclosure of information to the Auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the Directors has confirmed that they 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 it has been communicated to the Auditor.

This Directors' Report is approved on behalf of the Board by



Stephen Beck

Director

15 September 2021

### 3. DIRECTORS' RESPONSIBILITIES STATEMENT

#### **Directors' responsibilities**

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **4. Independent auditor's report to the members of Gresham House Energy Storage Holdings Plc**

##### **Opinion on the 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 2020 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Gresham House Energy Storage Holdings Plc (the 'Company') for the period ended 31 December 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity 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 under those standards are further described in the

Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Independence*

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

##### **Conclusions relating to going concern**

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

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

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



#### **4. Independent auditor's report to the members of Gresham House Energy Storage Holdings Plc (continued)**

##### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

##### **Other Companies Act 2006 reporting**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- 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.

##### **Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **4. Independent auditor's report to the members of Gresham House Energy Storage Holdings Plc (continued)**

##### **Responsibilities of Directors (continued)**

In preparing the financial statements, the Directors are responsible for assessing Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

##### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

##### *Extent to which the audit was capable of detecting irregularities, including fraud*

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

- We obtained an understanding of the legal and regulatory framework that is applicable to the Company and determined that the relevant laws and regulations related to the elements of the Company Act 2006 and tax legislation, and the financial reporting framework;
- We understood how the Company is complying with these laws and regulations by making enquiries of management and those responsible for legal and compliance matters.
- We assessed the susceptibility of the financial statements to material misstatement, including fraud and made enquiries of management and the board of directors of any known instances of fraud;
- We obtained an understanding of management's internal controls that are relevant to the audit;
- We challenged assumptions made by management in their significant accounting estimates in particular in relation to valuation of unquoted investments;
- We identified and tested journal entries, in particular any journal entries posted with unusual account combinations, journals posted by senior management and journals posted and reviewed by the same individual; and
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

#### **4. Independent auditor's report to the members of Gresham House Energy Storage Holdings Plc (continued)**

##### **Auditor's responsibilities for the audit of the financial statements (continued)**

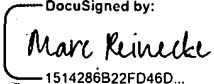
Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and

the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

##### **Use of our report**

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.

DocuSigned by:  
  
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Marc Reinecke (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

15 September 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**5. FINANCIAL STATEMENTS****STATEMENT OF COMPREHENSIVE INCOME**

For the period from 25 June 2020 (incorporation date) to 31 December 2020

Company number 12696914

	Notes	Revenue (£)	Capital (£)	Total (£)
Net gain on investments at fair value through the profit and loss	7	6,294,896	7,467,796	13,762,692
Interest on loans to affiliates of the Investment manager	8	124,980	-	124,980
<b>Total income</b>		<b>6,419,876</b>	<b>7,467,796</b>	<b>13,887,672</b>
Administrative and other expenses				
Transaction fees		-	(49,749)	(49,749)
Legal and professional fees		-	(116,841)	(116,841)
Other administrative expenses	9	(114,205)	-	(114,205)
<b>Total administrative and other expenses</b>		<b>(114,205)</b>	<b>(166,590)</b>	<b>(280,795)</b>
<b>Operating profit</b>		<b>6,305,671</b>	<b>7,301,206</b>	<b>13,606,877</b>
Finance costs	10	(7,386,029)	-	(7,386,029)
<b>(Loss)/Profit before tax</b>		<b>(1,080,358)</b>	<b>7,301,206</b>	<b>6,220,848</b>
Taxation	11	-	-	-
<b>(Loss)/Profit and total comprehensive income for the period</b>		<b>(1,080,358)</b>	<b>7,301,206</b>	<b>6,220,848</b>

The total column of this statement is the Statement of Comprehensive Income of the Company prepared in accordance with International Financial Reporting Standards (IFRS) as adopted. The supplementary revenue return and capital columns have been prepared in accordance with the Association of Investment Companies Statement of Recommended Practice (AIC: SORP).

The Notes on pages 24 to 46 form an integral part of these Financial Statements

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC


## STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

Company number 12696914

	Notes	31 December 2020 (£)
<b>Non-current assets</b>		
Investments in subsidiaries at fair value through profit or loss	12	260,391,580
		260,391,580
<b>Current assets</b>		
Cash and cash equivalents	14	1,229,675
Trade and other receivables	15	341,834
Loans to affiliates of the investment manager	13	4,002,214
		5,573,723
<b>Total assets</b>		<b>265,965,303</b>
<b>Current liabilities</b>		
Bonds payable	18	153,826
Trade and other payables	16	1,927,303
Shareholder's loan	17	242,678,326
		244,759,455
<b>Net current assets</b>		<b>21,205,848</b>
<b>Non-current liabilities</b>		
Bonds payable	18	14,935,000
		14,935,000
<b>Total liabilities</b>		<b>259,694,455</b>
<b>Total net assets</b>		<b>6,270,848</b>
<b>Shareholders' equity</b>		
Share capital	23	50,000
Capital reserves	24	7,301,206
Revenue reserves	24	(1,080,358)
<b>Total shareholders' equity</b>		<b>6,270,848</b>
Net Asset Value per Ordinary Share (pence)	22	125.42

The Financial Statements were approved and authorised for issue by the Board of Directors and were signed on its behalf by:



Stephen Beck

Date: 15 September 2021

The Notes on pages 24 to 46 form an integral part of these Financial Statements.

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## STATEMENT OF CHANGES IN EQUITY

For the period from 25 June 2020 (incorporation date) to 31 December 2020

	Notes	Share capital (£)	Capital reserves (£)	Revenue reserves (£)	Total shareholders' equity (£)
As at 25 June 2020					-
Comprehensive income for the period					-
Profit/(Loss) for the period		-	7,301,206	(1,080,358)	6,220,848
Total comprehensive income for the period		-	7,301,206	(1,080,358)	6,220,848
<b>Transactions with owners</b>					
Ordinary Shares issued	24	50,000	-	-	50,000
<b>As at 31 December 2020</b>	<b>24</b>	<b>50,000</b>	<b>7,301,206</b>	<b>(1,080,358)</b>	<b>6,270,848</b>

The total distributable reserves available at 31 December 2020 are £4,919,182.

The Notes on pages 24 to 46 form an integral part of these Financial Statements.

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## STATEMENT OF CASH FLOW

For the period from 25 June 2020 (incorporation date) to 31 December 2020

	Notes	25 June 2020 to 31 December 2020 £
<b>Cash flows used in operating activities</b>		
Profit for the period		6,220,848
Net gain on investments at fair value through the profit and loss	12	(7,467,796)
Interest revenue	7	(6,419,876)
Interest expense	10	7,386,029
Increase in trade and other receivables	15	(341,834)
Increase in trade and other payables	16	1,927,303
<b>Net cash generated from operating activities</b>		<b>1,304,674</b>
<b>Cash flows used in investing activities</b>		
Acquisition of equity in subsidiaries		(8,680,204)
Loans made to subsidiaries	12	(39,324,037)
Repayments received	12	6,465,090
Loans receivable	13	(3,877,233)
<b>Net cash outflow from investing activities</b>		<b>(45,416,384)</b>
<b>Cash flows used in financing activities</b>		
Proceeds from issue of Ordinary Shares	23	50,000
Loan from parent company		36,106,385
Loan repayments		(5,750,000)
Proceeds from debt finance		14,935,000
<b>Net cash inflow from financing activities</b>		<b>45,341,385</b>
<b>Net increase in cash and cash equivalents for the period</b>		<b>1,229,675</b>
Cash and cash equivalents at the beginning of the period		-
<b>Cash and cash equivalents at the end of the period</b>		<b>1,229,675</b>

The Notes on pages 24 to 46 form an integral part of these Financial Statements.

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

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## NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 1. General information

Gresham House Energy Storage Holdings plc (the Company) was incorporated in England and Wales on 25 June 2020 with company number 12696914 as a closed-ended investment company. The registered office of the Company is The Scalpel, 18<sup>th</sup> Floor, 52 Lime Street, London, EC3M 7AF. Its share capital is denominated in Pounds Sterling (GBP or £) and currently consists of Ordinary Shares. The Company's principal activity is to invest in a diversified portfolio of operating utility-scale Energy Storage Systems (ESS), which utilise batteries and may also utilise generators. The ESS projects comprising the portfolio are located in diverse locations across Great Britain. These Annual Financial Statements cover the period from incorporation to the 31 December 2020 and as such there are no comparatives.

Gresham House Energy Storage Fund plc ("GRID") is the Company's sole shareholder. It is within GRID's investment mandate to raise debt finance at either the Company or Special Purpose Vehicle ("SPV") level.

Prior to the issue of debt by the Company, it was necessary to carry out a re-organisation by GRID. On 1 October 2020, the Directors of GRID resolved to approve:

- (a) the proposed disposal by GRID of the entire issued share capital of all of its subsidiaries to the Buyer;
- (b) the proposed novation of GRID's obligations under all loan agreements with its subsidiaries to the Buyer and the entering into of a new loan agreement with the Buyer;
- (c) the proposed novation of GRID's obligations under certain share purchase agreements to the Buyer (together the "Re-Organisation");
- (d) a loan agreement to be entered into between (1) GRID and (2) the Buyer.

In addition, on 9 October 2020 the Board of Directors of the Buyer approved the Re-Organisation, adopted GRID's Investment Policy and the protocol for related party acquisitions as set out in the AIFM Agreement, and agreed to seek the approval of GRID as the Buyer's sole shareholder in order to undertake any acquisitions.

The Company issued fixed-rate secured bonds of up to £7,935,000 ("Power Bonds") on 14 October 2020.

The investor profile for these bonds was to be the same as per GRID's Prospectus, with the purpose stated as all activities defined by GRID's 'investment policy', as amended from time-to-time. In particular:

- To fund the acquisition of energy storage projects
- To refinance existing loans advanced by GRID, and
- To finance loans advanced by GRID.

GRID's Investment Manager made a recommendation to GRID's Board of Directors to authorise the close of the Power Bond offering (Initial Series), with subscriptions totalling £7,935,000 across 10 investors.

In addition, a related entity, the Gresham House BSI Infrastructure LP Fund ("BSIF"), negotiated a bespoke opportunity to co-invest £7.0m in the Company via a separate loan note alongside the other Power Bond investors.

### 2. Basis of preparation

#### Statement of compliance

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations adopted, and in accordance with the Companies Act 2006 as applicable to companies using IFRS. The Financial Statements have been prepared on a historical cost basis except for financial assets at fair value through the profit or loss.

Where presentational guidance set out in the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies (AIC) is consistent with the requirements of IFRS, the Directors have prepared the Annual Financial Statements on a basis compliant with the recommendations of SORP. The supplementary information which analyses the Statement of Comprehensive Income between items of revenue and a capital nature is presented in accordance with the SORP.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 2. Basis of preparation (continued)

#### Functional and presentation currency

The currency of the primary economic environment in which the Company operates (the functional currency) is Pound Sterling (GBP or £) which is also the presentation currency.

#### Going concern

The Directors have considered the impact which the current economic downturn, triggered by COVID-19, could have on the ability of the Company to continue as a going concern. A key risk facing the Company is that investments may not be able to make distributions or pay interest if they are not able to continue to operate the assets or dysfunctional markets affect trading operations.

The Company and the Investment Manager have so far been able to ensure the operational integrity of the projects is maintained particularly in terms of Operations & Maintenance and in terms of all planned commercial activities, including Asset Optimisation and in their view, power generation will remain essential to the UK's infrastructure.

As at 31 December 2020, the Company had cash balances of £1 million (excluding cash balances within investee companies), which are sufficient to meet current obligations as they fall due. The major cash outflows of the Company are the costs relating to the acquisition of new assets which are discretionary. The Company had £15,088,826 outstanding debt owing as at 31 December 2020 which included a capital portion of £14,935,000.

As such, the directors have adopted the going concern basis in preparing the Annual Report and Financial Statements.

### 3. Significant accounting judgements, estimates and assumptions

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

During the period the Directors considered the following significant judgements and assumptions:

#### Assessment as an investment entity

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them unless they provided investment related services to the Company and are not themselves investment entities. To determine that the Company continues to meet the definition of an investment entity, the Company is required to satisfy the following three criteria:

- The Company obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- The Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- The Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company meets the criteria as follows:

- The stated strategy of the Company is to deliver stable returns to shareholders through a mix of energy storage investments;
- The Company provides investment management services and has a single investor who pools the funds to gain access to infrastructure related investment opportunities that the investor would not have had access to individually. Despite having a single investor the entity still meets the definition of being an investment entity as it meets the conditions stated in points a, b and c above; and
- The Company has elected to measure and evaluate the performance of all of its investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to Directors, who use fair value as the primary measurement attribute to evaluate performance.
- A key indicator of whether a Company is an investment entity is the existence of a formal exit strategy. Although there is currently no documented exit strategy, The loans and equity are held on the basis that they will be repaid, and value will be
- Transferred in the form of equity. The assets have a limited life and are not expected to be held indefinitely and the investments including the equity is held at fair value. The directors consider that there is a clear exit strategy from these investments.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 3. Significant accounting judgements, estimates and assumptions (continued)

The Directors believe the Company meets the business purpose criteria to invest for capital appreciation and/or income generation and note that the Company is not required to hold its investments indefinitely.

The Directors are of the opinion that the Company has all the typical characteristics of an investment entity and continues to meet the definition in the standard. This conclusion will be reassessed on an annual basis.

During the period the Directors considered the following significant estimates:

#### Valuation of investments in subsidiaries

Significant estimates in the Company's Financial Statements include the amounts recorded for the fair value of the instruments. By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the Company's Financial Statements of changes in estimates in future periods could be significant. See Note 13 for further details.

### 4. New and revised standards and interpretations

#### New and revised standards in issue but not yet effective

The following standard and interpretation have been issued but are not yet effective.

IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/noncurrent distinction.

The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. The standard is not expected to have a material impact on the Company's Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively.

There are no further standards and interpretations in issue at the reporting date which have been issued but are not yet effective and that are deemed to be material to the Company.

### 5. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below:

#### Segmental information

The Board is of the opinion that the Company is engaged in a single segment business, being the investment in the United Kingdom in energy storage assets.

#### Income and expenses (excluding investments)

Income and expenses are accounted for on an accruals basis. The Company's income and expenses are charged to the Statement of Comprehensive Income. Directly attributable acquisition costs of assets are capitalised on purchase of assets. Costs directly relating to the issue of Ordinary Shares are charged to share premium.

#### Net gain or loss on investments at fair value through profit and loss

The Company recognises movements in the fair value of investments in subsidiaries through profit and loss.

#### Other income

Other income consists of bank interest and management fee income which are accounted for on an accruals basis.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 5. Summary of significant accounting policies (continued)

#### Taxation

From 1 April 2015 there is a single corporation tax rate of 19%. Tax is recognised in the profit and loss except to the extent that it relates to the items recognised as direct movements in equity, in which case it is similarly recognised as a direct movement in equity. Current tax is the expected tax payable on any taxable income for the period, using tax rates enacted or substantively enacted at the end of the relevant period. The Company may use taxable losses from within the Group to relieve taxable profits in the Company.

#### Investment in subsidiaries

Investments in subsidiaries are held at fair value through profit and loss.

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary entity and has the ability to affect those returns through its power over the subsidiary entity. In accordance with the exemption under IFRS 10 Consolidated Financial Statements, the Company is an investment entity.

The Company does not have any subsidiaries that provide investment management services and are not themselves investment entities. As a result, the Company does not consolidate any of its subsidiaries.

#### Financial Instruments

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of amortised cost or fair value through profit or loss.

#### Financial assets

The Company classifies its financial assets at amortised cost or fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

#### *Financial assets measured at amortised cost*

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company includes in this category loans receivable and short-term non-financing receivables which include cash and trade and other receivables.

#### Loans receivable to related parties

Loans receivable are recognised initially at fair value and subsequently stated at amortised cost less impairment. These are held at amortised cost due to the short-term nature of the loans, these loans are to project companies owned by Gresham House PLC which are included in the exclusivity portfolio. Once these are acquired these will be held at fair value.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank.

#### Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently stated at amortised cost which is calculated using the provision matrix of the expected credit loss model.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 5. Summary of significant accounting policies (continued)

#### Financial Instruments (continued)

##### *Financial liabilities measured at amortised cost*

This category includes all financial liabilities, other than those measured at fair value through profit or loss, including short-term payables and long term loans.

##### **Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently stated at amortised cost.

##### **Deferred consideration**

Deferred consideration relates to consideration payable in terms of the purchase price stated in the Sale and Purchase Agreement (SPA) and are recognised initially at fair value and subsequently stated at amortised cost.

##### **Loans payable and shareholder's loans**

Loans payable and shareholder loans are recognised initially at fair value and subsequently stated at amortised cost.

##### *Financial asset measured at fair value through profit or loss (FVPL)*

A financial asset is measured at fair value through profit or loss if:

- Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding; or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- It is classified as held for trading (derivative contracts in an asset position).

The Company's investment in subsidiaries (which comprises both debt and equity) is held at fair value through profit or loss under IFRS 9 as the equity portion of the investment does not meet the SPPI test nor will the Company elect to designate the investments at fair value through other comprehensive income. The debt investment forms part of a group of assets that are managed, and the performance evaluated on a fair value basis.

The Company includes in this category equity instruments including investments in subsidiaries (which comprises both debt and equity). There are no consolidated subsidiaries.

#### **Recognition and derecognition**

Financial assets are derecognised on the date on which the Company commits to purchase or sell an asset. A financial asset is derecognised where the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset. The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

#### **Impairment of other financial assets**

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, there has been no impairment loss identified. Investments held at fair value through profit or loss are not subject to IFRS 9 impairment requirements.

#### **Dividends**

Dividends are recognised when they become legally payable, as a reduction in equity in the Financial Statements. Interim equity dividends are recognised when paid. Final equity dividends will be recognised when approved by the shareholders.

#### **Equity**

Equity instruments issued by the Company are recorded at the amount of the proceeds received, net of directly attributable issue costs. Costs not directly attributable to the issue are immediately expensed in the Statement of Comprehensive Income. The Company's capital is represented by the Ordinary Shares, Share Premium (until cancellation), Retained Earnings and Capital Reduction Reserve.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 5. Summary of significant accounting policies (continued)

#### Equity (continued)

##### *Revenue Reserves*

The revenue net profit arising in the Statement of Comprehensive Income is added to or deducted from this reserve which is a distributable reserve.

##### *Capital Reserves*

The capital reserve comprises of increases and decreases in the fair value of investments held at the period end, gains and losses on the disposal of investments, transaction and legal fees.

##### *Deferred consideration*

Deferred consideration is initially recognised as at fair value and subsequently stated at amortised cost with changes during the period recognised in the Statement of Comprehensive Income.

#### Fair value measurement and hierarchy

Fair value is the price that would be received on the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market. It is based on the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. A fair value measurement of a non-financial asset takes into account the best and highest value use for that asset.

The fair value hierarchy to be applied under IFRS 13 is as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are carried at fair value and which will be recorded in the financial information on a recurring basis, the Company will determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

### 6. Fees and expenses

#### Accounting, secretarial and Directors

JTC (UK) Limited has been appointed to act as secretary and administrator for the Company through the Administration and Company Secretarial Agreement. JTC (UK) Limited is entitled to a £4,000 annual fee for the provision of Company Secretarial services and a £18,000 annual fee for the provision of fund accounting and administration services, pro-rated for the period.

During the period, expenses incurred with JTC (UK) Limited for administrative and secretarial services amounted to £23,590 with £23,590 being outstanding and payable at the period end.

#### AIFM

The AIFM, Gresham House Asset Management Limited (the Investment Manager), is entitled to receive a fee in respect of its services provided under the AIFM agreement. The AIFM fees are incurred and paid by Gresham House Energy Storage Fund.

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 7. Net gain on investments at fair value through the profit and loss

	25 June 2020 to 31 December 2020 (£)
Unrealised gain on investments at fair value through the profit and loss (see Note 12)	7,467,796
Interest on loan to subsidiaries (Note 12)	6,294,896
	13,762,692

### 8. Interest on loans to affiliates of the investment manager

	25 June 2020 to 31 December 2020 (£)
Interest on loans to affiliates of the investment manager	124,980
	124,980

### 9. Administrative and other expenses

	25 June 2020 to 31 December 2020 (£)
Administration and secretarial fees	23,590
Arrangement fees	75,383
Audit fees	15,000
Sundry expenses	232
	114,205

### 10. Finance costs

	25 June 2020 to 31 December 2020 (£)
Interest on bonds	153,826
Shareholder loan interest (Note 17)	7,232,203
	7,386,029

The inter-Company interest relates to the loan from Gresham House Energy Storage Fund PLC.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the period from 25 June 2020 (incorporation date) to 31 December 2020

**11. Taxation**

The Company is registered in the United Kingdom ("UK") and as such is subject to corporation tax at the main tax rate of 19%.

		25 June 2020 to 31 December 2020 (£)
(a) Tax charge in profit or loss		
UK corporation tax		-
(b) Reconciliation of the tax charge for the period		
Profit before tax		6,220,848
Tax at UK main rate of 19%	19.00%	1,181,961
Tax effect of:		
Unrealised gain on investments at fair value through the profit and loss		(1,418,881)
Non-deductible expenses		31,652
Subject to group relief		205,268
Tax charge for the period		-

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 12. Loans to affiliates of investment manager

As at 31 December 2020	Place of business	Percentage ownership	Equity	Loans	Closing balance: equity and loans
			(£)	(£)	(£)
Noriker Staunch Ltd (NSL)	England & Wales	100%	230,601	15,527,937	15,758,538
HC ESS2 Holdco Limited (HCESS2)	England & Wales	100%	(3,806,008)	27,962,135	24,156,127
HC ESS3 Limited (HCESS3)	England & Wales	100%	332,775	18,929,632	19,262,407
West Midlands Grid Storage Two Limited (WMGS)	England & Wales	100%	(574,842)	4,321,164	3,746,322
Cleator Battery Storage Limited (Cleator)	England & Wales	100%	2,973,201	4,475,224	7,448,425
Glassenbury Battery Storage Limited (Glassenbury)	England & Wales	100%	18,324,801	18,146,905	36,471,706
HC ESS4 Limited (HCESS4)*	England & Wales	100%	14,201,672	31,413,925	45,615,597
Bloxwich	England & Wales	100%	1,399,153	20,997,985	22,397,138
Noriker Power Ltd	England & Wales	100%	238,095		238,095
HC ESS6 Limited (HCESS6)	England & Wales	100%	3,871,792	34,366,531	38,238,323
HC ESS7 Limited (HCESS7)	England & Wales	100%	16,036,646	31,022,256	47,058,902
			53,227,886	207,163,694	260,391,580

### Reconciliation

31 December 2020  
(£)

Opening balance	
Add: Loans transferred during the period	147,066,164
Add: Equity transferred during the period	37,090,208
Add: Loans advanced during the period	60,267,724
Add: Acquisition of equity in subsidiaries	8,669,882
Less: Loan repayments	(6,465,090)
Add: accrued interest on loans (Note 7)	6,294,896
Total fair value movement through the profit or loss (Note 7)	7,467,796
Closing balance	260,391,580

The net fair value movement comprises the following:

(£)

Interest on loan to subsidiaries (Note 12)	6,294,896
Unrealised gain on investments (see Note 7)	7,467,796
	13,762,692



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the period from 25 June 2020 (incorporation date) to 31 December 2020

**12. Loans to affiliates of investment manager (continued)****Post restructure (see note 1):**

As described in note 1, the investments in subsidiaries were transferred from GRID to the Company as part of the restructure.

During the period, an amount of £17,830,666 was advanced to HC ESS6 Limited, £21,067,786 was advanced to HC ESS7 Limited, £720,000 was advanced to HC ESS3 Limited, and £21,067,786 was advanced to Bloxwich Limited.

The loans attract an interest rate of 8% per annum from the date of advance. Interest compounds on 31 December of each period and the loans are unsecured, with the borrowers not able to create any form of security interest over any of its assets without prior written consent of the Company. Unless otherwise agreed, the loan principal and any interest accrued shall be repayable on the earlier of (i) written demand from the Company, or (ii) 31 December 2030.

There are no committed uncalled loan amounts or other commitments made to these entities except for contingent consideration payable as provided in these accounts. The repayment of the loans (including the annual compound interest which will be rolled up into the loans) will be made based on operational cash flow requirements of these entities. There is no intention for the Company to recall the loans within the next year.

The Company meets the definition of an investment entity. Therefore, it does not consolidate its subsidiaries but, rather, recognises them as investments at fair value through profit or loss. The Company is not contractually obligated to provide financial support to the subsidiaries and there are no restrictions in place in passing monies up the structure.

	<b>Immediate Parent</b>	<b>Projects</b>	<b>Primary location of business</b>	<b>Percentage ownership</b>	<b>Ownership</b>
Noriker Staunch Ltd (NSL)	The Company	Staunch	England & Wales	100%	Wholly owned
HCESS2*	HCESS2 Holdco		England & Wales	100%	Wholly owned
South West Grid Storage One Limited*	HCESS2	Littlebrook, Lockleaze, Rufford	England & Wales	100%	Wholly owned
Roundponds Energy Limited	HCESS3	Roundponds	England & Wales	100%	Wholly owned
WMGS	The Company	Wolverhampton	England & Wales	100%	Wholly owned
Glassenbury	The Company	Glassenbury	England & Wales	100%	Wholly owned
Cleator	The Company	Cleator	England & Wales	100%	Wholly owned
HCESS4	The Company	Red Scar	England & Wales	100%	Wholly owned
Bloxwich	The Company	Bloxwich	England & Wales	100%	Wholly owned
Noriker Power	The Company	Noriker Power	England & Wales	5%	Wholly owned
HCESS6	The Company	Wickham	England & Wales	100%	Wholly owned
HCESS7	The Company	Thurcroft	England & Wales	100%	Wholly owned

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 12. Loans to affiliates of investment manager (continued)

\* HCESS2 Holdco controls HCESS2 which in turn holds an interest in project companies under South West Grid Storage One Limited as disclosed in the table above. This includes the Littlebrook, Lockleaze and Rufford projects.

The registered office for all the above entities is Gresham House Asset Management Limited, 5 New Street Square, London, England, EC4A 3TW.

Refer to Note 21 for valuation disclosures relating to the investments in subsidiaries.

### 13. Loans receivable

	Loans: principal advanced (£)	Loans: Interest accrued (£)	31 December 2020 Closing balance: loans (£)
Biggerbrook Limited (Biggerbrook) (being the extension of Littlebrook)	1,734,240	216,954	1,951,194
Byers Brae - Gridreserve	1,998,885	52,135	2,051,020
	3,733,125	269,089	4,002,214

#### Prior to restructure (see note 1):

The above loans relate to funds provided by the Company to finance ESS Projects prior to acquisition of the target companies, so that these companies can acquire equipment prior to construction. These assets were therefore still under development at the date of restructure. The loans are expected to be converted into shareholder loans during the course of 2021. These loans were classified as current assets on the Statement of Financial Position of GRID at the date of restructure.

The loans attract an interest rate of 8% per annum from the date of advance. The loan principal and any interest accrued shall be repayable on the earlier of (i) written demand from the Company, or (ii) 31 December 2030. Interest compounds on 31 December of each period and the loans are secured over the various assets in these companies. Biggerbrook Limited is owned by Corylus Capital LLP and Grid Reserve is ultimately owned by Gresham House plc.

### 14. Cash and cash equivalents

	31 December 2020 (£)
Cash at bank	1,229,675
	1,229,675

### 15. Trade and other receivables

	31 December 2020 (£)
Other debtors	341,834
	341,834

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020.

### 16. Trade and other payables

	31 December 2020 (£)
Administration and secretarial fees	23,590
Audit fees	15,000
Insurance	65,000
Legal and professional fees	323,713
Deferred consideration: HS ESS6 & HC ESS7*	1,500,000
	1,927,303

\* This relates to the outstanding portion payable for acquisition of the subsidiary at period end if certain performance targets are met. These performance targets are not disclosed as they are commercially sensitive.

### 17. Shareholder's loans

	Loans: principal advanced (£)	Loans: Interest accrued (£)	31 December 2020 Closing balance: loans (£)
Gresham House Energy Storage Fund plc	235,446,123	7,232,203	242,678,326
	235,446,123	7,232,203	242,678,326

On 9 October 2020, the Company entered into a loan agreement with GRID. The principal amount of the loan advanced on 1 July 2020 was GBP 138,203,408 and the loan attracts an interest rate of 8% per annum from the date of advance.

The Company then assumed the corresponding loans with the SPVs previously held by GRID.

Interest compounds on 31 December of each year and the loans are unsecured (although a security trustee does have security over the bank account in the Company). The borrowers are not able to create any form of security interest over any of its assets without prior written consent of the Lender.

Unless otherwise agreed, the loan principal and any interest accrued shall be repayable on the earlier of (i) written demand from GRID, or (ii) 31 December 2030.

### 18. Bonds payable

	Bonds: principal advanced (£)	Bonds: Interest accrued (£)	31 December 2020 Closing balance: loans (£)
GRID Power Bonds – initial Series	14,935,000	153,826	15,088,826
	14,935,000	153,826	15,088,826

On 7 July 2020, GRID launched a private offer of secured power bonds (the "GRID Power Bonds") to facilitate the acquisition of additional battery storage projects in accordance with GRID's investment policy, to advance loans to ESS projects and/or to refinance existing shareholder loans to ESS projects.

The private offer was made by the Company (the "Issuer"), being GRID's wholly owned subsidiary, and targeted an initial raise of a maximum of £15 million through an Initial Series of 5.0% per annum fixed rate bonds (equivalent to a coupon of approximately 4% after tax).

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 18. Bonds payable (continued)

The GRID Power Bonds may be issued in one or more series (each a Series), with each Series having a term of five years from its issue date, redeemable by the Issuer with no penalty after two years.

The proceeds of the initial Series was used, among other things, to acquire an operating asset which is at an advanced stage of due diligence.

The GRID Power Bonds will pay interest semi-annually, in arrears, in equal instalments and have a maximum aggregate subscription amount of £40 million. The offer period will be open for 12 months to July 2021 to, among other things, assist with the acquisition of further battery storage projects.

In addition, BSIF has co-invested £7.0m via a separate loan note alongside the Company's GRID Power Bond investors. The loan will have an initial term of 364 days with a final maturity of 17 months (unless repaid sooner).

In accordance with the loan agreement for BSIF, an interest mechanism has been included which sees the interest rate step-up from 5% to 8% if the loan is not repaid fully within 364 days, after which time the return increases to 8% and the first year's interest also increases to 8% for the first year by virtue of a penalty payment applying.

Finance costs of £84,785 in relation to the Power Bonds have been recognised in the Statement of Comprehensive Income for the period ended 31 December 2020, with £7,935,000 outstanding at 31 December 2020 as reflected in the Statement of Financial Position. The Bond holders hold a charge over the assets of the Company.

Finance costs of £69,041 in relation to the BSIF participating loans have been recognised in the Statement of Comprehensive Income for the period ended 31 December 2020, with £7,000,000 outstanding at 31 December 2020 as reflected in the Statement of Financial Position. The Bond holders hold a charge over the assets of the Company.

### 19. Categories of financial instruments

31 December 2020  
(£)

<b>Financial assets</b>	
<i>Financial assets at amortised cost:</i>	
Cash and cash equivalents	1,229,675
Trade and other receivables	341,834
Loans receivable	4,002,214
<i>Fair value through profit or loss:</i>	
Investment in subsidiaries	260,391,580
<b>Total financial assets</b>	<b>265,965,303</b>
<b>Financial liabilities</b>	
<i>Financial liabilities at amortised cost</i>	
Bonds payable	(15,088,826)
Shareholder's loans	(242,678,326)
Trade and other payables	(1,927,303)
<b>Total financial liabilities</b>	<b>(259,694,455)</b>
<b>Net financial assets</b>	<b>6,270,848</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 19. Categories of financial instruments (continued)

At the balance sheet date, all financial assets and liabilities were measured at amortised cost except for the investment in subsidiaries which are measured at fair value.

### 20. Fair Value measurement

#### Valuation approach and methodology

The Company used the income approach to value its investments. The income approach indicates value based on the sum of the economic income that an asset, or group of assets, is anticipated to produce in the future. Therefore, the income approach is typically applied to an asset that is expected to generate future economic income, such as a business that is considered a going concern. Free cash flow to total invested capital is typically the appropriate measure of economic income. The income approach is the DCF approach and the method discounts free cash flows using an estimated discount rate (WACC).

#### Valuation process

The Company held a portfolio of energy storage investments with a capacity of 174 Megawatt ("MW") operational (the Investments). The Investments comprise 9 projects held in 6 special project vehicles: the Staunch Project, the Littlebrook Project, the Lockleaze Project, the Rufford Project, Roundponds Project, the Wolverhampton Project, the Glassenbury, the Cleator Project and the Red Scar Project.

All of these investments are based in the UK. The Directors review and approve the valuations of these assets following appropriate challenge and examination. The current portfolio consists of non-market traded investments, and valuations are analysed using forecasted cash flows of the assets and use the discounted cash flow approach for valuation purposes. For period-end and interim report and Condensed Financial Statements the Company engages external, independent and qualified valuers to determine the fair value of the Company's investments or are produced by the office of the Investment Manager. The Company engages external, independent and qualified valuers to determine the fair value of the Company's investments or are produced by the office of the Investment Advisor. As at 31 December 2019, the fair value of the portfolio of investments has been determined (presented by the Investment Advisor and reviewed) by Grant Thornton UK LLP. All other investments are valued by the Investment Advisor.

The valuations have been determined using discounted cash flow methodology, whereby the estimated future cash flows relating to the Company's equity investment in each project have been discounted to 31 December 2020, using discount rates reflecting the risks associated with each investment project and the time value of money. The valuations are based on the expected future cash flows, using reasonable assumptions and forecasts for revenues, operating costs, macro-level factors and an appropriate discount rate.

As at the year end, the Company uses discount rates to value the expected future cash flows of each investment project. From these discount rates a blended discount rate of 10.8% is calculated. The determination of the discount rate applicable to each individual investment project takes into account various factors, including, but not limited to, the stage reached by each project, the period of operation, the historical track record, the terms of the project agreements and the market conditions in which the project operates. It is intended that this blended discount rate will also be applied in respect of the expected future cashflows of projects acquired by the Company in the future. The Investment Manager exercises its judgement in assessing the expected future cash flows from each investment. The Investment Manager produces, for each underlying project, detailed financial models and the Investment Manager takes into account, amongst other things, in its review of such models, and make amendments where appropriate to:

- a) discount rates (i) implied in the price at which comparable transactions have been announced or completed in the UK energy storage sector (if available); (ii) publicly disclosed by the Company's peers in the UK energy storage sector (if available); and (iii) discount rates applicable for other comparable infrastructure asset classes and regulated energy sectors;
- b) changes in power market forecasts from leading market forecasters;
- c) changes in the economic, legal, taxation or regulatory environment, including changes in retail price index expectations;
- d) technical performance based on evidence derived from project performance to date;
- e) the terms of any power purchase agreement arrangements;

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 20. Fair Value measurement (continued)

- f) accounting policies;
- g) the terms of any debt financing at project level;
- h) claims or other disputes or contractual uncertainties; and
- i) changes to revenue, cost or other key assumptions (may include an assessment of future cost trends, as appropriate).

In arriving at the valuation assumptions this includes consideration of climate related matters such as expected levels of renewable energy entering the grid system, demand patterns and current regulatory policy these are factored into the pricing assumptions which are prepared by an independent consultancy.

The Board reviews the operating and financial assumptions, including the discount rates, used in the valuation of the Company's underlying portfolio and approves them based on the recommendation of the Investment Manager.

The Company used the income approach to value its investments. The income approach indicates value based on the sum of the economic income that an asset, or group of assets, is anticipated to produce in the future. Therefore, the income approach is typically applied to an asset that is expected to generate future economic income, such as a business that is considered a going concern. Free cash flow to total invested capital is typically the appropriate measure of economic income. The income approach is the DCF approach and the method discounts free cash flows using an estimated discount rate (WACC).

Key valuation input	Range	Weighted average
WACC	10.3 - 11.1%	10.8%
RPI	3%	3%

Another key assumption in the valuation models is the volatility of power prices. Due to the Asset Optimisation strategy, the investments are able to benefit from a range of revenue streams, either arbitrage on power price volatility or FFR and other similar income streams. Due to the nature of the assets owned by the investments, should one revenue stream be impacted the asset is able to switch to alternative sources of revenue to seek to maintain total revenue targets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the period from 25 June 2020 (incorporation date) to 31 December 2020

**20. Fair Value measurement (continued)****Sensitivity Analysis**

The below table reflects the range of sensitivities in respect of the fair value movements of the Company's investments.

Due to the revenue optimisation strategy sensitivity on power and price is not meaningful given the mix of revenue streams available to maintain value, we have therefore provided a sensitivity based on percentage changes in revenue overall.

Investment	Project	Valuation Technique	Significant Inputs Description	Sensitivity	Estimated effect on Fair Value 31 December 2020 (£)
NSL	Staunch	DCF	Discount rate	+1%	(1,224,113)
				-1%	1,401,859
HC ESS2	Rufford, Lockleaze, Littlebrook	DCF	Revenue	+10%	1,157,930
				-10%	(1,176,750)
			Discount rate	+1%	(1,666,859)
				-1%	1,906,534
HC ESS3	Roundponds	DCF	Revenue	+10%	1,233,342
				-10%	(1,455,996)
			Discount rate	+1%	(1,494,752)
				-1%	1,751,979
WMGS	Wolverhampton	DCF	Revenue	+10%	1,163,309
				-10%	(1,125,303)
			Discount rate	+1%	(263,187)
				-1%	300,777
Cleator	Cleator	DCF	Revenue	+10%	361,590
				-10%	(340,677)
			Discount rate	+1%	(648,290)
				-1%	750,802
Glassenbury	Glassenbury Glassenbury B	DCF	Revenue	+10%	524,510
				-10%	(529,040)
			Discount rate	+1%	(648,290)
				-1%	750,802
Glassenbury	Glassenbury Glassenbury B	DCF	Revenue	+10%	524,510
				-10%	(529,040)
			Discount rate	+1%	(3,302,809)
				-1%	3,819,262
Glassenbury	Glassenbury Glassenbury B	DCF	Revenue	+10%	2,608,817
				-10%	(2,606,621)
			Discount rate	+1%	(3,302,809)
				-1%	3,819,262

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 20. Fair Value measurement (continued)

#### Sensitivity Analysis (continued)

Investment	Project	Valuation Technique	Significant Inputs Description	Sensitivity	Estimated effect on Fair Value 31 December 2020 (£)
HC ESS4	Red Scar	DCF	Discount rate	+1%	(3,840,242)
				-1%	4,546,579
			Revenue	+10%	3,019,526
				-10%	(3,819,002)
Bloxwich	Bloxwich	DCF	Discount rate	+1%	(1,629,444)
				-1%	1,861,700
			Revenue	+10%	2,138,010
				-10%	(2,017,161)
HC ESS7	Thurcroft	DCF	Discount rate	+1%	(3,530,887)
				-1%	4,123,953
			Revenue	+10%	2,945,498
				-10%	(3,666,454)
HC ESS6	Wickham	DCF	N/A	N/A	N/A

Portfolio Sensitivity of RPI	Sensitivity	Estimated effect on Fair Value 31 December 2020 (£)
Inflation	+0.25%	4,828,487
	-0.25%	(4,661,569)

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, significance of the inputs is assessed against the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs or any other significant unobservable inputs, that measurement is a Level 3 measurement.

The fair value hierarchy of financial instruments measured at fair value is provided below.

31 December 2020	Level 1 (£)	Level 2 (£)	Level 3 (£)
Investment in subsidiaries	-	-	260,391,580
	-	-	260,391,580

#### Valuation of financial instruments

The investment at fair value through profit or loss is a Level 3 in the fair value hierarchy and the reconciliation in the movement of this Level 3 investment is presented in note 13. No transfers between levels took place during the period.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 21. Financial risk management

The Company is exposed to certain risk through the ordinary course of business and the Company's financial risk management objective is to minimise the effect of these risks. The management of risks is performed by the Directors of the Company and the exposure to each financial risk considered potentially material to the Company, how it arises and the policy for managing it is summarised below:

- **Counterparty risk**

The Company is exposed to third party credit risk in several instances and the possibility that counterparties with which the Company and its subsidiaries, together the Group, contracts may default or fail to perform their obligations in the manner anticipated by the Group. Such counterparties may include (but are not limited to) manufacturers who have provided warranties in relation to the supply of any equipment or plant, EPC contractors who have constructed the Company's plants, who may then be engaged to operate assets held by the Company, property owners or tenants who are leasing ground space and/or grid connection to the Company for the locating of the assets, contractual counterparties who acquire services from the Company underpinning revenue generated by each project or the energy suppliers, or demand aggregators, insurance companies who may provide coverage against various risks applicable to the Company's assets (including the risk of terrorism or natural disasters affecting the assets) and other third parties who may owe sums to the Company. In the event that such credit risk crystallises, in one or more instances, and the Company is, for example, unable to recover sums owed to it, make claims in relation to any contractual agreements or performance of obligations (e.g. warranty claims) or require the Company to seek alternative counterparties, this may materially adversely impact the investment returns. Further the projects in which the Company may invest will not always benefit from a turnkey contract with a single contractor and so will be reliant on the performance of several suppliers. Therefore, the key risks during battery installation in connection with such projects are the counterparty risk of the suppliers and successful project integration.

The Investment Manager regularly assesses the creditworthiness of its counterparties and enters into counterparty arrangements which are financially sound and ensures, where necessary, the sourcing of alternative arrangements in the event of changes in the creditworthiness of its present counterparties.

- **Concentration risk**

The Company's investment policy is limited to investment in energy storage infrastructure, which will principally operate in the UK. This means that the Company has a significant concentration risk relating to the UK energy storage infrastructure sector. Significant concentration of investments in any one sector may result in greater volatility in the value of the Company's investments and consequently the Net Asset Value and may materially and adversely affect the performance of the Company and returns to Shareholders.

The Fund's ESS projects generate revenues primarily from Firm Frequency Response (FFR), Asset Optimisation (Trading), CM and other grid connection-related charges, including TRIADs. Revenues from the portfolio's seed ESS projects are currently skewed to FFR revenues, FFR being the provision to the National Grid of a dynamic response service to maintain the grid's electrical frequency at 50Hz. In 2021, operations are expected to be increasingly targeted towards Asset Optimisation, as this becomes the more profitable business activity. There are several additional revenue opportunities emerging for the portfolio as a series of regulatory changes are implemented.

The Investment Manager is of the view that the UK's exposure to renewable energy generation has increased significantly over the last few years and the pace has not lessened despite the removal of legacy subsidies to onshore wind and solar. This is largely because the development of offshore wind installations has continued apace. As a result, generation from wind is having a growing impact on the grid, generating a volatile supply of energy which underpins the opportunity for ESS.

- **Credit risk**

Cash and other assets that are required to be held in custody will be held at bank. Cash and other assets may not be treated as segregated assets and will therefore not be segregated from the bank's own assets in the event of the insolvency of a custodian. Cash held with the bank will not be treated as client money subject to the rules of the FCA and may be used by the bank in the ordinary course of its own business. The Company will therefore be subject to the creditworthiness of the bank. In the event of the insolvency of the bank, the Company will rank as a general creditor in relation thereto and may not be able to recover such cash in full, or at all.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the period from 25 June 2020 (incorporation date) to 31 December 2020

**21. Financial risk management (continued)**

• **Credit risk (continued)**

The Investment Manager regularly assesses its credit exposure and considers the creditworthiness of its customers and counterparties. Cash and bank deposits are held with Barclays Bank plc, a reputable financial institution with a Moody's credit rating Baa2.

Investments held at fair value through profit or loss are not subject to IFRS 9 impairment requirements.

For interest receivables on cash balances and loans receivable, the Company uses a 12-month expected loss allowance. The Company has completed some high-level analysis and forward looking qualitative and quantitative information, to determine if the interest and receivables are low credit risk. Based on this analysis the expected credit loss on interest and receivables are not material and therefore no impairment adjustments were accounted for.

• **Liquidity risk**

The objective of liquidity management is to ensure that all commitments made by the Company which are required to be funded can be met out of readily available and secure sources of funding. As noted below, this may include debt funding.

ESS Projects have limited liquidity and may not be readily realisable or may only be realisable at a value less than their book value. There may be additional restrictions on divestment in the terms and conditions of any sale agreement in relation to a particular ESS Project.

GRID assessed its ability to raise debt after sufficient assets were acquired and to the extent funding was available on acceptable terms. Accordingly it has introduced leverage into the Company, being its wholly owned subsidiary as explained in note 1. In addition, it may from time to time use borrowing for short-term liquidity purposes which could be achieved through a loan facility or other types of collateralised borrowing instruments. The Company is permitted to provide security to lenders in order to borrow money, which may be by way of mortgages, charges or other security interests or by way of outright transfer of title to the Company's assets. The Directors will restrict borrowing to an amount not exceeding 50% of the Company's Net Asset Value at the time of drawdown. There will be no cross collateralization between the Projects.

The Company's financial liabilities are long term bonds payable and shareholder's loans, and short term participation loans and trade and other payables. The Company has sufficient cash reserves to cover these in the short to medium term. The Company's cash flow forecasts are monitored regularly to ensure the Company is able to meet its obligations when they fall due.

• **Liquidity risk**

The following table reflects the maturity analysis of financial assets and liabilities.

	< 1 year (£)	1 to 2 years (£)	2 to 5 years (£)	> 5 years (£)	Total (£)
<b>As at 31 December 2020</b>					
<b>Financial assets</b>					
Cash and cash equivalents (see Note 15)	1,229,675	-	-	-	1,229,675
Trade and other receivables (see Note 16)	341,834**	-	-	-	341,834
Loans receivable	4,002,214***	-	-	-	4,002,214
<i>Fair value through profit or loss:</i>					
Investment in subsidiaries	-	-	-	209,180,615*	207,163,694
<b>Total financial assets</b>	<b>5,573,723</b>	<b>-</b>	<b>-</b>	<b>209,180,615</b>	<b>212,737,417</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the period from 25 June 2020 (incorporation date) to 31 December 2020

**21. Financial risk management (continued)****Financial liabilities***Financial liabilities at amortised cost*

Bonds payable (Note 19)	153,826	-	-	14,935,000	15,088,826
Shareholder's loans (Note 18)	-	-	-	242,678,326	242,678,326
Trade and other payables (see Note 17)	1,927,303	-	-	-	1,927,303
<b>Total financial liabilities</b>	<b>2,081,129</b>			<b>257,613,326</b>	<b>259,694,455</b>

\*excludes the equity portion of the investment in subsidiaries

\*\*excludes VAT

\*\*\*calculated maturity amount

- Market risk**

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. The objective is to minimise market risk through managing and controlling these risks to acceptable parameters, while optimising returns. The Company uses financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

Price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. At 31 December 2020, the valuation basis of the Company's investments was valued at market value. This investment is driven by market factors, refer to the investment manager report for assessing the impact of the market risk on the valuation of the investments. The Company relies on market knowledge of the Investment Manager, the valuation expertise of the third-party valuer Grant Thornton and the use of third-party market forecast information to provide comfort with regard to fair market values of investments reflected in the Financial Statements. Refer to Note 21 for trading revenue sensitivities.

- Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to interest rate risk on its cash balances held with counterparties, bank deposits, loans receivable, advances to counterparties and through loans to subsidiaries. Bank deposits and Treasury fixed term deposits carry a fixed rate of interest for a definite period and loans to subsidiaries carry a fixed rate of interest until repayment at the earlier of written demand from the lender or 31 December 2030.

The Company is also exposed to interest rate risk on its financial liabilities, being shareholder's loans and the bonds payable, both which carry a fixed rate of interest until repayment.

The Company may be exposed to changes in variable market rates of interest as this could impact the discount rate and therefore the valuation of the projects as well as the fair value of the loan receivables.

- Currency risk**

All transactions and investments during the current period were denominated in Pounds Sterling, thus no foreign exchange differences arose. The Company does not hold any financial instruments at period end which are not denominated in Pounds Sterling and is therefore not exposed to any significant currency risk. Subsidiary entities may, from time to time, incur expenditure in currencies other than Pounds Sterling.

- Capital risk management**

The capital structure of the Company at period end consists of equity attributable to equity holders of the Company, comprising issued capital and reserves. The Board continues to monitor the balance of the overall capital structure so as to maintain investor and market confidence. The Company is not subject to any external capital requirements.

- Other risks**

The Company is exposed to other risks. Refer to a number of other risks disclosed in the Prospectus dated 10 November 2020.

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 22. Net Asset Value per Ordinary Share

Basic NAV per Ordinary Share is calculated by dividing the Company's net assets as shown in the statement of financial position that are attributable to the ordinary equity holders of the Company by the number of Ordinary Shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per Ordinary Share are identical.

31 December 2020

Net assets per statement of financial position	6,270,848
Ordinary Shares in issue as at 31 December 2020	50,000
NAV per Ordinary Share - Basic and diluted (pence)	125.42

### 23. Share capital

	Ordinary Shares Number	Share capital (£)	Total shareholders' equity (£)
<b>Allotted and issued share capital</b>			
As at 25 June 2020			
Issue of Ordinary Shares of £1 and fully paid at £1 – 25 June 2020	50,000	50,000	50,000
<b>As at 31 December 2020</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>

\*Please refer to Note 26 for the non-cash flow portion of the share issue.

### Share capital

On incorporation the Company issued 50,000 Ordinary Shares of £1 which was fully paid up. The Ordinary Shares have attached to them full voting rights, dividend and capital distribution (including on winding up) rights, they do not confer any rights of redemption.

### Dividends

No dividends were declared during the period.

Ordinary shareholders are entitled to all dividends declared by the Company and, in a winding up, to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

### 24. Reserves

The nature and purpose of each of the reserves included within equity at 31 December 2020 are as follows:

- Revenue reserves represent cumulative revenue net losses recognised in the Statement of Comprehensive Income
- Capital reserves represent cumulative net gains and losses on investments recognised in the Statement of Comprehensive Income

The only movements in these reserves during the period are disclosed in the Statement of Changes in Equity.

# GRESHAM HOUSE ENERGY STORAGE HOLDINGS PLC

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the period from 25 June 2020 (incorporation date) to 31 December 2020

### 25. Transactions with related parties

The Company and the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company does not have an ultimate controlling party.

Details of related parties are set out below:

#### Directors

All Directors are employees of the Company and are not remunerated separately for their directorship.

Key management personnel include the Directors.

#### AIFM

The AIFM, Gresham House Asset Management Limited (the Investment Manager), is entitled to receive a fee in respect of its services provided under the AIFM agreement. The AIFM fees are incurred and paid by Gresham House Energy Storage Fund., during the period the fees amounted to £2,400,485 (2019: £1,571,270).

The Investment Manager is a wholly owned subsidiary of Gresham House plc, a significant shareholder in Gresham House Energy Storage Fund, the parent.

### Loans to related parties

At 31 December 2020 and post the restructure (see note 1), loans receivable represent amounts due to the Company from its direct subsidiary undertakings, NSL, HCESS3, HCESS4, WMGS, Glassenbury, Cleator, HCESS6 and HCESS7 as well its indirect subsidiary, HCESS2, as follows:

Subsidiary	Outstanding loan	Interest receivable	Total
	£	£	£
Noriker Staunch Ltd	14,332,781	1,195,156	15,527,937
HC ESS2 Limited	25,866,512	2,095,623	27,962,135
HC ESS3 Limited	17,550,164	1,379,468	18,929,632
HC ESS4 Limited	29,052,074	2,361,851	31,413,925
WMGS	3,999,517	321,647	4,321,164
Creator	4,135,271	339,953	4,475,224
Glassenbury	16,799,281	1,347,624	18,146,905
Bloxwich	20,190,207	807,778	20,997,985
HC ESS6 Limited	33,230,172	1,136,359	34,366,531
HC ESS7 Limited	30,136,964	885,292	31,022,256
	195,292,943	11,870,751	207,163,694

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the period from 25 June 2020 (incorporation date) to 31 December 2020

**25. Transactions with related parties (continue)**

**Loans receivable**

At 31 December 2020 and post the restructure (see note 1), loans receivable represent amounts due to the Company from its affiliated parties, Biggerbrook and Byers Brae - Gridreserve, as follows:

	Loans: principal advanced (£)	Loans: interest accrued (£)	31 December 2020 Closing balance: loans (£)
Biggerbrook Limited (Biggerbrook) (being the extension of Littlebrook)	1,734,240	216,954	1,951,194
Byers Brae - Gridreserve	1,998,885	52,135	2,051,020
	3,733,125	269,089	4,002,214

**26. Capital commitments**

As at 31 December 2020 the Company has no significant binding or conditional future capital commitments.

**27. Post balance sheet events**

The Board of Directors announced the following:

- On 11 January 2021, the Company completed the acquisition of a 25MW battery project located in North Shields, Tyne and Wear ("Tynemouth").
- On 29 January 2021, the Company completed the acquisitions of a 35MW battery project located in North Shields, Tyne and Wear ("Port of Tyne") and a 10MW battery project located in Essex ("Nevendon").
- On 21 April 2021, the Company completed the acquisitions of Byers Brae a 30MW battery project located in West Lothian.

The Investment Manager is currently investigating the impact of the changes announced by the Chancellor of Exchequer in the Budget on 3 March 2021, in particular the change to the main rate of corporation tax from 19% to 25% from April 2023 on the valuation of the portfolio. There are sufficient capital allowances already available within the current portfolio to ensure no underlying corporation tax is expected to be payable for many years and the gearing level can be optimised to mitigate an impact of the rate change, but further analysis will be required to assess this more fully over time.

There were no further events after reporting date which require disclosure.

## 6. COMPANY INFORMATION

### Directors

*Appointed: 25 June 2020*

Benjamin Guest – Chairperson from 25 June 2020

Gareth Owen – Executive from 25 June 2020

Stephen Beck - Executive from 25 June 2020

Bozkurt Aydinoglu - Executive from 25 June 2020

### Registered office

The Scalpel  
18<sup>th</sup> Floor  
52 Lime Street  
London  
EC3M 7AF

### Investment Manager and AIFM

Gresham House Asset Management Limited  
5 New Street Square  
London  
EC4A 3TW

### Independent Auditor

BDO LLP  
55 Baker Street  
London  
W1U 7EU

### Administrator and Secretary

JTC (UK) Limited  
The Scalpel  
18<sup>th</sup> Floor  
52 Lime Street  
London  
EC3M 7AF

### Registrar and Receiving Agent

Eversheds Sutherland (International) LLP  
Eversheds House  
70 Great Bridgewater Street  
Manchester  
United Kingdom  
M1 5ES

### Legal Adviser

Eversheds LLP  
1 Wood Street  
London  
EC2V 7WS

### 7. GLOSSARY

#### **Asset Optimisation**

Asset Optimisation involves buying and selling electricity in order to capture a spread between the high and low electricity prices on any given day. This can be done via one or more market mechanisms, hence the expression "Asset Optimisation" and includes trading in the wholesale market and offering the battery to National Grid via the Balancing Mechanism.

#### **Asymmetric**

An asymmetrical grid connection is where the import and export capacities are different.

#### **AUM**

Assets Under Management: the total net assets of the Company.

#### **Balancing services**

National Grid procure services to balance demand and supply and to ensure the security and quality of electricity supply across Britain's transmission system. These include:

- Black Start
- Demand side response
- Enhanced frequency response (EFR)
- Firm frequency response (FFR)
- Short term operating reserve (STOR)

<https://www.nationalgrideso.com/balancing-services>

#### **Black start**

A total or partial shutdown of the national electricity transmission system (NETS) is an unlikely event. However, if it happens, National Grid are obliged to make sure there are contingency arrangements in place to ensure electricity supplies can be restored in a timely and orderly way. Black start is a procedure to recover from such a shutdown.

<https://www.nationalgrideso.com/balancing-services/system-security-services/black-start/>

#### **Capacity Market (CM)**

The income received by generators to ensure generation capacity is available to meet short falls.

#### **Curtailment**

Large wind farms are connected to the UK's high-voltage network and National Grid balances electricity supply and demand. As demand rises and falls during the day, electricity supply mirrors these peaks and troughs.

National Grid accepts bids and offers from electricity generators to increase or decrease electricity generation as and when required. As such it may mean that there are times when generators are paid to curtail their output (constraint payments).

<https://www.nationalgrideso.com/news/grounds-constraint>



## 7. GLOSSARY (continued)

### Load factors

The load factor is usually expressed as the percentage of the actual output of a generator compared to its theoretical maximum output in a year.

### NAV

Net Asset Value being the total Net Assets in the Company divided by the total number of Ordinary Shares in issue as at 31 December 2020.

### Ongoing Charges Figure

The Ongoing Charges Figure includes all charges and costs incurred by the Company which relate to the ongoing operation of the Company. This includes management fees, administration fees, audit fees, Director's remuneration, depositary services costs and other similar costs. It excludes capital costs and costs of raising new capital. The Ongoing Charges are then divided by the weighted average NAV and annualised.

### Ordinary Share

Share in the Company with a nominal value of 1p.

### Symmetrical

A symmetrical grid connection is where the import and export capacities are the same.

### System inertia

Inertia works to keep the electricity system running at the right frequency by using the kinetic energy in spinning parts in power plant generator turbines. When needed, the spinning parts in generator turbines can rotate slightly faster or slower to help balance out supply and demand. The more turbines you have, the more energy there is in the system and the greater the system inertia, which helps to stabilise the frequency.

<https://www.nationalgrideso.com/information-about-great-britains-energy-system-and-electricity-system-operator-eso/technical-terms-explained>

### TRIADs

TRIADs are defined as the three half-hours of highest demand on the GB electricity transmission system between November and February each year, the TRIADs are part of a charge-setting process. This identifies peak electricity demand at three points during the winter in order to minimise energy consumption.

However, TRIADs must be at least 10 days apart. This is to avoid all three potentially falling in consecutive hours on the same day, for example during a particularly cold spell of weather.

<https://www.nationalgrideso.com/news/triads-why-three-magic-number>

### VRLA

Valve-Regulated Lead-Acid