Moray Offshore Windfarm (East) Limited

Annual report and financial statements

Registered number 07101438

31 December 2017

Contents

Directors' report

Principal activity

The principal activity of the company during the year was to develop an offshore windfarm in the Moray Firth.

Research and development

Expenditure on research and development is written off to the Income Statement in the year in which it is incurred.

Business Review

- On 13 April 2017, the company issued a further 1,180,091 £1 Ordinary Shares to its parent company Moray Offshore Renewable Power Limited as part of a debt to equity conversion. This allowed part settlement for the current account balance with Moray Offshore Renewable Power Limited. Further to the debt to equity conversion, the remaining balance of the current account as at 13 April of £62,346,470 was converted to a short term interest bearing loan.

- On 28 April 2017, an agreement was reached for the purchase of 23.3% of the company's share capital by a 3rd Party. On 7 July 2017 , the purchase of the shares along with the purchase of 23.3% of the principle loan amount plus interest between the company and Moray Offshore Renewable Power Limited was fully completed.

- On 18 August 2017, the company submitted a bid to the 2nd round of the UK Government's Contract for Difference ("CfD") auction scheme. Receiving a CfD award will secure revenues associated with the project. On 11 September 2017, it was announced that the company had been successful and had been awarded a CfD.

Proposed dividend

The directors do not recommend the payment of a dividend (2016:nil).

Directors

The directors who held office during the year and up to the date of this report were as follows:
J P Nogueira de Sousa Costeira
E Garcia-Conde Noriega
B J Rodriguez Sanchez
M Dias Amaro (resigned 26 September 2017)
D H Finch
M A P Balboa (appointed 14 June 2017 and resigned 17 November 2017)
M M V Menendez (appointed 14 June 2017 and resigned 23 March 2018)
D G Alcock (appointed 5 July 2017)
M M Maino (appointed 5 July 2017)
J P Burnay Summavielle (appointed 13 December 2017)
Nicolas Lescal (appointed 22 March 2018 and resigned 24 March 2018)
K Suzuki (appointed 23 March 2018)
T Nobuhara (appointed 23 March 2018)

Directors' report *(continued)*

Political contributions

The Company did not make any political donations or incurred any political expenditure during the year.

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.

Auditor

Following an audit tender conducted in 2017, PricewaterhouseCoopers LLP, was selected as auditor for Moray Offshore Windfarm (East) Limited. Accordingly, it is intended that PricewaterhouseCoopers LLP will be appointed to replace KPMG LLP as auditor for the year ending 31 December 2018.

By order of the board

D. H. Finch

Daniel Henry Finch
Director

14-18 City Road
Cardiff
CF24 3DL

21 June 2018

Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs 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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs 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.

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORAY OFFSHORE WINDFARM (EAST) LIMITED

Opinion

We have audited the financial statements of Moray Offshore Windfarm (East) Limited ("the company") for the year ended 31 December 2017 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, 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 December 2017 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' report

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

Our responsibility is to read 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 directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORAY OFFSHORE WINDFARM (EAST) LIMITED (continued)

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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.

Katie Morrison (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

28 June 2018

Income Statement
for year ended 31 December 2017

	Note	2017 £000	2016 £000
Other Operating Income	2	**4,984**	10,584
Administrative expenses		**(4,444)**	(4,205)
Other operating expenses	2	**(61)**	(7,164)
Operating Profit / (Loss)	3	**479**	(785)
Financial expenses	5	**(1,103)**	(532)
Loss before tax		**(624)**	(1,317)
Taxation	6	**-**	-
Loss for the year		**(624)**	(1,317)

There were no items other than the loss of the financial year included within total comprehensive income.

The result for the year has been derived from continuing activities.

Balance Sheet
at 31 December 2017

	Note	2017 £000	2016 £000
Non-current assets			
Property, Plant and equipment	7	88,836	70,648
Investments in subsidiaries	8	-	-
		88,836	70,648
Current assets			
Trade and other receivables	9	1,266	2,841
Cash and cash equivalents	10	813	218
		2,079	3,059
Total assets		90,915	73,707
Current liabilities			
Other interest-bearing loans and borrowings	11	73,424	60,648
Trade and other payables	12	9,427	5,649
		82,851	66,297
Non-current liabilities			
Provisions	14	5,272	5,174
Deferred Income	13	1,145	1,145
		6,417	6,319
Total liabilities		89,268	72,616
Net assets		1,647	1,091
Equity			
Share capital	15	10,000	8,820
Retained earnings		(8,353)	(7,729)
Total equity		1,647	1,091

These financial statements were approved by the Board of directors on 14 June 2018 and were signed on its behalf by:

Daniel Henry Finch
Director

Company registered number: 07101438

Statement of Changes in Equity

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2016	8,820	(6,412)	2,408
Loss for the year	-	(1,317)	(1,317)
Total comprehensive loss for the year	-	(1,317)	(1,317)
Balance at 31 December 2016	**8,820**	**(7,729)**	**1,091**

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	8,820	(7,729)	1,091
Loss for the year	-	(624)	(624)
Total comprehensive loss for the year	-	(624)	(624)
Transactions with owners, recorded directly in equity			
Issue of shares	1,180	-	1,180
Total contributions by and distributions to owners	1,180	-	1,180
Balance at 31 December 2017	**10,000**	**(8,353)**	**1,647**

Cash Flow Statement
for year ended 31 December 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Loss for the year		**(624)**	(1,317)
Adjustments for:			
Depreciation		**2,522**	630
Unwinding of Provision		**98**	25
		1,996	(662)
Decrease/(Increase) in trade and other receivables	*9*	**1,575**	(2,751)
Increase/(Decrease) in trade and other payables	*12*	**3,777**	(2,143)
		5,353	(4,894)
Net cash from operating activities		**7,348**	(5,556)
Cash flows from investing activities			
Capitalised development expenditure		**(20,710)**	(6,168)
Net cash from investing activities		**(20,710)**	(6,168)
Cash flows from financing activities			
Proceeds from the issue of share capital	*15*	**1,181**	-
Proceeds from new loan	*16*	**17,108**	60,648
Repayment of borrowings	*16*	**(4,331)**	(50,382)
Net cash from financing activities		**13,958**	10,266
Net increase/(decrease) in cash and cash equivalents		**595**	(1,458)
Cash and cash equivalents at 1 January 2017		**218**	1,676
Cash and cash equivalents at 31 December 2017	*10*	**813**	218

Notes

(forming part of the financial statements)

1 Accounting policies

Moray Offshore Windfarm (East) Limited (the "Company") is a company incorporated and domiciled in the UK.

The registered number is 07101438 and the registered address is 14/18 City Road, Cardiff, CF24 3DL

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 31 December 2017 for the purposes of the transition to Adopted IFRSs.

1.1 Change in accounting policy

During the year ended 31 December 2014 the company applied FRS 101 Reduced Disclosure Framework for the first time. The company accounts for the year ended 31 December 2014 set out an explanation of how the transition to FRS101 had affected the reported financial position and financial performance of the company. During the year ended 31 December 2017, and as a result of the changing ownership of the company, the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under EU IFRS. In the transition to EU IFRS from FRS 101, the company has made no transitional adjustments and has not adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (FRS101). This is due to the fact that the underlying accounting principles within EU IFRS are the same for FRS101. There are however additional disclosures which are now required including preparation of a cash flow statement and additional notes of Key Management Personnel (KMP) and Financial Instruments. The company has adopted the following IFRSs in these financial statements:

Amendments to IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations.

Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation.

Amendments to IAS 27 - Equity Method in Separate Financial Statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment entities

Adoption of IAS 2,IFRS 10, IFRS 12

Annual Improvements to IFRSs – 2012-2014 Cycle

Disclosure Initiative – Amendments to IAS 1.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

1.3 Going concern

The shareholders have indicated they will continue to provide such funds as are necessary to enable Moray Offshore Windfarm (East) Limited to continue to trade and to meet its liabilities as they fall due and that the shareholders will not seek repayment of the amounts currently made available..

Based upon the undertaking of financial support outlined above, and after making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the company's annual financial statements.

Notes *(continued)*

1 Accounting policies (continued)

1.4 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Income Statement.

1.5 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes *(continued)*

1 Accounting policies (continued)

1.7 Property, plant and equipment

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Windfarm assets (under construction) 24.75 years
- Plant and equipment 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.
Plant & equipment refers to the Offshore Met Mast. As a consequence of an incident in 2014, the estimated useful life has been reduced from 30 years to 5 years. The asset has been formally commissioned and has been fully operational since October 2016. In line with company policy, depreciation for the Offshore Met Mast is subsequently capitalised to the Windfarm asset.

1.8 Cost Contribution from The Crown Estate

Cost contribution from The Crown Estate in respect of capital expenditure is credited to the profit and loss account over the period of the estimated useful life of the relevant fixed assets. The cost contributions shown in the balance sheet represent cost contributions received or receivable to date, less the amounts so far credited to profits.

1.9 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes *(continued)*

1 Accounting policies (continued)

1.10 Impairment

Financial assets (including receivables)

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

1.11 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.12 Expenses

Financing income and expenses

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

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

Notes *(continued)*

1 Accounting policies (continued)

1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 balance sheet 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 temporary difference can be utilised.

1.14 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied in these financial statements:

- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- IFRS 16 Leases (effective date 1 January 2019).
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).
- IFRS 9 Financial Instruments (effective date 1 January 2018).
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).

Their adoption is not expected to have a material effect on the financial statements as the company is not yet fully trading.

Notes *(continued)*

2 Other operating income and expenses

	2017 £000	2016 £000
Other Operating Income - Insurance Claim Income	-	(6,486)
Other Operating Income – Staff & Management Fee Recharge	(4,984)	(4,098)
Other Operating Expenses	61	7,164
	(4,923)	(3,420)

Other Operating Income – Staff & Management Fee Recharge relates to Other Expense- Management Fee Recharge in Note 3 and Finance Income – Loan Interest in Note 5.

3 Expenses and Auditor's remuneration:

Included in the Profit/(Loss) are the following;

	2017 £000	2016 £000
Audit of these financial statements	15	10
Staff & Management Fee Recharge	4,091	4,098
	4,106	4,108

Other Expense – Staff & management Fee Recharge relates to Other operating Income Staff & Management Fee recharge in Note 2.

4 Staff numbers and costs

The average number of persons employed by the Company during the year, analysed by category, was as follows:

	Number of employees 2017	2016
Administration	3	-
Technical	1	-
	4	-

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	12	-
Social security costs	1	-
	13	-

Notes *(continued)*

4 Staff numbers and costs *(continued)*

Directors' Remuneration

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by Group Companies of the Respective Shareholder Companies and were remunerated through those companies. The directors did not provide any material qualifying services to the Company.

5 Financial Expenses

	2017 £000	2016 £000
Unwind of discount on provisions	98	25
Net foreign exchange loss	112	507
Loan interest from group company	747	30
Loan interest from non-group company	146	-
Total finance expense	1,103	562

Finance Income & Expense – Borrowing Costs are capitalised as part of the cost of the asset, and are included in Note 7 and Other Operating Income in Note 2. The amount of borrowing costs capitalised during the period was £893,262 (2016: £29,842) with a capitalisation rate of 100% (2016: 100%).

6 Taxation

Recognised in the income statement

	2017 £000	2016 £000
Corporation tax expense	-	-
Current tax expense	-	-
Deferred tax expense	-	-
Total tax expense	-	-

6 Taxation (continued)

Reconciliation of effective tax rate

	2017 £000	2016 £000
Loss for the year	(624)	(1,317)
Total tax expense	-	-
Loss excluding taxation	(624)	(1,317)
Tax using the UK corporation tax rate of 19.25% (2016 20 %)	(120)	(263)
Non-deductible expenses	32	5
Current year losses for which no deferred tax asset was recognised	(88)	(259)
Total tax expense	-	-

Reductions in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

A deferred tax asset amounting to £1,806,368 (2016: £1,414,768) has not been recognised in respect of excess expenses realised in the period. This deferred tax asset not recognised is comprised of tax losses carried forward to future periods of £293,233 and other temporary differences of £1,513,135. These deferred tax assets have not been recognised due to uncertainty regarding the recoverability of these assets at the balance sheet date.

Notes *(continued)*

7 Property, Plant & Equipment

	Offshore Met Mast	Wind Farm Asset	
	Plant and equipment	**Under construction**	**Total**
	£000	**£000**	**£000**
Cost			
Balance at 1 January 2016	18,228	52,630	70,858
Additions	129	6,039	6,168
Balance at 31 December 2016	18,357	58,669	77,026
Balance at 1 January 2017	18,357	58,669	77,026
Additions	-	20,710	20,710
Balance at 31 December 2017	18,357	79,379	97,736
Depreciation and impairment			
Balance at 1 January 2016	(5,749)	-	(5,749)
Depreciation charge for the year	(630)	-	(630)
Balance at 31 December 2016	(6,379)	-	(6,379)
Balance at 1 January 2017	(6,379)	-	(6,379)
Depreciation charge for the year	(2,522)	-	(2,522)
Balance at 31 December 2017	(8,901)	-	(8,901)
Net book value			
At 1 January 2016	12,480	52,630	65,110
At 31 December 2016 and 1 January2017	11,979	58,669	70,648
At 31 December 2017	**9,457**	**79,379**	**88,836**

The amount of borrowing costs capitalised during the period was £893,262 (2016: £29,842) with a capitalisation rate of 100% (100%).

Impairment loss

Plant and equipment values reported above relate solely to the Offshore Meteorological Mast (Offshore Met Mast). The purpose of the Offshore Met Mast is to host instrumentation used to measure and gather information regarding both wind speed and power. This information is then used to perform calculations to determine the most efficient location of the wind turbines within the wind farm.
In September 2014, the installation process for the Offshore Met Mast commenced, however during October of that year the Offshore Met Mast was struck by a nearby vessel which caused significant damage to the base and the main mast structure. This led to the requirement to recognise an impairment of £3,917,215 in the profit and loss statement in 2014. A further impairment of £1,831,448 was recognised in 2015 in line with revised useful life estimations. The asset is now operational and has been since October 2016.

Notes *(continued)*

8 Investments in Subsidiaries

	£000
Cost and Carrying Value at 31 December 2016 and 31 December 2017.	-

The Company has the following investments in subsidiaries:

Registered office address			Class of shares held	Ownership 2017	2016
Telford Offshore Windfarm Limited 1st Floor, 14/18 City Road, Cardiff, CF24 3DL	Dormant Company	England and Wales	£1 Ordinary Shares	100%	100%
MacColl Offshore Windfarm Limited 1st Floor, 14/18 City Road, Cardiff, CF24 3DL	Dormant Company	England and Wales	£1 Ordinary Shares	100%	100%
Stevenson Offshore Windfarm Limited 1st Floor, 14/18 City Road, Cardiff, CF24 3DL	Dormant Company	England and Wales	£1 Ordinary Shares	100%	100%

9 Trade and other receivables

	2017 £000	2016 £000
Other trade receivables	1,081	33
Prepayments	185	2,653
Amounts owed by related parties	-	155
	1,266	2,841

10 Cash and cash equivalents

	2017 £000	2016 £000
Cash and cash equivalents per balance sheet	813	218
Cash and cash equivalents per cash flow statements	813	218

Notes *(continued)*

11 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 16.

	2017 £000	2016 £000
Current liabilities		
Interest bearing Loans	73,424	-
Amounts owed to group undertakings	-	60,648
	73,424	60,648

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £000	Carrying amount 2017 £000	Face value 2016 £000	Carrying amount 2016 £000
Moray Offshore RPL	GBP	1.86463%	2018	56,316	56,316	60,648	60,648
Delphis Holdings Ltd	GBP	1.86463%	2018	17,108	17,108	-	-
				73,424	73,424	60,648	60,648

Loan agreements with both Shareholders dated 7 July 17 state that repayment is due on the earlier of 1st anniversary (7 July 2018) or financial close – financial close is currently set for Q4 2018.

Notes *(continued)*

12 Trade and other payables

	2017	2016
	£000	£000
Current		
Trade payables due to related parties	2,685	1,956
Other trade payables	659	93
Non-trade payables and accrued expenses	6,083	3,600
	9,427	5,649

13 Non-Current Liabilities

	2017	2016
Other payables – Deferred Income	1,145	1,145
	1,145	1,145

14 Provisions

	Decommissioning Provision £000
Balance at 1 January 2017	5,174
Unwinding of discounted amount	98
Balance at 31 December 2017	**5,272**
Non-current	5,272
	5,272

A decommissioning provision was recognised at the end of 2014 in respect of the removal of the Offshore Met Mast and the obligation to restore the seabed at the end of the asset's useful life, with an additional provision recognised in 2015 in line with the revised useful life of 5 years. The asset became operational in October 2016 and so unwinding of the provision has commenced from this date.

Notes *(continued)*

15 Capital and reserves

Share capital

In thousands of shares	Ordinary shares 2017	2016
On issue at 1 January 2017	8,820	8,820
Issued for cash	1,180	-
On issue at 31 December 2017 – fully paid	10,000	8,820

	2017 £000	2016 £000
Allotted, called up and fully paid	10,000	8,819
Ordinary Shares of £1 each	10,000	8,819
Shares classified in shareholders' funds	10,000	8,819

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 5 December 2016, an SH01 form was inadvertently filed via web filing to Companies House against Moray Offshore Windfarm (East) Limited in relation to the issued share capital of the company. The aforementioned SH01 form should have been registered against the immediate parent company 'Moray Offshore Renewable Power Limited'. As at 6 January 2017, a claim was lodged with the High Court of Justice requesting that an order be issued by the Court to allow Companies House to delete the incorrect filing against Moray Offshore Windfarm (East) Limited. A court order was granted on 15 March 2017 to rectify the register of the Company.

On 13 April 2017, the company issued a further 1,180,091 £1 Ordinary Shares as part of a debt to equity conversion.

Notes *(continued)*

16 Financial instruments

16 (a) Fair values of financial instruments

The fair values of all financial assets and financial liabilities with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2017 £000	Fair value 2017 £000	Carrying amount 2016 £000	Fair value 2016 £000
Loans and receivables				
Cash and cash equivalents (note 10)	813	813	218	218
Other loans and receivables (note 9)	1,266	1,266	2,841	2,841
Total loans and receivables	2,079	2,079	3,059	3,059
Total financial assets	2,079	2,079	3,059	3,059
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 11)	73,424	73,424	60,648	60,648
Trade and other payables (note 12)	9,427	9,427	5,649	5,649
Total financial liabilities measured at amortised cost	82,851	82,851	66,297	66,297
Total financial liabilities	82,851	82,851	66,297	66,297
Total financial instruments	(80,772)	(80,772)	(63,238)	(63,238)

The Company funds its operations from operating cash flow, and shareholders' loans. The objective is to achieve a capital structure with an appropriate cost of capital whilst providing flexibility in immediate and medium-term funding to accommodate any material investment requirements.

The Company's principal financial instruments comprise borrowings, cash and other items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Company's operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments is undertaken for speculative purposes.

There has been no significant change to the Company's exposure to market risks during 2017. The principal risks arising are liquidity risk, with the secondary risk being interest rate risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 2017.

Notes *(continued)*

16 Financial instruments (continued)

16 (b) Liquidity risk

Financial risk management

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

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2017			2016		
	Carrying amount £000	**Contractual cash flows £000**	**1 year or less £000**	Carrying amount £000	Contractual cash flows £000	1 year or less £000
Non-derivative financial liabilities						
Other Interest Bearing loans	**73,424**	**625**	**73,424**	60,648	-	60,648
Trade and other payables	**9,427**		**9,427**	5,649	-	5,649
	82,851	**625**	**82,851**	66,297	-	66,297

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities. The Board of Directors manages this risk. The company only has Shareholder Loans and funding is called from the Shareholders monthly to facilitate the Company's liquidity needs. The Loan is agreed at a set rate for the duration. The maturity profile of debt outstanding at 31 December 2017 is set out in note 11 to the financial statements.

16 (c) Interest rate risk

The Company finances its business through a mixture of equity and Shareholder Loans. The Company borrows in GBP at a fixed rate of interest (LIBOR at date of loan agreement + 1.20%). It was not considered necessary to cover current interest rate exposures by the use of financial instruments during 2017.

17 Contingencies

On 15 February 2017, an amended Letter of Credit was issued by BNP Paribas to the benefit of National Grid to the value of £669,310 for the period 1 April 2017 to 30 September 2017.

On 11 August 2017, a further amended Letter of Credit was issued by BNP Paribas to the benefit of National Grid to the value of £389,625 and on 17 August 2017, a new Letter of Credit was issued by Lloyds Bank plc to the benefit of National Grid to the value of £118,360. Both letters are for the period 1 October 2017 to 31 March 2018 and replaces the letter mentioned above.

On 22 November 2017 a new Letter of Credit was issued by Lloyds Bank Plc to the benefit of National Grid for £167,760 and on 24 November 2017, a new letter of credit was issued by BNP Paribas to the benefit of National Grid for £522,240. Both letters relate to an indemnity agreement signed with National Grid on 31 October 2017.

Potential Liabilities for the company are in relation to cancellation liabilities included within several EPCI contracts, these liabilities are covered by Parent Company Guarantees.

Notes *(continued)*

18 Related parties

Identity of related parties with which the Company has transacted
From January 2017 to April 2017, Moray Offshore Renewable Power Limited advanced a loan to the Company. On 13 April 2017, the company issued a further 1,180,091 £1 Ordinary Shares to its parent company Moray Offshore Renewable Power Limited as part of a debt to equity conversion. This allowed part settlement for the current account balance with Moray Offshore Renewable Power Limited. Further to the debt to equity conversion, the remaining balance of the current account as at 13 April of £62,346,470 was converted to a short term interest bearing loan. At the period end £56,316,334 (2016: £60,647,567) remains outstanding and is included within 'Other Interest Bearing Loans and Borrowings' in Note 11 above.

On 28 April 2017, an agreement was reached for the purchase of 23.3% of the company's share capital by Delphis Holdings Limited. On 7 July 2017, the purchase of 23.3% shares along with 23.3% of the principle loan amount plus interest (£15,317,478) between the company and Moray Offshore Renewable Power Limited was completed by Delphis Holdings Limited. At the year-end £17,107,840 (2016: Nil) remains outstanding and is included within 'Other interest Bearing Loans and Borrowings' in Note 11 above.

During the year, EDPR UK Limited recharged staff costs and management fees of £4,091,000 (2016: £4,098,39), of which £4,091,000 was capitalised. At the period end, a total of £2,685,000 remains outstanding and is included within 'Trade Payables due to related Parties' in Note 12 above.

During the year, Moray Offshore Windfarm (West) Limited was recharged from the company for costs incurred of £163,755 but there is no balance outstanding at the period end as this has all been paid in full.

At the year-end there were accruals for staff recharges due to be received from Delphis Holdings Limited of £10,911 and Diamond Generating Europe Limited of £75,858.

The key management of the Company are considered to be the directors of the entity – refer to note 4 for disclosures relating to directors' remuneration.

19 Ultimate parent company and parent company of larger group

The company is controlled by its shareholders. The current shareholders are Moray Offshore Renewables Power Limited at 76.6% and Delphis Holdings Limited at 23.3%. An agreement between all shareholders is required for any significant transactions no majority shareholder can make a decision without all parties agreement. Moray Offshore Windfarm (East) Limited is not part of a larger group.

20 Subsequent events

On 18 December 2017 an incorrect confirmation statement was submitted to Companies House. An amended confirmation statement was submitted on 5 February 2018..

On 8 February 2018, an amended letter of credit was issued by BNP Paribas to the benefit of National Grid to the value of £452,261 for the period of 1 April 2018 to 30 September 2018. This letter replaces the letter dated 11 August 2017 detailed in note 17 above.

On 13 February 2018 an amended letter of credit was issued by Lloyds Bank Plc to the benefit of National Grid to the value of £146,501 for the period 1 April 2018 to 30 September 2018. This letter replaces the letter dated 17 August 2017 detailed in note 17 above.

On 23 March 2018, the purchase of 20% of the company's share capital, along with 20% of the outstanding loan and interest at this date (£17,559,750 and £190,788 respectively), was fully completed.

As a result of CFD award, on the 2 Feb 2018 the company entered into the following Hedging transactions:- CPI Swap, Interest Rate Swap, Foreign Exchange Forwards and Par Forwards.

Notes *(continued)*

21 Accounting estimates and judgements

Impairment calculations

The impairment of the Offshore Met Mast was calculated based upon the present expected costs required in order to repair the asset and return it to a state of full functionality.

Impairment of non-financial assets

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

The recoverable amount of an asset is the greater of its value in use and it fair value less costs to sell.

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

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

Capitalisation of Assets

Property, plant & equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

The cost of acquisition includes interest on external financing and personnel costs and other internal expenses directly or indirectly related to work in progress accrued solely during the period of construction.

Dismantling and Decommissioning Provision

The company recognises dismantling and decommissioning provisions for property, plant and equipment when a legal or contractual obligation is settled to dismantling and decommissioning those assets at the end of their useful life.

The provisions correspond to the present value of the expenditure expected to be required to settle the obligation and are recognised as part of the initial cost or an adjustment to the cost of the respective asset, being depreciated on a straight line basis over the asset's useful life.

Decommissioning and dismantling provisions are measured on an annual basis based on the best estimate of the settlement amount. The unwinding of the discount at each balance sheet date is charged to the profit and loss.