Earls Gate Energy Centre Limited

Annual Report and financial statements

Year ended 31 March 2020

Registered number: SC484891

Earls Gate Energy Centre Limited
Annual Report and financial statements
Year ended 31 March 2020

Contents

Officers and professional advisers

Directors	I D Cockburn T J Koltis A S Lambie M R Mulcahy S L Ray R H G Shaw C B Waples
Registered office	Caledonian Exchange 19a Canning Street Edinburgh EH3 8EG
Company Secretary	BEL1 Limited Caledonian Exchange 19a Canning Street Edinburgh EH3 8EG
Solicitor	Burness Paull LLP 1 West Regent Street Glasgow G2 1AP
Auditor	KPMG LLP Quayside House 110 Quayside Newcastle upon Tyne NE1 3DX

Strategic Report

The directors present their Strategic Report and the audited financial statements for the year ended 31 March 2020.

The Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006.

Principal activities and business review

The principal activity of Earls Gate Energy Centre Limited (the "Company") is the development of a replacement Combined Heat and Power ("CHP") plant at the Earls Gate Business Park, Grangemouth. The plant will be fuelled by refuse-derived fuel, will have a nominal capacity of 216,000 tonnes per annum and will export steam and up to 21.5 MWs of electricity to support various chemical businesses on the surrounding complex, with the balance of the electricity exported to the local grid.

The Company is a subsidiary undertaking of EGEC Holdings Limited. At 31 March 2020, the Company made a loss after tax for the year then ended of £20,000 (2019: profit of £56,000) and had net assets of £2.18m (2019: £8.26m).

On 18 December 2018, the Earls Gate Energy Centre Energy from Waste Project (the "Project") reached Financial Close - the point at which all the necessary contracts and financing arrangements are successfully concluded to allow the construction to commence. Since Financial Close, the main focus of the Company has been on supervising and supporting contractors and sub-contractors to ensure that construction works are carried out on site to the highest standard of health and safety, environmental compliance and in a manner that fully complies with planning and environmental permit conditions.

Construction activities on the Project progressed during the year, with initial focus on the site establishment, ground preparation and piling activities.

Waste Bunker area has been excavated, with concrete slab installed and all walls erected to the ground level as at 31 March 2020. Construction activities on the Waste Bunker continued post year-end, with walls erected to 10.2m level before the end of June 2020. Final lift to 20m level is scheduled for completion within the third quarter of 2020.

Elsewhere on site, concrete slabs were installed within the Boiler Hall, Back-up Boiler Section and Flue Gas Treatment areas. The stack, electrical room and boilers for the Back-up Boiler Section of the plant have all been installed, with steel erection activities and installation of piping and instrumentation substantially progressed in the year. Steel erection and key component installation activities within the Boiler Hall and Flue Gas Treatment ("FGT") areas commenced towards the end of the year and continued beyond 31 March 2020.

Orders for key equipment, including stoker grate, turbine, boilers, waste crane, air cooled condenser and distributed control system have all been placed. The manufacturing process for those is either complete or substantially advanced. All major items of equipment are scheduled for delivery to site within the next twelve months.

Key performance indicators

The directors believe that the following indicators provide the information that will help measure how effectively the Company is performing:

Financial indicators	**As at 31 March 2020 £000**	As at 31 March 2019 £000	Change %
Capital expenditure - Property, plant and equipment	**100,669**	40,132	151%

Strategic Report *(continued)*

Key performance indicators *(continued)*

	Units	As at 31 March 2020	Total	Complete
Non-financial indicators				%
Civils & Building Works				
Procurement – orders placed	No. of	19	68	28%
Design	%	68%	100%	68%
Piles installed	No. of	1,165	1,379	84%
Concrete installed - Waste Bunker	m^3	1,022	3,188	32%
Concrete installed – Boiler Hall	m^3	1,452	1,560	93%
Concrete installed – FGT Hall	m^3	966	966	100%
Concrete installed – Back-up Boiler Section	m^3	453	453	100%
Process Works				
Procurement – orders placed	No. of	134	188	71%
Design	%	71%	100%	71%
Boiler steel structure detail design	Kilo	737,572	819,525	90%
Boiler Hall steel structure erection	Kilo	130,416	819,525	16%
Back-up Boiler Section steel structure erection	Kilo	84,807	129,969	65%

In the prior reporting period, due to the early stage of the Project, there were no non-financial indicators to report on.

Principal risks and uncertainties

Details about the Company's financial risk exposure and financial risk management objectives and policies are set out in note 13.

Short to medium term risks

The principal risks facing the Company in the short to medium term are associated with the safety of personnel working on site, potential delays to the construction of the plant and cost overruns. In order to mitigate against these risks, the directors of the Company have:

- Put in place a fixed price Engineering, Construction and Procurement ("EPC") Contract with CNIM (Earls Gate) Limited (formerly known as CNIM Clugston (Earls Gate) Limited) (the "EPC Contractor") at Financial Close;
- Implemented comprehensive protocols for monitoring of safety performance by the Company in its role as the Client under the Construction (Design and Management) Regulations 2015. This includes health and safety audits, regular site visits and incident reporting procedures. The EPC Contractor has been appointed as the Principal Contractor and is responsible for the overall health and safety management on site;
- Ensured that the Project is adequately resourced with experienced personnel;
- Implemented robust review and reporting processes to measure the spend and progress of the work against the budgets; and
- Appointed an expert technical adviser specialising in the Energy from Waste ("EfW") sector as the Project Manager for the duration of the construction phase of the Project.

Longer term risks

The longer term risks which may affect the Company are associated with the post-construction operation and maintenance of the plant, ensuring continued off-take for the electricity and steam produced by the plant, maintaining the supply of the fuel necessary for operating the plant and managing the impact of any changes in the planning and environmental legislation. In order to mitigate against these risks, the directors of the Company have:

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

Longer term risks *(continued)*

- Appointed MES Environmental Limited as the long-term Operations and Maintenance ("O&M") Contractor for the plant;
- Put in place a long-term Energy Supply Agreement for the offtake of the steam and electricity that will be generated by the plant;
- Put in place long-term Fuel Supply Agreements with reputable counterparties; and
- Ensured that the EPC Contract includes optional scopes of work which will allow for the design and the specification of the plant to be modified to comply with changes in the planning and environmental legislation, if such changes are introduced.

EPC Contractor risk

CNIM (Earls Gate) Limited is a wholly owned subsidiary of CNIM Groupe ("CNIM"). Following the insolvency of CNIM's British civil engineering sub-contractor, CNIM have experienced financial difficulties during the year. The Company has, as far as possible, carefully considered and monitored the financial restructuring process undertaken by CNIM and believes, based on the facts available at the date of this report, that CNIM, and therefore the EPC Contractor, have sufficient capital and credit backing to remain in business and deliver on their contractual obligations. The directors have carefully analysed the potential impact of a financial failure of CNIM and are satisfied that the risk is low. In the event of CNIM's failure, the Company would have immediate access to third-party bank bonding lines to help mitigate any additional spend required to complete the construction of the plant. Further, Subscription and Shareholders' Agreement between the Company, its parent company, and the shareholders of EGEC Holdings Limited provides a mechanism for injection of additional funding into the Company in the event when such funding is required.

COVID-19

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. Across the World, national governments have taken significant measures to contain the virus, including quarantines and school, store, plant and border closures. Consequences of the outbreak have also contributed to significant volatility in global stock markets and energy prices.

Construction activities on the Project were stopped for two weeks during which time the site remained closed. While good progress has been made in key areas since the works restarted, restrictions associated with COVID-19 may have a longer-term impact on the supply chain for materials and components and on labour productivity rates. These risks are being pro-actively managed by the EPC Contractor.

The Company expects COVID-19 to be a valid Force Majeure event under the terms of the EPC Contract, which, subject to certain conditions being satisfied, may entitle the EPC Contractor to an extension of time to complete the construction of the plant. The Company is discussing the contractual position with the EPC Contractor but, as at the date of this report, has considered the likely costs and impact of a potential delay, as well as a possibility of further delays, and believes that there is sufficient contingency available in the Project budget to absorb any resulting costs. The Company continues to have the financial support of its parent, its parent's shareholders and the third-party lenders. A significant worsening of the COVID-19 crisis could result in additional costs and further disruption to the construction timeline for the Project. While this may ultimately result in a requirement for further equity investment from EGEC Holdings Limited and its shareholders, the directors of the Company believe that such equity investments would not be material in the context of the longer term value that will be generated from the Project over the 25-year operational life of the plant.

Brexit

Following the United Kingdom's ("UK") departure from the European Union ("EU") on 31 January 2020 (the "Brexit day"), the UK has entered a transition period until 31 December 2020. This means that, although the UK ceases to be an EU member, the trading relationship remains the same and the UK continues to follow the EU's rules, such as

Strategic Report *(continued)*

Principal risks and uncertainties *(continued)*

***Brexit** (continued)*

accepting rulings from the European Court of Justice. As a result of Brexit, it is possible that there will be greater restrictions on imports and exports between the UK and the EU countries and increased regulatory complexities.

The situation continuous to be closely monitored by the Company and has not had any significant impact on the Company, its operations and the financial position in the year ended 31 March 2020 or the prior period. The directors have also analysed potential implications of Brexit on the operations of the Company going forward and consider the exposure of the Company to be low. Potential impact of Brexit within the areas relevant to the Company's operations and an assessment of the impact on the Company are presented below:

Area of potential impact	Potential impact	Impact on the Company
Labour	Difficulty in accessing talent; shortage of skilled and/or low skilled labour.	**Low.** Limited reliance on the labour force from outside the UK. Construction work carried out by reputable contractor and sub-contractors.
Supply chain	Delays at ports of entry to the UK.	**Low.** The Company is contractually protected against the financial risk linked to potential delays to the completion of the construction of the plant. Deliveries of key items of equipment have commenced, with most of the components scheduled for delivery before the end of 2020.
Custom tariffs	Changes to the tariffs regime and/or failure to reach trade agreements with other countries.	**Low.** Financial risk associated with potential introduction of tariffs was transferred contractually by the Company to the EPC Contractor.
Macroeconomic	Currency and interest rate volatility.	**Low.** Currency and interest rate exposure were hedged at Financial Close.

On behalf of the Board:

I D Cockburn
Director
24 September 2020

Directors' Report

The directors present their Directors' Report and the audited financial statements for the year ended 31 March 2020.

The Directors' Report has been prepared in accordance with the provisions of the Companies Act 2006. Reporting requirements in relation to the Company's principal activities, business overview, risks and uncertainties and key performance indicators are included in the Strategic Report on pages 2-5.

Dividends

The directors do not recommend the payment of a dividend (2019: £nil).

Directors

The directors who held office during the year and up to the date of this report were as follows:

I D Cockburn	
P R A Knott	(resigned 1 June 2020)
T J Koltis	
A S Lambie	
M R Mulcahy	
S L Ray	
R H G Shaw	
C B Waples	(appointed 1 June 2020)

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern

Notwithstanding the net current liabilities of £6.36m (2019: net current assets of £3.03m) and net assets of £2.18m (2019: £8.26m) as at 31 March 2020, a loss for the year then ended of £20,000 (2019: profit of £56,000) and the net decrease in cash and cash equivalents in the year of £7.56m (2019: net increase of £10.55m), the financial statements have been prepared on a going concern basis, which the directors consider to be appropriate for the reasons outlined below.

After making enquiries, at the time of approving the financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future and committed the resources and credit lines to complete the construction of the plant. As at 31 March 2020, the Company has received £63.5m of funding from its parent company and £30.5m from third-party lenders. The Company has access to an additional £116.1m of committed funding lines from third-party lenders. This funding is expected to be sufficient to cover the remaining construction costs with a reasonable contingency allowance available in the budget for unforeseen or exceptional spend. Modelling of financial projections for the 25-year operational period of the plant indicates that the Company will generate sufficient revenues from its operations to service the debt, meet other liabilities as they fall due and generate significant value to the parent company and its shareholders.

The directors have carefully considered the risks and uncertainties facing the Company outlined in detail in the Strategic Report presented on pages 2 to 5. In considering these risks, the directors have prepared financial forecasts for a period of at least twelve months from the date of the approval of these accounts. In addition, the directors have considered severe but plausible downside sensitivity scenarios to their projections to quantify the potential downside risks to financial performance. On this basis, the directors have a reasonable expectation that the Company has sufficient financial resources to meet its obligations as they fall due for at least the next twelve months. The directors have therefore concluded that it is appropriate to prepare these financial statements on the going concern basis.

Directors' Report *(continued)*

Subsequent events

There were no significant events after the end of the year to report.

Future developments

The Company is currently constructing a 216,000 tonne CHP plant in Grangemouth, Scotland. The construction of the plant is expected to be completed in 2022.

Auditor

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

On behalf of the Board:

I D Cockburn
Director
24 September 2020

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Independent Auditor's Report to the Members of Earls Gate Energy Centre Limited

Opinion

We have audited the financial statements of Earls Gate Energy Centre Limited (the "Company") for the year ended 31 March 2020 which comprise the income statement, statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

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

Strategic Report and Directors' Report

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

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

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

Independent Auditor's Report to the Members of Earls Gate Energy Centre Limited *(continued)*

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

25 September 2020

Income statement
for the year ended 31 March 2020

	Note	Year ended 31 March 2020 £000	15 months ended 31 March 2019 £000
Other income	2	-	61
Operating expenses	2	(1)	-
Operating (loss)/profit		(1)	61
Finance costs	4	(23)	(5)
Net finance costs		(23)	(5)
(Loss)/profit before tax		(24)	56
Taxation	5	4	-
(Loss)/profit for the year/period		(20)	56

All results derive from continuing operations.

The notes on pages 16 to 35 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 March 2020

	Note	**Year ended 31 March 2020 £000**	15 months ended 31 March 2019 £000
(Loss)/profit for the year/period		**(20)**	56
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Cash flow hedges – effective portion of changes in fair value		**(7,577)**	(9,074)
Cost of hedging reserve – changes in fair value		**(138)**	(120)
Related tax	5	**1,650**	1,563
Other comprehensive expense for the year/period, net of tax		**(6,065)**	(7,631)
Total comprehensive expense for the year/period		**(6,085)**	(7,575)

The notes on pages 16 to 35 form an integral part of these financial statements.

Statement of financial position as at 31 March 2020

	Note	As at 31 March 2020 £000	As at 31 March 2019 £000
Non-current assets			
Interest in joint venture	6	**-**	-
Property, plant and equipment	7	**100,669**	40,132
Deferred tax assets	5	**3,217**	1,563
		103,886	41,695
Current assets			
Cash and cash equivalents	8	**1,703**	9,290
Trade and other receivables	9	**804**	2,617
		2,507	11,907
Total assets		**106,393**	53,602
Current liabilities			
Trade and other payables	10	**(8,868)**	(8,877)
		(8,868)	(8,877)
Non-current liabilities			
Loans and borrowings	11	**(78,440)**	(27,270)
Derivative financial liabilities	13	**(16,909)**	(9,194)
		(95,349)	(36,464)
Total liabilities		**(104,217)**	(45,341)
Net assets		**2,176**	8,261
Equity			
Share capital	12	**15,892**	15,892
Retained losses	12	**(20)**	-
Hedging reserves	12	**(13,696)**	(7,631)
Total equity		**2,176**	8,261

The notes on pages 16 to 35 form an integral part of these financial statements.

These financial statements were approved by the Board of directors on 24 September 2020 and were signed on their behalf by:

I D Cockburn
Director
Registered number: SC484891

Statement of changes in equity for the year ended 31 March 2020

	Share capital £000	Retained loss £000	Cash flow hedge reserve £000	Cost of hedging reserve £000	Total equity £000
Balance at 1 January 2018	-	(56)	-	-	(56)
Total comprehensive expense for the period					
Profit for the period	-	56	-	-	56
Total other comprehensive expense for the period	-	-	(7,531)	(100)	(7,631)
Total comprehensive income/(expense) for the period	-	56	(7,531)	(100)	(7,575)
Transactions with owners of the Company					
Issue of share capital	15,892	-	-	-	15,892
Total transactions with owners of the Company	15,892	-	-	-	15,892
Balance at 31 March 2019	15,892	-	(7,531)	(100)	8,261
Balance at 1 April 2019	**15,892**	-	**(7,531)**	**(100)**	**8,261**
Total comprehensive expense for the year					
Loss for the year	-	**(20)**	-	-	**(20)**
Total other comprehensive expense for the year	-	-	**(5,956)**	**(109)**	**(6,065)**
Total comprehensive expense for the year	-	**(20)**	**(5,956)**	**(109)**	**(6,085)**
Balance at 31 March 2020	**15,892**	**(20)**	**(13,487)**	**(209)**	**2,176**

The notes on pages 16 to 35 form an integral part of these financial statements.

Statement of cash flows for the year ended 31 March 2020

	Note	As at 31 March 2020 £000	As at 31 March 2019 £000
Cash flows from operating activities			
(Loss)/profit for the year/period		**(20)**	56
Adjustments for:			
Net finance costs	4	**23**	5
Tax credit	5	**(4)**	-
Other income	2	-	(61)
		(1)	-
Changes in:			
Trade and other receivables	9	**1,813**	(2,534)
Trade and other payables	10	**(9)**	6,895
Cash generated from operating activities		**1,803**	4,361
Interest paid		-	(5)
Net cash from operating activities		**1,803**	4,356
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	**(55,422)**	(36,273)
Acquisition of interest in a joint venture	6	-	-
Net cash used in investing activities		**(55,422)**	(36,273)
Cash flows from financing activities			
Proceeds from issue of share capital	12	-	15,892
Proceeds from loans and borrowings	11	**46,055**	26,573
Repayment of borrowings		-	-
Net cash from financing activities		**46,055**	42,465
Net (decrease)/increase in cash and cash equivalents		**(7,564)**	10,548
Cash and cash equivalents at the start of the year/period	8	**9,290**	(1,258)
Effect of movements in exchange rates on cash held		**(23)**	-
Cash and cash equivalent at the end of the year/period	8	**1,703**	9,290

The notes on pages 16 to 35 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Reporting entity

Earls Gate Energy Centre Limited is a private company limited by shares, incorporated in Scotland in the UK. The address of the Company's registered office is provided on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 5.

Summary of accounting policies which have been applied consistently in the year and the prior reporting period is presented below.

Basis of preparation

These financial statements were prepared in accordance with IFRS as adopted by the EU, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Basis of accounting

The Company prepares its financial statements on historical cost basis. Where carrying values of assets and liabilities are calculated on different basis, this is disclosed in the specific accounting policy.

The financial statements are presented in Sterling, and all values are rounded to the nearest thousand.

Disclosure of impact of changes to the accounting standards

New standards, amendments and interpretations effective for the reporting year are listed below. None of them had any relevant effect on the Company's financial statements.

Title	**Effective Date**
IFRS 16 – *Leases*	1 January 2019
IFRIC 23 – *Uncertainty over Tax Treatments*	1 January 2019
Amendments to IFRS 9 – *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to IAS 28 – *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to IAS 19 – *Plan Amendment, Curtailment or Settlement*	1 January 2019
Annual Improvements to IFRS 2015 – 2017 Cycle	1 January 2019

New standards, amendments and interpretations issued by the IASB but not yet effective and not applied in these financial statements are listed below. None of them are expected to have any relevant effect on the Company's financial statements.

Title	**Effective Date**
Amendments to References to Conceptual Framework in IFRS	1 January 2020
Amendments to IFRS 3 – *Definition of a Business*	1 January 2020
IFRS 17 – *Insurance*	1 January 2021
Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	N/A[1]

[1] Effective date deferred indefinitely but early adoption is permitted.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Going concern

Notwithstanding the net current liabilities of £6.36m (2019: net current assets of £3.03m) and net assets of £2.18m (2019: £8.26m) as at 31 March 2020, a loss for the year then ended of £20,000 (2019: profit of £56,000) and the net decrease in cash and cash equivalents in the year of £7.56m (2019: net increase of £10.55m), the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons outlined below.

After making enquiries, at the time of approving the financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future and committed the resources and credit lines to complete the construction of the plant. As at 31 March 2020, the Company has received £63.5m of funding from its parent company and £30.5m from third-party lenders. The Company has access to an additional £116.1m of committed funding lines from third-party lenders. This funding is expected to be sufficient to cover the remaining construction costs with a reasonable contingency allowance available in the budget for unforeseen or exceptional spend. Modelling of financial projections for the 25-year operational period of the plant indicates that the Company will generate sufficient revenues from its operations to service the debt, meet other liabilities as they fall due and generate significant value to the parent company and its shareholders.

The principal risks facing the business include the short, medium, and long-term risks typical for EfW projects similar in terms of size and stage of development, reliance on the EPC Contractor responsible for the construction of the CHP plant, the impact of COVID-19 and Brexit:

- The principal risks facing the Company in the short to medium term are associated with the safety of personnel working on site, potential delays to the construction of the plant and cost overruns. The longer term risks are associated with the post-construction operation and maintenance of the plant, ensuring continued off-take for the electricity and steam, maintaining the supply of the fuel necessary for operating the plant and managing the impact of any changes in the planning and environmental legislation. The directors have mitigated those risks by putting in place a fixed price EPC Contract for the construction of the plant, resourcing the Project with experienced personnel, implementing comprehensive protocols for monitoring of safety performance and measuring the spend and progress against budgets, appointing expert technical adviser as the Project Manager and a reputable O&M Contractor, putting in place long-term agreements for the supply of waste and offtake of steam and electricity, and including optional scopes of work within the EPC Contract to allow for future design and specification changes.
- The EPC Contractor is a wholly owned subsidiary of CNIM. Following the insolvency of CNIM's British civil engineering sub-contractor, CNIM have experienced financial difficulties during the year. The Company has, as far as possible, carefully considered and monitored the financial restructuring process undertaken by CNIM and believes, based on the facts available at the date of the approval of these financial statements, that CNIM, and therefore the EPC Contractor, have sufficient capital and credit backing to remain in business and deliver on their contractual obligations. The directors have carefully analysed the potential impact of a financial failure of CNIM and are satisfied that the risk is low. In the event of CNIM's failure, the Company would have immediate access to third-party bank bonding lines of £43.4m to help mitigate any additional spend that may be required to complete the construction of the plant. Further, Subscription and Shareholders' Agreement between the Company, its parent, and the shareholders of EGEC Holdings Limited provides a mechanism for injection of additional funding into the Company in the event when such funding is required.
- COVID-19 presents an ongoing business risk. Construction activities on the Project were stopped for two weeks during which time the site remained closed. While good progress has been made in key areas since the works restarted, restrictions associated with COVID-19 may have a longer-term impact on the supply chain for materials and components and on labour productivity rates. These risks are being pro-actively managed by the EPC Contractor. The Company expects COVID-19 to be a valid Force Majeure event under the terms of the EPC Contract, which, subject to certain conditions being satisfied, may entitle the EPC Contractor to an extension of time to complete the construction of the plant. The Company is discussing the contractual position with the EPC Contractor but, as at the date of the approval of these financial statements, has considered the likely costs and impact of a potential delay, as well as a possibility of further delays, and believes that there is sufficient contingency available in the Project budget to absorb any resulting costs. The Company continues to have the financial support of its parent, its parent's shareholders and the third-party lenders. A significant worsening of the COVID-19 crisis could result in additional costs and further disruption to the construction timeline for the Project. While this may ultimately result in a requirement for further equity investment from

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

***Going concern** (continued)*

EGEC Holdings Limited and its shareholders, the directors of the Company believe that such equity investments would not be material in the context of the longer-term value that will be generated from the Project over the 25-year operational life of the plant.

- Following the UK's departure from the EU on 31 January 2020, the UK has entered a transition period until 31 December 2020. This means that although the UK ceases to be an EU member, the trading relationship remains the same and the UK continues to follow the EU's rules, such as accepting rulings from the European Court of Justice. As a result of Brexit, it is possible that there will be greater restrictions on imports and exports between the UK and the EU countries and increased regulatory complexities. The situation continuous to be closely monitored by the Company and has not had any significant impact on the Company, its operations and the financial position in the year ended 31 March 2020 or the prior period. The directors have also analysed potential implications of Brexit on the operations of the Company going forward in terms of impact on labour, supply chain, custom tariffs and general macroeconomics, and consider the exposure of the Company to be low.

In considering the risks and uncertainties facing the Company, the directors have prepared financial forecasts for a period of at least twelve months from the date of the approval of these accounts. In addition, the directors have considered severe but plausible downside sensitivity scenarios to their projections to quantify the potential downside risks to financial performance. On this basis, and having considered the risks and uncertainties described above, the directors have a reasonable expectation that the Company has sufficient financial resources to meet its obligations as they fall due for at least the next twelve months. The directors have therefore concluded that it is appropriate to prepare these financial statements on the going concern basis.

Property, plant and equipment

Items of property, plant and equipment are stated at cost, net of accumulated depreciation and provisions for impairment.

Capitalised costs include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by the management. Borrowing costs that are directly attributable to the construction of a qualifying asset (which is an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the cost of the asset. Capitalisation ceases when substantially all activities that are necessary to prepare the asset for its intended use are complete.

Items of property, plant and equipment are not depreciated until they are fully commissioned and ready for use. From that point, they are depreciated following the straight-line method over their useful life, on the basis of the acquisition cost less any residual value. Land and assets under construction are not depreciated.

Where an item of property, plant and equipment comprises a major component having a different useful life, the component is accounted for as a separate item of property, plant and equipment, and is depreciated accordingly over its useful life.

Capitalised borrowing costs are depreciated over the expected life of the underlying asset to which they relate.

Assumptions regarding the useful life of the assets and residual values are reviewed by the management on annual basis.

Foreign currencies

These financial statements have been presented in Sterling, which is the functional currency of the Company.

Transactions denominated in foreign currencies are recorded in Sterling at actual exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange prevailing at the balance sheet date.

Gains and losses arising from changes in the exchange rates subsequent to the dates of transactions are included in the income statement, except for differences arising on the revaluation of qualifying cash flow hedges, which are recognised in the statement of profit or loss and other comprehensive income.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Taxation

The tax charge or credit for the period comprises both current and deferred tax.

Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Interests in joint ventures

Interests in joint ventures are recorded at cost (being the fair value of the consideration paid or payable) less provision for any impairment. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income and accumulated in the hedging reserve within equity.

Changes in the fair value of the element considered as "cost of hedging" is separately recognised in the costs of hedging reserve within equity.

The portion of gain or loss on a derivative financial instrument which is deemed to be ineffective is recognised in the income statement. The gains or losses that are recognised directly in equity are transferred to the income statement in the same year in which the forecast transaction actually occurs.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item, such as an item of property, plant and equipment, the amounts accumulated in the hedging reserve and the cost of hedging reserve are included directly in the initial cost of the non-financial item when it is recognised.

Non-derivative financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term deposits held at banks.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Non-derivative financial instruments *(continued)*

Trade and other receivables

Trade and other receivables are initially recognised at fair value and are subsequently measured at amortised cost, less provision for impairment.

Trade and other payables

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

Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of any transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Finance income and finance costs

Finance income includes interest income on funds invested and net foreign exchange gains. Finance costs include interest expense recognised in the income statement, hedge ineffectiveness and net foreign exchange losses recognised in the income statement.

Interest income or expense is recognised using the effective interest method.

Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation ceases when substantially all activities that are necessary to prepare the asset for its intended use are complete. On completion of the construction of the item of property, plant and equipment, the interest incurred on borrowings is charged to the income statement in the year in which it accrues.

Dividend income is recognised in the income statement on the date on which the right to receive the payment is established.

Leases

IFRS 16 *Leases* replaced IAS 17 and the related interpretations for the reporting periods effective from 1 January 2019. The Company holds only one low-value lease therefore the adoption of the standard in the current year has not had any material effect on the Company's financial statements.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

At the lease commencement date, a right-of-use asset and a lease liability are recognised. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the Company. After the lease commencement date, the right-of-use asset is measured using a cost model (at cost less accumulated depreciation and accumulated impairment).

The lease liability is initially measured at the present value of the lease payments payable over the term of the lease, discounted at the rate implicit in the lease, if such can be readily determined. If the rate cannot be readily determined, the Company's incremental borrowing rate is used. Where required, the lease liability is subsequently remeasured to reflect changes in the circumstances, with the effects of remeasurements treated as adjustments to the right-of-use asset.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Leases (continued)

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

Share capital

Ordinary shares are accounted for as equity. Costs associated with the issue of new shares are deducted from the proceeds of issue.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Fair value measurement

When such are available, the Company measures the fair values of its derivative financial instruments (interest rate swaps and forward exchange contracts) using the quoted prices in an active market for the instruments. A market is regarded as "active" if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Impairment

Items of property, plant and equipment and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Effective interest rate calculations

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability.

When calculating the effective interest rate for its loans and borrowings, the Company estimates the cash flows arising from the instrument by considering all of the contractual terms of the loan and taking into account the latest available forecasts in relation to the expected performance of the Company, if this may affect the timing and/or the amount of the cash flows. When estimates of cash flows are revised, the carrying amount of the loan is adjusted to reflect the actual and the revised estimated cash flows.

Deferred tax asset recoverability

Deferred tax assets in respect of tax losses and other temporary differences are not recognised unless there is sufficient evidence that the Company will generate sufficient profits for the deferred tax assets to be recoverable in the foreseeable future.

Notes to the financial statements *(continued)*

2 Expenses and auditor's remuneration

	Year ended 31 March 2020 £000	15 months ended 31 March 2019 £000
Included in the profit or loss are the following:		
Other income	**-**	(61)
Other expenses	**1**	-
	1	(61)

There was no other income in the year. Other income in the prior reporting period included income from the waiver of the amount owed to a Group undertaking.

	Year ended 31 March 2020 £000	15 months ended 31 March 2019 £000
Fees payable to the Company's auditor for the audit of the financial statements	**25**	23

3 Employees and directors

The Company had no employees during the current year or the prior period, and the directors received no remuneration during either the current year or the prior period in relation to their services to the Company.

4 Finance costs

	Year ended 31 March 2020 £000	15 months ended 31 March 2019 £000
Interest on other loans	**-**	5
Net foreign exchange loss	**23**	-
	23	5

Notes to the financial statements *(continued)*

5 Taxation

Amounts recognised in profit or loss	Year ended 31 March 2020 £000	15 months ended 31 March 2019 £000
Current tax:		
Current tax on (loss)/profit for the year/period	-	-
Total current tax	-	-
Deferred tax:		
Current year/period	4	-
Adjustment in respect of previous periods	-	-
Effect of changes in tax rates	-	-
Total deferred tax credit	4	-
Total tax credit	4	-

Amounts recognised in other comprehensive income	Year ended 31 March 2020 £000	15 months ended 31 March 2019 £000
Items that are or may be reclassified subsequently to profit or loss:		
Cash flow hedge reserve – deferred tax on effective portion of changes in fair value	1,621	1,543
Cost of hedging reserve – deferred tax on net change in fair value	29	20
Total tax credit	1,650	1,563

Notes to the financial statements *(continued)*

5 Taxation *(continued)*

Reconciliation of effective tax rate	**Year ended 31 March 2020 £000**	15 months ended 31 March 2019 £000
(Loss)/profit for the year/period	**(24)**	56
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	**(5)**	11
Effects of:		
Expenses not deductible	**1**	1
Tax rate changes	-	-
Movement in amounts previously not recognised	-	(12)
Total tax credit	**(4)**	-

Finance Bill 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur, and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at year-end.

Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Asset		**Liability**		**Net**	
	As at 31 March 2020 £000	As at 31 March 2019 £000	**As at 31 March 2020 £000**	As at 31 March 2019 £000	**As at 31 March 2020 £000**	As at 31 March 2019 £000
Property, plant and equipment	-	-	**(1,078)**	(111)	**(1,078)**	(111)
Temporary differences	**4**	111	-	-	**4**	111
Derivative financial instruments	**3,213**	1,563	-	-	**3,213**	1,563
Losses	**560**	-	-	-	**560**	-
Corporate interest restriction	**518**	-	-	-	**518**	-
Net tax assets/(liabilities)	**4,295**	1,674	**(1,078)**	(111)	**3,217**	1,563

Notes to the financial statements *(continued)*

5 Taxation *(continued)*

Deferred taxation *(continued)*

Movement in deferred tax during the year:

	At 1 April 2020 £000	Recognised in profit or loss £000	Recognised in other comprehensive income £000	At 31 March 2020 £000
Property, plant and equipment	(111)	(967)	-	(1,078)
Temporary differences	111	(107)	-	4
Derivative financial instruments	1,563	-	1,650	3,213
Losses	-	560	-	560
Corporate interest restriction	-	518	-	518
	1,563	4	1,650	3,217

Movement in deferred tax during the prior period:

	At 1 January 2018 £000	Recognised in profit or loss £000	Recognised in other comprehensive income £000	At 31 March 2019 £000
Property, plant and equipment	-	(111)	-	(111)
Temporary differences	-	111	-	111
Derivative financial instruments	-	-	1,563	1,563
	-	-	1,563	1,563

As at 31 March 2020, the directors consider that it is probable that the Company will generate sufficient profits in the foreseeable future against which the deferred tax assets can be realised. Deferred tax assets were therefore recognised accordingly.

6 Interest in joint venture

As at 31 March 2020, the Company held 50% interest in Earls Gate Gridco Limited, a company registered in Scotland (at Earls Road, Grangemouth, FK3 8XG) whose principal activity is the ownership, operation and maintenance of the grid infrastructure on the site where the Earls Gate Energy Centre CHP plant will be located. The interest is carried at its cost of £1 (2019: £1). In the opinion of the directors, the recoverable amount of the investment is at least equal to its carrying amount.

Notes to the financial statements *(continued)*

7 Property, plant and equipment

	Assets under construction £000	**Total £000**
Cost		
At 1 April 2019	40,132	40,132
Additions	60,537	60,537
At 31 March 2020	**100,669**	**100,669**
Depreciation		
At 1 April 2019	-	-
Charge for the period	-	-
At 31 March 2020	-	-
Net book value		
At 31 March 2020	**100,669**	**100,669**
At 31 March 2019	40,132	40,132

	Assets under construction £000	Total £000
Cost		
At 1 January 2018	3,162	3,162
Additions	36,970	36,970
At 31 March 2019	40,132	40,132
Depreciation		
At 1 January 2018	-	-
Charge for the period	-	-
At 31 March 2019	-	-
Net book value		
At 31 March 2019	40,132	40,132
At 31 December 2017	3,162	3,162

Assets under construction comprise development, planning and construction costs directly attributable to the development of the Project. The above balance as at 31 March 2020 includes £6.07m (2019: £0.69m) of capitalised interest on loans and borrowings. Interest on loans and borrowings is being capitalised in full as all loans and borrowings relate specifically to the assets under construction.

Notes to the financial statements *(continued)*

8 Cash and cash equivalents

	As at 31 March 2020 £000	As at 31 March 2019 £000
Cash at bank and in hand	**1,703**	9,290

9 Trade and other receivables

	As at 31 March 2020 £000	As at 31 March 2019 £000
Deposits	**370**	370
Other taxes and social security	**415**	833
Other receivables	**19**	1,414
	804	2,617

10 Trade and other payables

	As at 31 March 2020 £000	As at 31 March 2019 £000
Trade payables	**245**	2,172
Amounts owed to related parties	**28**	140
Accruals	**8,595**	6,565
	8,868	8,877

11 Loans and borrowings

	As at 31 March 2020 £000	As at 31 March 2019 £000
Amounts owed to Group undertakings	**53,355**	30,917
Senior debt	**25,085**	(3,647)
	78,440	27,270

Amounts owed to Group undertakings are represented by the loan notes held by EGEC Holdings Limited. Under the terms of the Loan Note Instrument entered into at Financial Close, loan notes accrue interest at a fixed rate, are unsecured and are subordinated to the senior debt. Included in the amount outstanding is £47.54m (2019: £30.22m)

Notes to the financial statements *(continued)*

11 Loans and borrowings *(continued)*

in relation to cash received and £5.81m (2019: £0.69m) of accrued interest, out of which £5.79m has been capitalised into the value of the loan note principal (2019: £0.69m) in accordance with the terms of the instrument. The loan notes have a final repayment date of November 2046.

Senior debt liability is represented by £30.52m of cash received by the Company under the Term Loan Facility entered into at Financial Close with third-party lenders. The carrying amount of the liability is presented net of £5.44m of financing fees paid in relation to the facility and the interest accrued under the effective interest method. The Company received no funds under the facility in the prior reporting period therefore the amount outstanding at 31 March 2019 was represented only by the financing fees paid to that point in accordance with the agreed terms.

12 Capital and reserves

Share capital

	As at 31 March 2020 £	As at 31 March 2019 £
Allotted, called up and fully paid		
15,891,657 (2019: 15,891,657) ordinary shares of £1 each	**15,891,657**	15,891,657

Retained losses

Retained losses represent accumulated profit and losses, net of dividends paid and other adjustments, and inclusive of any dividends received.

Cash flow hedge reserve

Cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Cost of hedging reserve

The cost of hedging reserve reflects gain or loss on the portion excluded from the designated hedging instrument that relates to the cross-currency basis.

13 Financial instruments

Financial risk management

Market risk

Foreign exchange risk

Foreign exchange risk derives from the underlying costs denominated in a foreign currency under the EPC Contract. The Company's policy was to manage this risk at Financial Close through forward exchange contracts which protect the variability in Sterling payments arising from the contracted costs denominated in the Euro currency.

The sensitivity analysis below describes possible movements in forward rates, with all other variables held constant, showing the impact on profit before tax and equity:

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Financial risk management *(continued)*

Market risk *(continued)*

Foreign exchange risk (continued)

	Effect on fair value of financial instruments £000	**Effect on profit before tax £000**	**Effect on equity £000**
31 March 2020			
Increase of 10% - EUR/GBP forward rate	**5,666**	**-**	**5,666**
Decrease of 10% - EUR/GBP forward rate	**(5,657)**	**-**	**(5,657)**

	Effect on fair value of financial instruments £000	Effect on profit before tax £000	Effect on equity £000
31 March 2019			
Increase of 10% - EUR/GBP forward rate	7,975	-	7,975
Decrease of 10% - EUR/GBP forward rate	(7,975)	-	(7,975)

Interest rate risk

Interest rate risk derives from the Company's exposure to changes in the value of an asset or a liability or future cash flows as a result of changes in the interest rates.

The Company's policy to manage this risk was to enter into interest rate swaps in respect of all loans with floating interest rates which were entered into at Financial Close. The exposure was hedged at Financial Close.

The sensitivity analysis below describes possible movements in interest rates, with all other variables held constant, showing the impact on profit before tax and equity:

	Effect on fair value of financial instruments £000	**Effect on profit before tax £000**	**Effect on equity £000**
31 March 2020			
Increase of 25 basis points	**3,885**	**-**	**3,885**
Decrease of 25 basis points	**(4,017)**	**-**	**(4,017)**

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Financial risk management *(continued)*

Market risk *(continued)*

Interest rate risk (continued)

	Effect on fair value of financial instruments £000	Effect on profit before tax £000	Effect on equity £000
31 March 2019			
Increase of 25 basis points	3,565	-	3,565
Decrease of 25 basis points	(3,698)	-	(3,698)

Price risk

The Company is not exposed to commodity price risk.

Credit risk

There is no credit risk associated with cash and cash equivalents and trade and other receivables. Derivatives have been entered into with banks with credit ratings above acceptable threshold.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

At Financial Close, the Company has entered into financing arrangements with the parent company and third-party lenders to secure the total funding required to cover the expected construction costs and contingencies, such that the Project is fully funded. To manage the liquidity risk, lenders were required to meet an acceptable credit rating threshold and the equity contributions from the parent were required to be provided in accordance with a fixed schedule.

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Financial risk management *(continued)*

Liquidity risk *(continued)*

The following are the contractual cash flows of all financial liabilities at the reporting date, including estimated interest payments:

At 31 March 2020		Contractual cash flows				
	Carrying amount £000	Total £000	1 year or less £000	1 to 5 years £000	5 to 10 years £000	More than 10 years £000
Non-derivative financial liabilities						
Trade and other payables	(8,868)	(8,868)	(8,868)	-	-	-
Amounts owed to Group undertakings	(53,355)	(165,221)	-	(25,588)	(36,624)	(103,009)
Senior debt	(25,085)	(41,298)	(996)	(7,777)	(12,593)	(19,932)
	(87,308)	(215,387)	(9,864)	(33,365)	(49,217)	(122,941)
Derivative financial liabilities						
Interest rate swaps used for hedging	(15,290)	(17,878)	(1,274)	(7,091)	(5,932)	(3,581)
Forward exchange contracts used for hedging	(1,619)	(1,641)	(1,086)	(555)	-	-
	(16,909)	(19,519)	(2,360)	(7,646)	(5,932)	(3,581)
Total financial liabilities	(104,217)	(234,906)	(12,224)	(41,011)	(55,149)	(126,522)

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Financial risk management *(continued)*

Liquidity risk *(continued)*

At 31 March 2019	Carrying amount £000	Contractual cash flows Total £000	1 year or less £000	1 to 5 years £000	5 to 10 years £000	More than 10 years £000
Non-derivative financial liabilities						
Trade and other payables	(8,877)	(8,877)	(8,877)	-	-	-
Amounts owed to Group undertakings	(30,917)	(97,916)	-	(12,579)	(24,355)	(60,982)
	(39,794)	(106,793)	(8,877)	(12,579)	(24,355)	(60,982)
Derivative financial liabilities						
Interest rate swaps used for hedging	(5,426)	(6,829)	(179)	(3,448)	(2,300)	(902)
Forward exchange contracts used for hedging	(3,768)	(3,975)	(1,499)	(2,476)	-	-
	(9,194)	(10,804)	(1,678)	(5,924)	(2,300)	(902)
Total financial liabilities	(48,988)	(117,597)	(10,555)	(18,503)	(26,655)	(61,884)

Fair values

Set out below is a comparison by class of the carrying amount and fair values of the Company's financial instruments that are carried in the financial statements:

	As at 31 March 2020 Carrying amount £000	**As at 31 March 2020** Fair value £000	As at 31 March 2019 Carrying amount £000	As at 31 March 2019 Fair value £000
Financial assets				
Trade and other receivables	**804**	**804**	2,617	2,617
Cash and cash equivalents	**1,703**	**1,703**	9,290	9,290
	2,507	**2,507**	11,907	11,907
Financial liabilities				
Trade and other payables	**(8,868)**	**(8,868)**	(8,877)	(8,877)
Derivative financial liabilities	**(16,909)**	**(16,909)**	(9,194)	(9,194)
Loans and borrowings	**(78,440)**	**(78,440)**	(27,270)	(27,270)
	(104,217)	**(104,217)**	(45,341)	(45,341)

Notes to the financial statements *(continued)*

13 Financial instruments *(continued)*

Basis of determination of fair values

The fair values of the financial assets and liabilities are included as an estimate of the amount at which the instruments could be exchanged in a current transaction between willing parties, other than a forced sale. The following methods and assumptions were used to estimate the fair values:

- The fair values of the Company's cash and cash equivalents, trade and other payables and trade and other receivables are not materially different from those at which they are carried in the financial statements due to the short-term nature of these instruments;
- The fair values of derivative contracts are recorded in the Company's statement of financial position and are determined by discounting the future cash flows estimated to be paid or received under those contracts using a valuation technique based on EUR/GBP spot and GBP forward points and rates derived from short term rates, futures, and swap rates.

14 Commitments

Leases

The Company leases the land at the Earls Gate Business Park in Grangemouth, where the Earls Gate Energy Centre CHP plant will be located. The term of the lease is 125 years from the date of entry of 18 December 2018. On the date of entry, a lease premium has been paid by the Company to the landlord. Under the terms of the lease, a nominal rent is payable annually in arrears, only if requested by the landlord.

Capital commitments

	As at 31 March 2020 £000	As at 31 March 2019 £000
Construction costs - contracted but not provided for	**89,581**	143,073

Contingencies

According to the requirements in the Connection and Use of System Code ("CUSC"), the Company will be liable for all related investments carried out by the transmission owner to the onshore grid infrastructure in order to accommodate the connection of the plant to the grid. Upon cancellation or reduction of the Project's capacity within a certain timeframe, the Company will be liable for all local works that have been carried out up to that point and for a percentage share of all related wider works whether or not these works have commenced. National Grid has forecasted such liability at £289,000 (inc. VAT) for the period from 1 April 2020 to 30 September 2020 and has requested a security for the total amount of £75,000. The Company has previously provided £182,000 in relation to the security required for the previous six-month period. Excess deposit amount of £107,000 was returned to the Company on 4 May 2020 with the required security of £75,000 still in place. The directors expect the construction of the plant to be successfully completed and therefore do not expect the contingent amounts to become payable.

COVID-19 may lead to additional costs being incurred by the Company as a result of the delays to the construction works and/or the impact of the pandemic on the wider supply chain. As at 31 March 2020, the amounts which may be required to settle these possible costs cannot be reliably estimated but the directors of the Company do not expect them to exceed the contingency available in the Project budget.

Notes to the financial statements *(continued)*

15 Related parties

Transactions in the year ended 31 March 2020

	Note	Development premium charges £000	Personnel cost charges £000	Other charges received £000	Interest charges £000	Other charges made £000	Amounts outstanding at 31 March 2020 £000
EGEC Holdings Limited	(i)	-	-	-	5,115	-	53,355
Brockwell Energy Limited	(ii)	-	-	32	-	-	28
Brockwell Energy Services Limited	(iii)	-	843	-	-	-	-
Covanta Energy Limited	(iv)	-	196	-	-	8	-
Covanta Projects LLC	(v)	-	126	-	-	-	-
Green Investment Group Limited	(vi)	-	44	-	-	-	9
		-	1,209	32	5,115	8	53,392

Transactions in the period ended 31 March 2019

	Note	Development premium charges £000	Personnel cost charges £000	Other charges £000	Interest charges £000	Amounts outstanding at 31 March 2019 £000
EGEC Holdings Limited	(i)	-	-	-	697	30,917
Brockwell Energy Limited	(ii)	7,657	178	812	-	14
Brockwell Energy Services Limited	(iii)	-	237	-	-	82
Covanta Energy Limited	(iv)	-	99	165	-	34
Green Investment Group Limited	(vi)	875	10	-	-	10
		8,532	524	977	697	31,057

i) During the year, the Company received £17.32m (2019: £30.22m) of funding from its parent company, EGEC Holdings Limited, under the terms of the Loan Note Instrument dated 18 December 2018. Interest accrued on the loan notes during the year was £5.12m (2019: £0.69m). The amount of £53.36m outstanding at 31 March 2020 (2019: £30.92) includes the balance of the funds received and the accrued interest.

ii) During the year, the Company has been charged £32,000 (2019: £812,000) by Brockwell Energy Limited in relation to certain costs related to the development and construction of the Project. The amount outstanding in relation to these recharges at 31 March 2020 was £28,000 (2019: £14,000).

There were no other transactions between the companies in the year. In the prior reporting period, the Company received certain funds from Brockwell Energy Limited and was also charged amounts in relation to personnel costs and Project development premiums which became payable at Financial Close.

iii) During the year, the Company has been charged £843,000 (2019: £237,000) by Brockwell Energy Services Limited for the services provided under the Principal Management Services Agreement dated 18 December 2018. As at 31 March 2020, there were no amounts outstanding in relation to those recharges (2019: £82,000).

Notes to the financial statements *(continued)*

15 Related parties *(continued)*

iv) During the year, the Company has been charged £196,000 (2019: £99,000) by Covanta Energy Limited in connection with the services provided to the Company under the Management Services Agreement dated 18 December 2018. As at 31 March 2020, there were no amounts outstanding in relation to those recharges (2019: £34,000). During the year, the Company also charged Covanta Energy Limited £8,000 (2019: £nil) with respect to certain shared consultancy costs. As at 31 March 2020, there were no amounts outstanding in relation to those recharges (2019: £nil).

There were no other transactions between the companies in the year. In the prior reporting period, the Company was also charged amounts in relation to other professional services provided by Covanta Energy Limited to the Company in connection with the development of the Project.

v) During the year, the Company has been charged £126,000 (2019: £nil) by Covanta Projects LLC, an affiliate of Covanta Green Earls Gate Holdings Limited (an owner of 50% interest in EGEC Holdings Limited) in connection with the services provided to the Company under the Management Services Agreement dated 18 December 2018. As at 31 March 2020, there were no amounts outstanding in relation to those recharges (2019: £nil).

vi) As at 31 March 2020, the Company owed £9,000 (2019: £10,000) to Green Investment Group Limited in relation to the recharges for the services provided under the Management Services Agreement dated 18 December 2018. As at 31 March 2020, the amounts have been provided for but not invoiced. Total costs, including the amounts provided for but not invoiced, charged to the Company in the year were £44,000 (£10,000).

There were no other transactions between the companies in the year. In the prior reporting period, the Company received certain funds from Green Investment Group Limited and was also charged amounts in relation to Project development premiums which became payable at Financial Close.

16 Parent and ultimate controlling party

The Company is a subsidiary undertaking of EGEC Holdings Limited who is the ultimate controlling party of the Company.

The only group in which the results of the Company are consolidated is that headed by EGEC Holdings Limited. The consolidated financial statements of EGEC Holdings Limited are available to the public and may be obtained from the registered address of EGEC Holdings Limited at Caledonian Exchange, 19a Canning Street, Edinburgh, EH3 8EG.