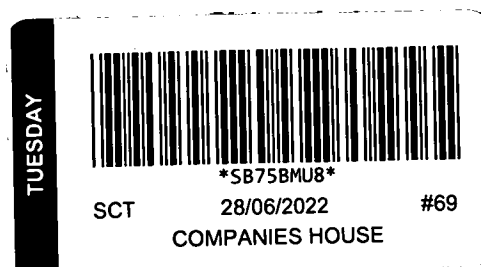


Moray Offshore Windfarm (East) Limited

Annual report and financial statements

Registered number 07101438

For the year ended 31 December 2021



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Directors' report

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

The registered number is 07101438 and the registered address is Shepherd And Wedderburn LLP Octagon Point, 5 Cheapside, London, England, EC2V 6AA effective 15 December 2021, previously Octagon Point, 5 Cheapside London EC2V 6AA.

Principal activities

The principal activity of the Company during the year was to develop and construct an offshore windfarm in the Moray Firth and this activity was set to continue until the completion of construction.

During the year, in a phased manner the Wind turbine generators ('WTGs') started coming online, leading to electricity being generated and sold by the Company. During the year, the Company was undertaking both construction activities and also generating electricity which was being sold to offtakers under the Power Purchase Agreements ('PPAs'). The Company transitioned fully to its operations and maintenance phase following Commercial Operations Date ('COD') which was achieved on 1 April 2022.

Business Review

The key milestone the Company was working towards during the year was ongoing construction of the windfarm.

Key developments during the year are set out below:

- On 14 Jan 2021, the first WTG was installed.
- Also in January 2021, the Revised Indicative Transfer Value was prepared for submission to the OFTO Transaction Committee on 26 January 2021 for subsequent Board approval. This approval started a series of works related to the OFTO sale process which is expected to be completed by October 2022.
- In March 2021, the first phase of the Offshore Metmast Phase 1 of the decommissioning project was completed.
- On 8 May 2021, the SUBS (Sub-structures) work package was also completed.
- In June 2021, the installation of Wind turbine generator was progressing to plan, 52 Wind turbine generators were installed, 9 commissioned, 8 in test run; move to berth 3 at completed.
- In the same period, part 2 of the campaign on IACS (Inter-array cables) was completed.
- June 2021 also marked the first period when the Company generated electricity which was sold to the PPA offtakers.
- In July 2021, OFGEM approved the Initial Transfer Value of the OFTO assets. This was followed by a launch of tender for OFTO assets bidding in August 2021.
- On 5 August 2021, the offshore wind farm was visited by the Prime Minister and Business Minister of the United Kingdom.
- On 7 August 2021, the OSEC (Offshore export cable) package was completed.
- On 21 October 2021, the Managing Director of Ocean Winds UK Limited, the Cabinet Secretary for Net Zero, Energy and Transport and CEO of EDP inaugurated the Operations and Maintenance base of the Company in Fraserburgh.
- In December 2021, the Company amended its majority of the finance arrangements including borrowings and hedges to give effect to the announced end of the LIBOR GBP for 31 December 2021. The LIBOR benchmarks were thus replaced by SONIA benchmarks.
- On 20 December 2021, the potential OFTO bidders submitted their bids for the prospective purchase of transmission assets.
- On 28 December 2021, the last 30 of the 100 WTGs were commissioned.

Post year end, the Project achieved Commercial Operations Date as planned on 1 April 2022.

Directors' report *(continued)*

Key performance indicators

Given the Company's current activities and status of the construction project, analysis of performance for the year to 31 December 2021 by the directors and senior management is conducted using specific KPIs including metrics focused on health & safety, quality, and the project's status and position versus forecasts. The directors are satisfied with the development of the construction during the year and its position at the year-end.

Result and proposed dividend

The Company's profit for the year was £87,144k (2020: £1,036k). The directors do not recommend the payment of a dividend (2020: Nil). The results for the year are detailed in the Income statement which is set out on page 11. The financial position is set out on page 13.

Directors

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

S J Altria
O Diaz Martin-Forero
D H Finch
G Gorski
B J R Sanchez (Appointed on 30 November 2021)
M R Haindaday
I Herrero
F Kumura
M M Maino
S Martinis Spettel (Resigned 30 November 2021)
S W Thompson
Y Umemura

Directors' qualifying third party indemnity provisions

As permitted by the Articles of Association the Directors have the benefit of an indemnity provision which is a qualifying indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Principal risks and uncertainties

The principal risks facing the Company are listed below:

Construction risk:

Cost overruns and delays to construction of the windfarm are short to medium term risks facing the Company. To mitigate against this risk the Company has entered into several EPCI contracts which were signed and completed prior to financial close. During the year, the COVID 19 virus has also affected the regular construction activity but to date there has not been a significant impact on the construction activities and financial results of the Company.

Financial risk management:

Foreign exchange risk – The Company is a GBP functional currency entity which incurs a certain portion of its construction costs in EUR and USD, exposing the Company to exchange rate fluctuations between GBP and EUR and GBP and USD. The Company's risk management strategy is to protect the Company against adverse fluctuations in foreign exchange rates by using FX forward contracts to reduce its exposure to variability from foreign exchange impacting cash flows arising from Company's foreign currency denominated fixed asset construction cost cash flows to the extent that it is practicable and cost effective to do so.

Interest rate risk – The Company is partially funded using long-term floating rate GBP loans that expose the Company to potential variability in interest rates. The Company's risk management strategy is to protect the Company against adverse fluctuations in interest rates utilising pay fixed receive float interest rate swaps to reduce its exposure to variability in cash flows on the Company's forecasted floating-rate debt facility to the extent that it is practicable and cost effective to do so.

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

Inflation risk – The Company future revenues from power generation will be contractually indexed to UK CPI, exposing the Company to variability in future forecast revenue from changes in UK CPI. The Company's risk management strategy is to protect the Company against adverse fluctuations in UK CPI rates by reducing its exposure to variability in cash flows on the Company's forecasted revenues using receive fixed pay float inflation swaps to hedge the contractually specified CPI component of future forecasted revenues to the extent that it is practicable and cost effective to do so.

Capital, liquidity and credit risk management – The Company funded the construction of the windfarm through project finance which comprised of borrowings from a consortium of external lenders and shareholders in Moray East Holdings Limited. These facilities are to be repaid over the life of the windfarm with maturities varying based on the type of facility utilised. With the shift to operational phase, the Company is expected to fund its operations from operating cash flow. The objective is to achieve a capital structure which would provide the most optimal return on investment to the equity owners of the project 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 2021. 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. These policies have remained unchanged since the beginning of 2021.

Post Balance sheet events

Update on construction of the Windfarm

The Company achieved its Commercial Operation Date as defined under the financing arrangements on 1 April 2022.

Volatility in energy markets due to ongoing geo-political crisis

The Company is continuously monitoring the on-going impact of the COVID-19 pandemic, the market volatility caused by the current geopolitical situation in Ukraine and on the ongoing energy crisis in the UK and Europe, including the impact on economic activity and financial reporting. Whilst the current economic conditions continue to create uncertainty, they have not adversely affected the Company and there was no direct impact as at 31 December 2021, since the events described above are non-adjusting in nature.

Delay in Contract for Differences

Subsequent to year end, in accordance with the terms of the Contract for Differences agreement, the Company has opted to defer the start date of contract until 2023. This decision does not impact the financial statements of the Company for the year ended 31 December 2021, since the event is non-adjusting in nature. The Company is in the process of reviewing the changes to its hedge and revenue arrangements to ensure that the deferral does not adversely impact the financial risk management objectives of the Company.

Update on OFTO asset sale

The sale of the Transmission assets was ongoing at 31 December 2021. Subsequent to year end, the Company has completed the construction of transmission assets. Hence the assets have been reclassified to 'Asset held for sale' since the requisite conditions have been met.

The Company has also progressed its bidding process with OFGEM. A successful bidder has been identified, the process of handover is now awaiting the completion of the audit of Final Transfer Value by OFGEM and other related formalities linked to the sale of OFTO assets. The sale is formally expected to be completed by the end of 2022.

Update to repayment schedule for borrowing

Refer Note 11 for updates to borrowing repayments.

Directors' report *(continued)*

Future developments

With the achievement of Commercial Operations Date, the Company has now transitioned to its operations and maintenance phase. The Company has achieved its full contracted power output of 900 MW to the UK National Transmission Grid following the completion of works recently. The windfarm has produced electricity throughout the construction period between June 2021 (when the first WTGs became operational) and March of this year - producing enough power to meet the electricity needs of all households in Aberdeen and Edinburgh in the process. Enough power was left over to cover the majority of the households in Moray as well. The Company plans to continue operating the Windfarm, generating and selling of electricity.

Political contributions

The Company did not make any political donations or incur any political expenditure during the year (2020: nil).

Going concern

As at 31 December 2021, the Company's current assets exceeded their current liabilities by £213,533k (31 December 2020: current liabilities exceeded their current assets £267,167k).

The Company's principal activity during the period is to develop, construct and operate an offshore windfarm in the Moray Firth. The Company has completed construction and has achieved Commercial Operation Date on 1 April 2022. The Company is now in operation and maintenance phase during which the focus is on maintaining the operations of the wind farm to the highest possible standards in order to generate revenue from sale of electricity generated by the windfarm. MOWEL commenced revenue generating activities during the period as its wind turbines became operational on a phased basis from June 2021.

The construction of the windfarm was funded through project finance loan facilities in the form of Transmission term facility and Generation term facility from a consortium of lenders, plus Shareholder loans, Equity bridge loans and Guarantee fee loans from the shareholders of Moray East Holdings Limited. As at 30 April 2022, the Company has undrawn borrowing facilities on account of the above arrangements amounting to £493m in GBP denominated facilities and €91m in EUR denominated facilities. On the same day, the Company also had surplus available cash of £222m.

Transmission term facility will be repaid using funds from the Transmission asset sale transaction, expected in late 2022, before maturity date. Generation term facility repayments commence from 1 July 2022 and will be fully repaid by 1 April 2037. The Company's projections indicate that the Generation Term Facility repayments can be met from its operational cash flows. Both of these facilities are directly repaid by MOWEL.

The repayment of equity facilities - Shareholder loans, Equity bridge loans and Guarantee fee loans, is driven by the Inter-creditor agreement between the Company, Moray East Holdings Limited, the lenders and the shareholders in Moray East Holdings Limited. According to the agreement, the repayment of facilities is subject to surplus available cash each quarter after considering certain payments prescribed in the agreement. Based on the assessment undertaken on the date of approval of these financial statements, it is expected that the guarantee fee including the accrued interest capitalised within it will be repaid in 2022. The Equity bridge loans from Moray Offshore Renewable Power Limited and Delphis Holdings Limited have a maturity date of June 2022 and the Equity bridge loan from Diamond Green Limited have maturity date of June 2023. These Equity bridge loans are expected to be repaid by infusion of equivalent amounts of Shareholder loans from the respective parties. The Shareholder loans (including those arising from Equity bridge loan repayments) are expected to be repaid depending on the surplus cash available in each quarter as described above. As at 30 April 2022, it is expected that £675 million out of the outstanding Shareholder loans (including those arising from Equity bridge loan repayments) are expected to be repaid by 30 September 2023. The repayments are expected to be funded from the cash generated from operations, proceeds from sale of Transmission assets (after settlement of Transmission term facilities) and from undrawn Generation Term facilities outstanding.

The Directors have reviewed the Company's cash flow forecasts, sources of funding and liquidity, and potential mitigating actions for a period out to 30 September 2023 under both a base case and a severe downside scenario. Following this review, they are satisfied that the Company has access to adequate resources to continue funding its operations and MOWEL's construction project for the foreseeable future. Accordingly, the directors have prepared the financial statements on a basis of going concern.

Directors' report *(continued)*

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

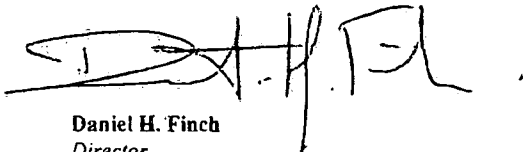
Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

The Company has not met the criteria which would entitle it to take small companies exemption in the year ended 31 December 2021. However, since this is the first year that the Company has failed to meet the qualifying conditions, the Company has continued to take small companies exemption and will discontinue such exemption only if it occurs in two consecutive financial years.

Hence, the directors' report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act/section 415A. The Company has applied the exemption from preparing a strategic report under the provisions applicable to small companies under Companies Act/section 414B.

On behalf of the board



Daniel H. Finch
Director

Shepherd And Wedderburn LLP
Octagon Point, 5 Cheapside,
London, England.
EC2V 6AA
30 May 2022

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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.



Daniel H. Finch
Director

Shepherd And Wedderburn LLP
Octagon Point, 5 Cheapside,
London, England,
EC2V 6AA
30 May 202

Independent auditors' report to the members of Moray Offshore Windfarm (East) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Moray Offshore Windfarm (East) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Independent auditors' report to the members of Moray Offshore Windfarm (East) Limited (*continued*)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of Moray Offshore Windfarm (East) Limited (*continued*)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulations, health and safety requirements, electricity and gas market regulations and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or profit and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Evaluation of the design effectiveness of management's controls designed to prevent and detect irregularities;
- Inquiries with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of minutes of meetings of the Board of Directors;
- Challenging assumptions made by management in its significant accounting estimates, in particular in relation to carrying values of non-financial assets, capitalisation of assets, hedge accounting and consideration of the fair value of derivative financial instruments; and
- Obtaining the list of all journal entries posted during the year and performing testing of identified higher risk journals, including those involving unusual account combinations or those that could indicate manipulation of the result for the year.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Moray Offshore Windfarm (East) Limited (*continued*)

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; take advantage of the small companies exemption in preparing the Directors' report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Matthew Kaye (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Edinburgh

30 May 2022

Income Statement

For year ended 31 December 2021

	Note	2021	2020
		£000	£000
Revenue	2	184,650	-
Cost of sales		<u>(49,981)</u>	=
Gross Profit		<u>134,669</u>	=
Administrative expenses		<u>(310)</u>	<u>(268)</u>
Operating Profit/ (Loss)	3	<u>134,359</u>	<u>(268)</u>
Finance income	6	76	1,770
Finance costs	6	<u>(19,881)</u>	<u>(467)</u>
Finance costs - net		<u>(19,805)</u>	<u>1,303</u>
Profit before income tax		<u>114,554</u>	<u>1,035</u>
Income tax expense/(credit)	7	27,410	(1)
Profit for the year		<u>87,144</u>	<u>1,036</u>

The results for the year have been derived from continuing activities.

The notes are an integral part of these financial statements.

Statement of Comprehensive Income

For year ended 31 December 2021

	2021 £000	2020 £000
Profit for the year	87,144	1,036
Other comprehensive expense		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Loss on effective portion of cashflow hedges, net of tax	<u>5,385</u>	<u>(59,475)</u>
Other comprehensive expense relating to the year, net of tax	<u>5,385</u>	<u>(59,475)</u>
Total comprehensive income/(expense) for the year	<u>92,529</u>	<u>(58,439)</u>

The results for the year have been derived from continuing activities.

The notes are an integral part of these financial statements.

Balance Sheet

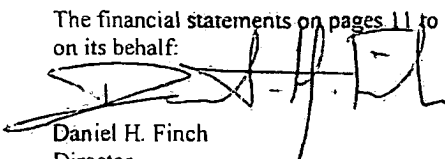
As at 31 December 2021

	Note	2021 £000	2020 £000
Non-current assets			
Property, Plant and equipment	8	2,292,419	2,222,300
Deferred tax assets	7	113,638	73,636
Derivative financial instruments	16	-	45
Right of use assets		-	10,273
		<u>2,406,057</u>	<u>2,306,254</u>
Current assets			
Trade and other receivables	9	68,012	10,780
Other current assets	8	640,462	-
Cash and cash equivalents	10	<u>116,464</u>	<u>117,889</u>
		<u>824,938</u>	<u>128,669</u>
Total assets		<u>3,230,995</u>	<u>2,434,923</u>
Non-current liabilities			
Provisions	14	139,667	5,578
Deferred Income	13	1,100	1,146
Borrowings	11	2,269,144	1,980,889
Derivative financial instruments	16	226,812	206,580
Deferred tax liabilities	7	79,674	29,185
Lease Liabilities		-	5,045
		<u>2,716,397</u>	<u>2,228,423</u>
Current liabilities			
Deferred Income	13	46	-
Borrowings	11	531,325	-
Derivative financial instruments	16	16,886	30,530
Trade and other payables	12	63,148	360,560
Lease Liabilities		-	4,746
		<u>611,405</u>	<u>395,836</u>
Total liabilities		<u>3,327,802</u>	<u>2,624,259</u>
Net current assets/ (liabilities)		<u>213,533</u>	<u>(267,167)</u>
Net liabilities		<u>(96,807)</u>	<u>(189,336)</u>
Equity			
Share capital		10,000	10,000
Retained earnings/ (Accumulated losses)		77,306	(9,838)
Hedge reserve		(184,113)	(189,498)
Total equity		<u>(96,807)</u>	<u>(189,336)</u>

The Company has not met the criteria which would entitle it to take small companies exemption in the year ended 31 December 2021. However, since this is the first year that the Company has failed to meet the qualifying conditions, the Company has continued to take small companies exemption and will discontinue such exemption only if it occurs in two consecutive financial years. Hence, these financial statements have been prepared in accordance with the special provisions relating to small companies within section 15 of the Companies Act 2006.

The notes are an integral part of these financial statements.

The financial statements on pages 11 to 44 were authorised for issue by the director on 30 May 2022 and were signed on its behalf:


Daniel H. Finch
Director

Company registered number: 07101438
30 May 2022

**Statement of Changes in Equity,
For year ended 31 December 2021**

	Share capital £000	Accumulated losses £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2020	10,000	(10,874)	(130,023)	(130,897)
Profit for the year	-	1,036	-	1,036
Other comprehensive expense for the year	-	-	(59,475)	(59,475)
Balance at 31 December 2020	<u>10,000</u>	<u>(9,838)</u>	<u>(189,498)</u>	<u>(189,336)</u>

	Share capital £000	Accumulated losses £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2021	10,000	(9,838)	(189,498)	(189,336)
Profit for the year	-	87,144	-	87,144
Other comprehensive income for the year	-	-	5,385	5,385
Balance at 31 December 2021	<u>10,000</u>	<u>77,306</u>	<u>(184,113)</u>	<u>(96,807)</u>

Share capital represents the value of shares issued and paid. Refer to note 15 for detailed information.

The notes are an integral part of these financial statements.

Cash Flow Statement
for year ended 31 December 2021

	<i>Note</i>	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Cash flows from operating activities			
Profit before tax for the year		114,554	1,036
<i>Adjustments for:</i>			
Depreciation	8	23,851	-
Movement in provisions	14	-	104
Net financial expense	6	<u>19,805</u>	<u>(1,242)</u>
		<u>158,210</u>	<u>(102)</u>
Increase in trade and other receivables	9	(57,232)	(6,678)
(Decrease)/Increase in trade and other payables	12	(301,451)	214,595
Decrease in provisions	14	<u>(5,657)</u>	<u>-</u>
		<u>(364,340)</u>	<u>207,917</u>
Net cash flow generated (used in)/from operating activities		<u>(206,130)</u>	<u>207,815</u>
Cash flows from investing activities			
Investment in tangible fixed assets		(538,834)	(1,010,306)
Lease payments		461	-
Bank interest received		<u>76</u>	<u>-</u>
Net cash used in investing activities		<u>(538,297)</u>	<u>(1,010,306)</u>
Cash flows from financing activities			
Net financial expense		(36,594)	(7,064)
Proceeds from borrowings		<u>779,600</u>	<u>793,500</u>
Net cash generated from financing activities		<u>743,006</u>	<u>786,436</u>
Net decrease in cash and cash equivalents		(1,421)	(16,055)
Foreign currency effect in cash and cash equivalents		(4)	1,518
Cash and cash equivalents at 1 January	10	<u>117,889</u>	<u>132,426</u>
Cash and cash equivalents at 31 December	10	<u>116,464</u>	<u>117,889</u>

The notes are an integral part of these financial statements.

Non-cash financing and investing activities include accrual of Guarantee fee and interest on shareholder loans in Borrowings and Loans to related parties amounting to £39,984k (2020: £38,189k).

Notes to the financial statements

1 Accounting policies

Moray Offshore Windfarm (East) Limited (the “Company”) is a private company limited by shares incorporated and domiciled in the UK.

The registered number is 07101438 and the registered address is Shepherd And Wedderburn LLP Octagon Point, 5 Cheapside, London, England, EC2V 6AA effective 15 December 2021, previously Octagon Point, 5 Cheapside London EC2V 6AA.

The Company’s financial statements approved by the directors have been properly prepared in accordance with UK-adopted international accounting standards and have been prepared in accordance with the requirements of the Companies Act 2006. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

All operations of the Company are considered to take place in one operating segment.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value.

1.2 Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

1.3 Recent accounting standards and interpretations issued

Standards, amendments and interpretations issued effective for the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

- *Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16.*

Inter-bank offered rates (IBOR) are benchmark interest rates used in various financial instruments, including loans, deposits or derivative financial instruments. EURIBOR and LIBOR are examples of this type of interest rates.

Following the financial crisis, global regulators identified the need to replace the IBORs, due to the fact that they are based less on market-observable transactions and more on the opinion of experts, recommending that they be replaced by risk-free rates. Due to these recommendations, the transition from IBOR to risk-free rates (“RFR”) had begun. In this regard, LIBOR GBP, which is the most relevant benchmark for the Company with respect to its loan and borrowing facilities were due to end on 31 December 2021.

The changes from the interest rate benchmark reform were issued by the International Accounting Standards Board (IASB) in two phases, Phase 1, which deals with pre-substitution issues – issues prior to the replacement of a benchmark interest rate and Phase 2, which deals with issues of replacing a benchmark rate.

Regarding Phase 1, the amendments entered into force from 1 January 2020, with retrospective application. These amendments clarify that entities continue to apply certain hedging accounting requirements, assuming that the benchmark interest rate on which the hedged cash flows and cash flows of the hedging instrument are based will not be changed as a result of this reform; and include a set of exemptions that apply to all interest rate risk hedging relationships that are affected by the interest rate benchmark reform, which cease to apply when: (i) there is no longer uncertainty as to the timing and amount of the underlying cash flows; or (ii) the hedging relationship ends. The Company retroactively adopted the changes planned for Phase 1 on 1 January 2020. As at 31 December 2020, as alternative rates had not been defined yet, the Company did not recognize any impact on its financial statements.

Regarding Phase 2, the amendments entered into force from 1 January 2021, with retrospective application. These amendments essentially clarify: (i) the impacts on hedge accounting when Phase 1 exemptions no longer apply; (ii) the time at which the basis for determining the contractual cash flows required for financial instruments measured at fair value should be updated; and (iii) the impacts on the measurement of lease liabilities when there is a change in the basis for determining the respective contractual cash flows resulting from this reform.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.2 Recent accounting standards and interpretations issued (Continued)

The Company retroactively adopted the changes planned for Phase 2 on 1 January 2021. This was also driven by the announced end of the LIBOR GBP for 31 December 2021. Within the implementation of this phase and as for hedging accounting, the Group only updated the documentation of existing hedging relationships when one of these situations occurred: (i) designation of an alternative benchmark rate (specified contractually or not) as a hedged risk; (ii) change in the description of the hedged item, including a description of the designated part of cash flows or fair value to be hedged; or (iii) change in the description of the hedging instrument.

When the existing hedge relationships are updated, the accumulated value in the cash flow hedge reserve is considered based on the new benchmark rate. In the event of discontinuation of hedge relationship when the benchmark interest rate on which the hedged future cash flows were based is changed as required by the reform, the accumulated value in the cash flow hedge reserve is also considered based on the alternative benchmark rate for the purpose of assessing whether the future hedged cash flows are still expected to occur. During 2021, changes were made to hedge relationships and documentations, resulting from changes to benchmark interest rates.

For financial instruments measured at amortised cost, the impact is reflected by the adjustment of the respective effective interest rate and there is no recognition of any gain or loss.

There are no leasing in the Company impacted by the IBOR reforms hence, no impact on account of leasing were noted.

To summarize, according to the analysis made, the following categories of assets and liabilities would be impacted by this reform: Derivative financial instruments (Assets and liabilities), Current liabilities and Non-current liabilities (Borrowings).

Thus, with reference to 31 December 2021, the Company's exposure to LIBOR benchmark rates is Nil.

The Company has elected to apply the amendments early:

- IAS 16 (Amended) - Proceeds before Intended Use;

Effective 1 January 2022, IAS 16 has been amended, following which IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use ('Pre-completion revenues'). It also clarified that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. The Company decided to early adopt this amendment from 1 January 2021.

Disclosures on amounts of Pre-completion revenues accounted for in the Income Statement are listed in Note 2.

Standards, amendments, and interpretations issued but not yet effective for the Company

The standards, amendments and interpretations issued but not yet effective for the Company (whose effective application date has not yet occurred, or, despite their effective dates of application, they have not yet been endorsed by the UK) are the following:

- IFRS 17 – Insurance Contracts (and amendments related to initial application and comparative information);
- IAS 1 (Amended) - Classification of Liabilities as Current or Non-current;
- IFRS 3 (Amended) - Reference to the Conceptual Framework;
- IAS 37 (Amended) - Onerous Contracts – Cost of Fulfilling a Contract;
- IAS 1 (Amended) - Disclosure of Accounting Policies;
- IAS 8 (Amended) - Disclosure of Accounting Estimates; and
- IAS 12 (Amended) - Deferred tax related to assets and liabilities arising from a Single Transaction.

Directors do not expect any significant impact on the financial statements for the application of those standards.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.4 Going concern

As at 31 December 2021, the Company's current assets exceeded their current liabilities by £213,533k (31 December 2020: current liabilities exceeded their current assets £267,167k).

The Company's principal activity during the period is to develop, construct and operate an offshore windfarm in the Moray Firth. The Company has completed construction and has achieved Commercial Operation Date on 1 April 2022. The Company is now in operation and maintenance phase during which the focus is on maintaining the operations of the wind farm to the highest possible standards in order to generate revenue from sale of electricity generated by the windfarm. MOWEL commenced revenue generating activities during the period as its wind turbines became operational on a phased basis from June 2021.

The construction of the windfarm was funded through project finance loan facilities in the form of Transmission term facility and Generation term facility from a consortium of lenders, plus Shareholder loans, Equity bridge loans and Guarantee fee loans from the shareholders of Moray East Holdings Limited. As at 30 April 2022, the Company has undrawn borrowing facilities on account of the above arrangements amounting to £493m in GBP denominated facilities and €91m in EUR denominated facilities. On the same day, the Company also had surplus available cash of £222m.

Transmission term facility will be repaid using funds from the Transmission asset sale transaction, expected in late 2022, before maturity date. Generation term facility repayments commence from 1 July 2022 and will be fully repaid by 1 April 2037. The Company's projections indicate that the Generation Term Facility repayments can be met from its operational cash flows. Both of these facilities are directly repaid by MOWEL.

The repayment of equity facilities - Shareholder loans, Equity bridge loans and Guarantee fee loans, is driven by the Inter-creditor agreement between the Company, Moray East Holdings Limited, the lenders and the shareholders in Moray East Holdings Limited. According to the agreement, the repayment of facilities is subject to surplus available cash each quarter after considering certain payments prescribed in the agreement. Based on the assessment undertaken on the date of approval of these financial statements, it is expected that the guarantee fee including the accrued interest capitalised within it will be repaid in 2022. The Equity bridge loans from Moray Offshore Renewable Power Limited and Delphis Holdings Limited have a maturity date of June 2022 and the Equity bridge loan from Diamond Green Limited have maturity date of June 2023. These Equity bridge loans are expected to be repaid by infusion of equivalent amounts of Shareholder loans from the respective parties. The Shareholder loans (including those arising from Equity bridge loan repayments) are expected to be repaid depending on the surplus cash available in each quarter as described above. As at 30 April 2022, it is expected that £675 million out of the outstanding Shareholder loans (including those arising from Equity bridge loan repayments) are expected to be repaid by 30 September 2023. The repayments are expected to be funded from the cash generated from operations, proceeds from sale of Transmission assets (after settlement of Transmission term facilities) and from undrawn Generation Term facilities outstanding.

The Directors have reviewed the Company's cash flow forecasts, sources of funding and liquidity, and potential mitigating actions for a period out to 30 September 2023 under both a base case and a severe downside scenario. Following this review, they are satisfied that the Company has access to adequate resources to continue funding its operations and MOWEL's construction project for the foreseeable future. Accordingly, the directors have prepared the financial statements on a basis of going concern.

1.5 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 profit and loss account.

1.6 Revenue from Operations

The Company earns revenue from the sale of electricity. This revenue is recognised in the accounting period when the control of the product has been transferred, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.6 Revenue from Operations (continued)

The principles in international accounting standards in conformity with the requirements of the Companies Act 2006 are applied to revenue recognition using the following 5 step model:

1. Identify the contracts with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations

Fee arrangements

Below are details of fee arrangements and how these are measured and recognised, for revenue from the sale of electricity:

Performance obligations and Transaction price – Sale of Electricity

The main performance obligations to customers consist of supply of electricity to the parties identified in the power purchase agreement ('Offtakers') through the national grid asset network. Due to the nature of power supply the business judgements made in evaluating when control has passed are limited.

Sale of electricity is based on power produced and supplied to offtaker in megawatt (MW), which is recognised at the production date. The Company receives proforma invoices from the offtakers on a monthly basis (post the completion of the month). Once the company has reviewed the proforma invoices and approved them, payment is due by the end of the month in which the proforma invoice is received. The transaction price at which the megawatt is invoiced are driven by the market rates of the electricity prescribed under the power purchase agreement in place.

Performance obligations and Transaction price – Balancing Mechanism and Sale of Renewable Energy Guarantees of Origin (REGO)

Balancing Mechanism

The Company's generation of electricity is subject to a balancing mechanism where there are instances where the Company is required to constraint its generation depending on inputs from National Grid. The Company offers through Elexon, a subsidiary of the National Grid for the constraints on its generation. Once the offer is accepted by National Grid, the Company is compensated for the constrained demand at the offer price.

REGOs

The Company receives REGOs from Office of Gas and Electricity Markets for the electricity generated, which the Company then sells it forward to Offtakers for a consideration. The price per Offtaker is based on the price agreed with the Offtaker in the Power Purchase agreement. The Company has recognised Nil revenue from sale of REGOs during 2021.

Contract assets and receivables

Where goods or services are transferred to the customer before the customer pays consideration, or before payment is due, Contract assets are recognised. Contract assets are included in the Balance Sheet and represent the right to consideration for products delivered.

Contract receivables (loans and advances) are recognised in the Balance sheet when the Company's right to consideration becomes unconditional.

Contract assets and receivables (Trade receivables) are classified as current or non-current based on the Company's normal operating cycle and are assessed for impairment at each reporting date.

Contract liabilities

Contract liabilities and customer deposits are recognised in the Balance sheet when the Company has received consideration but still has an obligation to deliver products and meet performance obligations for that consideration.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.6 Revenue from Operations (continued)

Net basis of measurement of contract balances

Contract assets and contract liability positions are determined for each contract on a net basis. This is because the rights and obligations within each contract are considered inter-dependent. Where two contracts are with the same or related entities, an assessment is made of whether contract assets and liabilities are inter-dependent and if so, contract balances are reported net.

Impairment of contract balances

At each reporting date, the Company determines whether such assets are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Company expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Company uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where relevant contracts or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to be complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract specific KPIs that would trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether an onerous contract provision is required and how this is to be measured.

1.7 Classification of financial instruments issued by the Company

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.

1.8 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

For contract assets and receivables, Refer Note 1.6. All 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

These amounts represent the liabilities for goods and services provided to the Company prior to the end of the financial year in which are unpaid. The amounts are unsecured and are usually paid within 30 – 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. 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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.8 Non-derivative financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in creditors: amounts falling due within one year.

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. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in Income statement over the period of the borrowing using effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in Income statement as Other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

1.9 Property, plant and equipment

Tangible fixed assets (excluding assets under construction) are stated at cost less accumulated depreciation and accumulated impairment losses. Assets under construction includes capitalised elements of our hedging positions when the construction activities against which the hedge was designated are carried out. Borrowing costs relating to both specific and general borrowings directly attributable to assets under construction with a lengthy construction period are recognised in during construction period. Capitalisation ceases when substantially all the activities necessary to prepare the asset for use are complete. 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 on assets under construction commences from the point they are ready for use and transferred to respective fixed assets class.

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 25 years
- Decommissioning assets 25 years
- Plant and equipment (Met mast installation) 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it probably that future economic benefits will flow to the Company from the expenses incurred. Replaced parts are derecognised from the balance sheet, and their carrying amount is recognised in Income statement for the year. All other repair and maintenance expenses are recognised in Income statement for the year as incurred.

Plant & equipment refers to the Offshore Meteorological 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 Meteorological Mast is subsequently capitalised to the Windfarm asset. The Plant and equipment have been fully depreciated during the year.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.10 Assets under construction (Transmission assets)

In accordance with the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2009, Transmission assets (also referred to as 'OFTO assets') are required to be sold to an independent third party at completion of construction.

These assets are initially recorded at cost and accounted for as non-current assets under Assets under construction where construction is expected to last over 12 months. Held for sale classification is achieved where the asset is available for immediate sale in its present condition and the sale is highly probable. When sale of the asset is expected within 12 months, the asset is reclassified to other assets (current), even if the asset held for sale criteria have not been met. Profit/loss on sale of assets are recognised when control of ownership pass to the buyer.

If it is probable that the final cost of the asset under construction will exceed sales price at project completion, the expected loss on the contract is recognised as an expense immediately in the Income Statement.

These assets are not depreciated or amortised while they are classified as held for sale.

1.11 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 within Deferred Income in the balance sheet represent cost contributions received or receivable to date, less the amounts so far credited to profits.

1.12 Impairment

Financial assets (including receivables)

The Company has a single material type of financial asset – Trade receivables and contract assets from sale of electricity.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract asset relates to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rate is based on an assessment of the historical rates for default. The historical rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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. An impairment loss is recognised 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 cost of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). Prior impairment of non-financial assets are reviewed for possible reversal at each reporting date.

1.13 Financing income and expenses

Financing costs 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). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.13 Financing income and expenses (continued)

Finance income and Finance costs are 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.

1.14 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 current market assessments of time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance cost.

1.15 Decommissioning of Windfarms

A provision is made for the decommissioning of the windfarm based on the Company's best estimate of the cost of decommissioning, these costs are a contractual obligation when the planning consent is granted to ensure appropriate restoration of the land.

Provisions for the decommissioning are recognised in full when the related facilities are constructed and a contractual obligation under an agreed decommissioning plan exists. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related plant and equipment as a decommissioning asset. The amount recognised is the estimated cost of decommissioning, discounted of its net present value (at a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the liability), and is reassessed at each balance sheet date. Changes in the estimated timing and value of decommissioning costs estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the decommissioning asset cost. The unwinding of the discount on the decommissioning provision is included as at finance cost.

1.16 Dividend

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

1.17 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 or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balance either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax balance relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.18 Derivatives and Hedge accounting

Derivatives are initially recognised at fair values on the date that a derivative contract is entered into, and they 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 designated as a hedging instrument and, if so, the nature of item being hedged. The Company designates certain derivatives as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value); or
- Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges)

At the inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including whether the changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 14. Movements in the hedging reserve in shareholder's equity are shown in Note 13. The full fair value of hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Hedge accounting

The Company expects that for all designated hedge relationships, changes in value of both the hedging instrument and the hedged transaction will offset and systematically move in opposite directions given the critical terms of the hedging instrument and the Hedged transactions are closely aligned. The Company performs periodic qualitative prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The potential sources of hedge ineffectiveness are as follows:

- Credit risk - movements in the Company's and hedging counterparty's credit spread could result in movements in fair value of the hedging instrument that would not be reflected in the movements in the value of the hedged transactions.
- Redesignated hedges – The Company's hedges were restructured prior to financial close to better match the expected exposures at that date. These changes to the hedge instruments require redesignation under IFRS 9, resulting in hedges that had a non-zero fair value at redesignation date. The redesignation of hedges with a non-zero fair value creates hedge ineffectiveness due to the unwind of the discounting on the fair value of the derivative instrument at the designation date.
- The possibility of changes to the critical terms of the hedged transactions due such that they no longer match those of the hedging instrument. The Company would reflect such mismatch when modelling the hedged item for the purpose of measuring hedge ineffectiveness.

Each hedging instrument is designated in a 1:1 hedge ratio against an equivalent notional amount of hedged item. Should an insufficient amount of hedged item be available the hedging instrument will be de-designated or proportionally designated as appropriate.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income statement within Finance income/ Finance costs.

Amounts accumulated in equity are equity are reclassified in the periods when the hedged item affects Income statement as follows:

- Where the hedged items subsequently results in the recognition of a non-financial asset (such as property, plant and equipment), both the deferred hedging gains and losses and the deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in Income Statement, since the hedged item affects the Income statement (for example, through depreciation).

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.18 Derivatives and Hedge accounting (continued)

- The gains or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in Income statement within finance cost at the same time as the interest expense on the hedged borrowings.
- The gain or loss relating the effective portion of the inflation swaps hedging forecasted revenue is recognised in Income statement within the Revenue from Operations at the same time as the underlying revenue is recognised.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gains or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition at the time when the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to Income statement.

1.19 Leases

Leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases; and
- makes adjustments specific to the lease, for example term, country, currency and security.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.19 Leases (continued)

Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

1.20 Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

The Company also recognises a liability and an expense for bonuses for employees based on the underlying bonus policy of the Company. The provision is driven by contractual provisions with the employees.

Post-employment benefits

The employees of the Company are enrolled in a pension scheme administered by a third party life insurance and pensions Company. The pension scheme is a Defined contribution plan, where the Company is contributes to the scheme on a monthly basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

1.21 Critical Accounting estimates and judgements

Impairment of non-financial assets

Refer Note 8 for conclusions drawn on impairment of Property, plant and equipment (including those classified as "Other current assets") for the year ended 31 December 2021. For Property, plant and equipment, the conclusions were supported by the review of impairment indicators performed by the management with chief focus on expected rate of return on the project through the life of the asset based on conditions existing as at 31 December 2021.

With respect to the Transmission assets, the review was based on expected values expected to be achieved by the Company upon the sale of the Transmission assets. Based on the ongoing assessment of the bidding process, the Company is expected to complete the sale of the Transmission assets in October 2022 and the proceeds from the sale of the Transmission assets is expected to exceed the carrying value of the assets.

Capitalisation of Assets

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 Company has applied judgement in determining the cost of acquisition specific to items of cost eligible to be capitalised like 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. Where such items are no longer incurred in connection solely to the asset under construction, the capitalisation of such costs have been discontinued.

Transfer of Assets from Asset under construction

The Company has commenced utilisation of its assets during 2021, with power being generated and sold from June 2021 onwards. However, the construction costs and negotiations with vendors were not fully completed by the end of the balance sheet period as at 31 December 2021. The management has thus prepared an assessment of expected costs at the end of the balance sheet period which in the view of management pertains to Generation assets and has transferred this out of Asset under construction as an when individual wind turbines have come online during the period. Corresponding depreciation on the capitalised values have been considered in a similar manner to ensure the assets have been depreciated as they have been utilised.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.21 Critical Accounting estimates and judgements (continued)

Hedge accounting and consideration of the fair value of derivative financial instruments

The Company uses derivative financial instruments to hedge certain economic exposures. The Company fair values its derivative financial instruments and records the fair value of those instruments on the Balance Sheet. No market prices are available for these instruments and consequently the fair values are determined by calculating the present value of the estimated future cash flows based on observable forward curves. There is also a judgment on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying item being hedged.

Classification of borrowings between current and non-current as at balance sheet date

The repayments of other Equity facilities (shareholder loans and guarantee fee agreements) are administered by the Intercreditor Agreement entered into between the project, MEHL, MEHL's shareholders and lenders. Based on the terms of the agreement, the repayment is dependent on surplus available cash for distribution after considering the mechanism documented on the Intercreditor agreement.

The determination of the above is driven by cash flow forecasts for future periods which involves significant judgement. Also, critical here is to determine whether an event is adjusting or non-adjusting at year end. Based on all the above judgements, the portion of loan expected to be repaid one year from balance sheet date is classified as current and the remaining portion as non-current.

Wind farm decommissioning provision

Estimates of decommissioning provisions are based on management's expectations concerning timing and scope, future cost level, and adopted laws and regulations on decommissioning. The timing of decommissioning provision depends on the useful lives of the assets. The determination of the decommissioning obligations involves the use of inflation rate and discount rate, details of which are provided in Note 14. Discount rates have been estimated on the basis of expectations concerning the future, long term interest level, based on British Pound Sovereign Curve. The inflation rates have been considered based on inflation trends in the United Kingdom as at 31 December 2021. The extent to which decommissioning will be required is also estimated based on current legislation and standards in this area. Expectations concerning the future cost level are based on variables such as expectations concerning the general price trend, demand conditions and the development of existing technologies.

Useful lives of Wind farm assets

The expected useful lives of wind farm assets are determined based on expectations concerning the future use of these assets. The expected future applications may subsequently prove not to be realisable, which may require useful lives to be reassessed.

Notes to the financial statements (continued)

2 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2021 £000	2020 £000
Sale of electricity	178,772	-
Others	5,878	-
	<u>184,650</u>	<u>-</u>

The total revenue of the Company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

The Company commenced generating revenue in 2021 and sold these under power purchase agreement to Offtakers.

The Company's revenue for 2021 includes pre-completion revenue of £57,570k.

3 Operating profit/(loss)

Included in Operating profit are the following:

	2021 £000	2020 £000
Depreciation expense (Refer Note 8)	25,741	2,522
Depreciation on Met Mast capitalised (Refer Note 8)	(1,890)	(2,522)
Charges paid to TNUoS and BSUoS	20,164	-
Fees payable to the Company's auditors and associates:		
<i>Audit services</i>		
Fees payable to auditors for the audit of its statutory financial statements	51	30
<i>Other services</i>		
Audit related services	9	6

4 Staff numbers and costs

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

	Number of employees	
	2021	2020
Administration	24	16
Technical	<u>7</u>	<u>4</u>
	<u>31</u>	<u>20</u>

The aggregate payroll costs of these persons were as follows:

	2021 £000	2020 £000
Wages and salaries	1,191	729
Social security costs	132	79
Other Pension costs - defined contribution	<u>110</u>	<u>65</u>
	<u>1,433</u>	<u>873</u>

Notes to the financial statements (continued)

5 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.

6 Finance income / Finance costs

	2021 £000	2020 £000
Finance income		
Bank interest received	76	252
Net foreign exchange income	=	<u>1,518</u>
Total finance income	<u>76</u>	<u>1,770</u>
Finance costs		
Unwind of discount on provisions	79	104
Net foreign exchange loss	4,036	-
Hedging ineffectiveness	(9)	385
IFRS 16 Finance Expense	21	60
Borrowing costs and associated depreciation	76,578	67,024
Capitalised borrowing costs and associated depreciation	<u>(60,824)</u>	<u>(67,106)</u>
Total finance costs	<u>19,881</u>	<u>467</u>

Finance Income & Costs - Borrowing Costs are capitalised as part of the cost of the asset with a capitalisation rate of 79% (2020: 100%).

7 Income tax expense/(credit)

Recognised in the income statement

	2021 £000	2020 £000
Current tax expense	3	-
Total current tax expense	<u>3</u>	=
Deferred tax expense	<u>27,392</u>	
Adjustment in respect of prior years	<u>150</u>	(1)
Total deferred tax expense	<u>27,407</u>	=
Income tax expense/ (credit) reported in the Income Statement	<u>27,410</u>	(1)

Recognised in Statement of other comprehensive income

	2021 £000	2020 £000
Tax on loss on effective portion of cashflow hedges	16,920	17,819

Deferred tax – Movement on deferred taxes

	Derivatives	Fixed assets	Corporate interest - net restriction	Others	Total
As at 1 January 2020	26,647	(11,716)	8,160	3,540	26,631
Deferred tax charge to income statement for the period	(16)	(17,469)	16,965	521	1
Deferred tax charge to Statement of other comprehensive income for the period	<u>17,819</u>	=	=	=	<u>17,819</u>
As at 31 December 2020	<u>44,450</u>	<u>(29,185)</u>	<u>25,125</u>	<u>4,061</u>	<u>44,451</u>

Notes to the financial statements (continued)

7 Income tax credit/ (expense) (continued)

Deferred tax – Movement on deferred taxes (continued)

	Derivatives	Fixed assets	Corporate interest - net restriction	Losses	Others	Total
As at 1 January 2021	44,450	(29,185)	25,125	-	4,061	44,451
Deferred tax charge to income statement for the period	-	(31,455)	6,070	5,379	(809)	(20,815)
Adjustments in respect of prior years	-	88	(54)	3,138	(3,187)	(15)
Movement due to change in rate of taxes	14,729	(19,122)	9,834	2,689	22	8,152
Deferred tax charge to Statement of other comprehensive income for the period	<u>2,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,191</u>
As at 31 December 2021	<u>61,370</u>	<u>(79,674)</u>	<u>40,975</u>	<u>11,206</u>	<u>87</u>	<u>33,964</u>

Reconciliation of effective tax rate

	2021 £000	2020 £000
Profit for the year	87,144	1,036
Total tax expense/ (credit)	27,410	(1)
Profit excluding taxation	<u>114,554</u>	<u>1,035</u>
Tax using the UK corporation tax rate of 19.00% (2020: 19%)	(21,765)	(196)
Adjustments in respect of prior years	(18)	-
Non-deductible expenses	(681)	(42)
Income not taxable	139	-
Movement in unrecognised deferred tax	1,493	-
Impact due to rate changes	(6,578)	-
Others	<u>-</u>	<u>239</u>
Income Tax expense/ (credit) reported in the Income Statement	<u>(27,410)</u>	<u>(1)</u>

In the prior years, the Company had not recognised all available deferred tax assets due to uncertainty as to the recoverability of these assets, and uncertainty over the exact value of the benefit which will be available from these assets in future periods. The best estimate of these unrecognised assets at the balance sheet date is considered to be £Nil (2020: £ 1,515,006).

The UK government announced in March 2021 that the UK corporation tax rate will increase from 19% to 25% from 1 April 2023. The rate increase was substantively enacted on 24 May 2021.

Deferred tax has hence been re-measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. On that basis, the deferred tax balances as at 31 December 2021 have been calculated using the substantively enacted corporation tax rate of 25%.

Notes to the financial statements (continued)

8 Property, Plant and Equipment

	Plant and equipment £000	Windfarm Assets £000	Decommissioning Assets £000	Assets under construction £000	Total £000
Cost					
Balance at 1 January 2020	18,357	-	-	1,169,393	1,187,750
Additions	-	-	-	1,051,017	1,051,017
Balance at 31 December 2020	<u>18,357</u>	-	-	<u>2,220,410</u>	<u>2,238,767</u>
Accumulated Depreciation and impairment					
Balance at 1 January 2020	(13,945)	-	-	-	(13,945)
Depreciation charge for the year	<u>(2,522)</u>	-	-	-	<u>(2,522)</u>
Balance at 31 December 2020	<u>(16,467)</u>	-	-	-	<u>(16,467)</u>
Net book value					
At 31 December 2020	<u>1,890</u>	-	-	<u>2,220,410</u>	<u>2,222,300</u>
Cost					
Balance at 1 January 2021	18,357	-	-	2,220,410	2,238,767
Additions	8,500	-	131,167	596,655	736,322
Transfers	-	<u>2,169,114</u>	-	<u>(2,809,576)</u>	<u>(640,462)</u>
Balance at 31 December 2021	<u>26,857</u>	<u>2,169,114</u>	<u>131,167</u>	<u>7,489</u>	<u>2,334,627</u>
Accumulated Depreciation and impairment					
Balance at 1 January 2021	(16,467)	-	-	-	(16,467)
Depreciation charge for the year	<u>(1,890)</u>	<u>(23,851)</u>	-	-	<u>(25,741)</u>
Balance at 31 December 2021	<u>(18,357)</u>	<u>(23,851)</u>	-	-	<u>(42,208)</u>
Net book value					
At 31 December 2021	<u>8,500</u>	<u>2,145,263</u>	<u>131,167</u>	<u>7,489</u>	<u>2,292,419</u>

The depreciation charge for the year of £23,851k (2020: £Nil k) has been included in Cost of sales.

Transfers under Asset under construction also include transfers amounting to £640,462k (2020: £Nil k) which relate to the estimated amount of Transmission assets which are expected to be sold to an independent third party at completion of construction. Since these assets have not met all criteria required to reclassify said assets to Asset held for sale as at 31 December 2021, but are expected to be sold within 12 months from the balance sheet date, these have been reclassified as "Other current assets" on the balance sheet as at 31 December 2021.

The directors have considered the carrying value of the property, plant and equipment (including those classified as "Other current assets") and have identified no impairment indicators. Therefore, they have concluded that the carrying value is supported by the future cash flows to be derived from generation of electricity and from sale of OFTO assets.

Notes to the financial statements (continued)

9 Trade and other receivables

	2021	2020
	£000	£000
Other trade receivables	87	-
Accrued income	61,017	-
VAT Receivable	6,907	10,780
Prepayments	<u>1</u>	<u>-</u>
	<u>68,012</u>	<u>10,780</u>

Accrued income includes Accrued income related to billings to related parties. Refer Note 18.

The Accrued income relate to the Company's right to consideration for produced megawatt delivered to Offtakers but not billed at reporting date. The Accrued income transfers to receivables when the rights become unconditional. No provision has been created for recoverability of Accrued income.

10 Cash and cash equivalents

	2021	2020
	£000	£000
Cash and cash equivalents	<u>116,464</u>	<u>117,889</u>

Cash and cash equivalents comprise proceeds received from borrowings towards construction of the wind farm and related payments. The utilisation of cash held by the Company is restricted towards the settlement of Generation asset eligible costs or Transmission asset eligible costs.

Notes to the financial statements (continued)

11 Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

Particulars	Nominal interest rate	Maturity year	Carrying amount – 2021		Carrying amount - 2020
			Current £000	Non-current £000	Non-current £000
<i>Borrowing from a consortium of bankers:</i>					
Transmission Term Facility	One Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.0326%) + 1.4% margin	2023	-	541,854	452,154
Generation Term Facility	One Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.0326%) + 0.75% - 1.40% margin	2037	11,903	1,412,897	734,900
<i>Borrowing from the Company's parent sourced from its shareholders as below:</i>					
<u>Shareholder loans</u>					
Moray Offshore Renewable Power Limited	One Month Sonia with a 5-day end period look back + Credit Adjustment Spread (0.0326%) + 5.5% margin	2038	6,100	20,004	24,697
China Three Gorges (UK) Limited			9,418	76,040	80,851
<u>Equity Bridge loans</u>					
Moray Offshore Renewable Power Limited	One Month Sonia with a 5 day end period look back + Credit Adjustment Spread (0.0326%) + 0.7% margin	2022	220,000	-	220,000
Delphis Holdings Limited	One Month Sonia with a 5 day end period look back + Credit Adjustment Spread (0.0326%) + 0.75% margin	2022	169,151	-	169,151
Diamond Green Limited	One Month Sonia with a 5 day end period look back + Credit Adjustment Spread (0.0326%) + 0.475% margin	2023	24,126	218,349	242,475
<u>Guarantee Fee Loans</u>					
Moray Offshore Renewable Power Limited	Guarantee fee accrues at 4.6885% of the outstanding Equity bridge loan Interest on outstanding guarantee fee at - EBL Interest terms (see above) + 5.5% margin	2022	30,975	-	19,299
Delphis Holdings Limited	Guarantee fee accrues at 4.5869% of the outstanding Equity bridge loan Interest on outstanding guarantee fee at – EBL Interest terms (see above) + 5.5% margin	2022	23,552	-	14,752
Diamond Green Limited	Guarantee fee accrues at 4.9049% of the outstanding Equity bridge loan Interest on outstanding guarantee fee at - EBL Interest terms (see above) + 5.5% margin	2022	36,100	-	22,610
			<u>531,325</u>	<u>2,269,144</u>	<u>1,980,889</u>

Notes to the financial statements (continued)

11 Borrowings (continued)

Repayment terms as at 31 December 2021:

The repayment of Transmission term facility is linked to the execution of the sale of Transmission assets to the successful Offshore Transmission Owner ('OFTO') bidder. Any remaining borrowings after using the OFTO sales proceeds are to be repaid by the Final Maturity date. Based on the forecasted value of proceeds to be received on sale of Transmission assets, management is confident that these will be adequate to cover the repayment of the entire transmission facility including undrawn amounts as at the balance sheet date. The sale of transmission assets to the OFTO bidder is expected to be completed in October 2022, hence the repayment of Transmission facilities is expected to be completed on 1 January 2023.

Generation term facility repayments will commence from 1 July 2022 and based on an agreed repayment schedule with the consortium of bankers will be fully repaid by 1 April 2037.

The Company's parent - Moray East Holdings Limited (MEHL) had entered into Shareholder equity bridge loan agreements with certain lenders whereby the shareholder's equity funding obligations in MEHL has been funded by a consortium of lenders. Equity bridge loans to lenders relating to Moray Offshore Renewable Power Limited and Delphis Holdings Limited's equity contributions is due to be repaid on 30 June 2022. Equity bridge loans to lenders relating to Diamond Green Limited's equity contributions is due to be repaid on 30 June 2023. It is expected that these loans will be repaid through infusion of equivalent shareholder loans from said shareholders, proceeds of which will be used to repay the Equity bridge loans.

The repayments of other Equity facilities (shareholder loans and guarantee fee agreements) are governed by the Intercreditor Agreement entered into between the project, MEHL, MEHL's shareholders and lenders. Based on the terms of the agreement, repayment is dependent on surplus available cash for distribution after considering the mechanism documented on the Intercreditor agreement. The management expects that all outstanding guarantee fee (including further accruals) will be repaid in 2022 and has classified the loan as current in its books. Similarly, the Company has also projected its future cash flows as at 31 December 2021 and has also classified its expected repayments of shareholder loans as at 31 December 2021 upto 31 December 2022 as current.

Amendments processed during the year pursuant to IBOR reforms:

In December 2021, the Company amended its borrowing agreements comprehensively to replace its interest benchmark from LIBOR to SONIA ("sterling overnight index average"). The post amendment interest rates are listed in table above.

Security for borrowings:

The Generation term facility and Transmission term facility are secured with the property, plant and equipment of the Company.

The Equity bridge loans are guaranteed by shareholders in MEHL.

The shareholder loan facility are unguaranteed and unsecured.

Subsequent updates to Repayment terms post balance sheet date:

Refer Note 19. Further to the other updates to the projected cash flows of the Company following a review of the financial position and performance of the Company, the repayment profile has been updated post year end. As all the changes resulting to change in the repayment profile are post balance sheet and non-adjusting, no impact has been considered for this in the balance sheet date.

Notes to the financial statements (continued)

12 Trade and other payables

	2021 £000	2020 £000
Current		
Trade payables due to related parties	429	520
Other trade payables – Revolving VAT facility	8,211	11,975
Other trade payables	51,678	319,785
Accrued interest	2,830	28,280
	63,148	360,560

Trade payables are unsecured and are usually paid within 30 or 45 days depending on the contractual arrangements. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature. Refer Note 18.

Trade payables due to related parties are interest free and are usually paid within 30 or 45 days depending on the contractual arrangements.

Other trade payables include variable interest, Revolving VAT Facility which is repayable on a short-term basis of one or three months depending on the election of the Company.

13 Deferred income

	2021 £000	2020 £000
Non-current - Other payables – Deferred Income	1,100	1,146
Current - Other payables – Deferred Income	46	-

Deferred income in relation to income received from Crown Estate in relation to the Zone Development agreement and relates to contribution towards the costs of developing the Windfarm. This income will be released to the Income Statement on a straight-line basis over the life of the Windfarm asset once operational.

14 Provisions

Decommissioning Provision	2021 £000	2020 £000
Balance at 1 January	5,578	5,474
Unwinding of discounted amount	79	104
Utilisation during the year	(5,657)	-
Addition/Re-measurement during the year	139,667	-
Balance at 31 December	139,667	5,578

Met-Mast decommissioning provision:

A decommissioning provision was recognised at the end of 2014 in respect of the removal of the Offshore Meteorological 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. A corresponding decommissioning asset was also recognised at this date.

Phase 1 of the decommissioning was completed in 2021 and the utilisation during the period represents progress of the decommissioning work. It was also determined in 2021, that there will be an additional provision required for Phase 2 of the decommissioning of the Offshore Meteorological Mast amounting to £8,500k which will be spent in 2024. Since the period over which the decommissioning will take place is short, the provision has not been discounted and has been recognised at the estimate of provision expected to be spent. A corresponding asset has been created under the heading "Plant and equipment" under Property, Plant and Equipment. The depreciation of these assets will be written off over the period of decommissioning.

Notes to the financial statements (continued)

14 Provisions (Continued)

Decommissioning of the wind farm:

The decommissioning provision for the wind farm assets has been recognised in the current period as the wind farm has come online and has commenced generation during the period. The determination of the expected expenditures to be incurred involved significant judgements. The inflation rate of 2.196% has been considered and the liabilities have been discounted at 1.0125%. A corresponding asset has been created under the heading "Decommissioning Assets" under Property, Plant and Equipment. The assets will be written off over the life of the wind farm.

In determining the costs, management has considered the various aspects of decommissioning that will be required, contingencies in addition to expected costs to be incurred and has also considered practical cost savings expected to be available by the end of the life of the wind farm. Overall, management believes that the provision considered is appropriate, however, if overall costs were to be 10% higher (or lower) than estimated by management in determining the level of the provision, then the estimated decommissioning provision would increase (or decrease) by £13,117k.

Notes to the financial statements (continued)

15 Capital and reserves

Share capital

Ordinary shares

<i>Authorised and issued</i>	2021		2020	
	Number of shares	£000	Number of shares	£000
At the beginning of year	10,000,000	10,000	10,000,000	10,000
At the end of year	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>

<i>Allotted, called up and fully paid</i>	2021		2020	
	Number of shares	£000	Number of shares	£000
At the beginning of year	10,000,000	10,000	10,000,000	10,000
At the end of year	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>

Ordinary shares have a par value of £1.

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. No dividends have been proposed and declared in the year (2020: nil).

Accumulated losses	2021	2020
	£000	£000
Accumulated losses at 1 January	(9,838)	(10,874)
Profit for the year	<u>87,144</u>	<u>1,036</u>
Accumulated losses at 31 December	<u>77,306</u>	<u>(9,838)</u>

Hedge reserve

Hedging reserve	2021	2020
	£000	£000
Accumulated cash flow hedge loss at 1 January	189,498	130,023
(Profit)/Loss on effective portion of cashflow hedge for the year (net of tax)	<u>(5,385)</u>	<u>59,475</u>
Total cash flow hedge reserve at 31 December	<u>184,113</u>	<u>189,498</u>

Notes to the financial statements (continued)

16 Derivative Financial instruments

i) Risk management

Foreign exchange risk – The Company is a GBP functional currency entity which incurs a certain portion of its construction costs in EUR and USD, exposing the Company to exchange rate fluctuations between GBP and EUR and GBP and USD. The Company's risk management strategy is to protect the Company against adverse fluctuations in foreign exchange rates by using FX forward contracts to reduce its exposure to variability from foreign exchange impacting cash flows arising from Company's foreign currency denominated fixed asset construction cost cash flows to the extent that it is practicable and cost effective to do so.

Interest rate risk – The Company is partially funded using long-term floating rate GBP loans that expose the Company to potential variability in interest rates. The Company's risk management strategy is to protect the Company against adverse fluctuations in interest rates utilising pay fixed receive float interest rate swaps to reduce its exposure to variability in cash flows on the Company's forecasted floating-rate debt facility to the extent that it is practicable and cost effective to do so.

Inflation risk – The Company future revenues from power generation will contractually indexed to UK CPI, exposing the Company to variability in future forecast revenue from changes in UK CPI. The Company's risk management strategy is to protect the Company against adverse fluctuations in UK CPI rates by reducing its exposure to variability in cash flows on the Company's forecasted revenues using receive fixed pay float inflation swaps to hedge the contractually specified CPI component of future forecasted revenues to the extent that it is practicable and cost effective to do so.

ii) Capital, liquidity and credit risk management

The Company funded the construction of the windfarm through project finance which comprised of borrowings from a consortium of external lenders and shareholders in Moray East Holdings Limited. These facilities are to be repaid over the life of the windfarm with maturities varying based on the type of facility utilised. With the shift to operational phase, the Company is expected to fund its operations from operating cash flow. The objective is to achieve a capital structure which would provide the most optimal return on investment to the equity owners of the project 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 2021. 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. These policies have remained unchanged since the beginning of 2021.

iii) Hedge Accounting

Refer Note 1.18 of the Accounting policies section.

iv) Valuation approach

Fair value estimates of derivatives are based on relevant market information and information about the financial instruments which are subjective in nature. The fair value of these financial instruments is estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the reporting date.

The inputs for the valuation of FX forwards are spot rates, FX forward rates, and the interest rate curve of the relevant currency. The inputs for the valuation of Interest rate swaps are forward curves for SONIA. For the UK CPI inflation swaps, a UK CPI forward curve is constructed by using zero-coupon RPI swap rates and adjusting for a spread to CPI. Derivative valuations are adjusted to reflect the impact of both counterparty credit risk the Company's non-performance risk as required by IFRS 13.

Notes to the financial statements (continued)

v) Fair Value Hierarchy

The fair value of financial instruments that are not traded in an active market (for example OTC derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to value an instrument are observable, the instrument is included in Level 2 of the fair value hierarchy. All of the Company's financial instruments held at fair value fall into this categorisation.

16 Derivative Financial instruments (continued)

16 (a)

Cash flow hedges

Fair values and notionals

	Derivative assets December 2020 £000	Derivative liabilities December 2020 £000	Change in fair value in year £000	Notional amounts (GBP) £000
FX Forwards	45	(3,512)	41,438	481,948
Interest rate swaps	-	(182,060)	(73,996)	1,126,096
Inflation swaps	=	(51,538)	(43,537)	26,568
	<u>45</u>	<u>(237,110)</u>	<u>(76,095)</u>	<u>1,634,612</u>

	Derivative assets - December 2021 £000	Derivative liabilities - December 2021 £000	Change in fair value in year £000	Notional amounts (GBP) £000
FX Forwards	-	-	3,467	-
Interest rate swaps	-	(78,847)	103,211	1,842,796
Inflation swaps	=	(164,851)	(113,312)	18,781
	=	<u>(243,698)</u>	<u>(6,634)</u>	<u>1,861,577</u>

Included in the derivative liabilities above of £243,698k (2020: £237,110k) is £16,886k (2020: £30,530k) of current liabilities and £226,812k (2020: £206,580k) of non-current liabilities.

Note that the notionals disclosed for the interest rate and inflation swaps are based on the notionals used for the next payment calculation. These notionals will accrete and then amortise over the life of the swaps.

Notional amounts:

31 December:	2021 £000	2022 £000	2023 £000	2024 £000	2025 £000	2026 £000	2027-2036 £000
Interest rate swaps	1,842,796	1,104,120	1,059,713	1,009,052	954,474	896,038	833,449 declining to 57,791 in 2036
Inflation swaps	26,568	23,890	25,098	29,429	29,918	30,984	31,506 declining to 36,326 in 2035

16 (b)

Cash flow hedges - OCI reconciliation and P&L impacts

	Opening OCI- Jan 2020 £000	Amounts deferred in OCI £000	Reclass to assets under construction £000	Missed forecast £000	Closing OCI- Dec 2020 £000	Hedge ineffectiveness £000
FX Forwards	43,240	(38,797)	(1,510)	(216)	2,713	(66)
Interest rate swaps	105,415	84,939	(10,329)	(328)	179,697	(95)
Inflation swaps	<u>8,001</u>	<u>43,537</u>	=	=	<u>51,538</u>	=
	<u>156,656</u>	<u>89,679</u>	<u>(11,839)</u>	<u>(545)</u>	<u>233,948</u>	<u>161</u>

Notes to the financial statements (continued)

16 Derivative Financial instruments (continued)

16 (b) (Continued)

Cash flow hedges - OCI reconciliation and P&L impacts

	Opening OCI- Jan 2021 £000	Amounts deferred in OCI £000	Reclass to assets under construction £000	Missed forecast £000	Closing OCI- Dec 2021 £000	Hedge ineffectiveness £000
FX Forwards	2,713	19,843	(22,481)	(75)	-	18
Interest rate swaps	179,697	(77,133)	(21,932)	-	80,632	(102)
Inflation swaps	<u>51,538</u>	<u>113,313</u>	=	=	<u>164,851</u>	=
	<u>233,948</u>	<u>56,023</u>	<u>(44,413)</u>	<u>(75)</u>	<u>245,483</u>	<u>84</u>

16 (c)

Contractual maturity analysis - for derivative liabilities as at 31 December 2020

	0-1 Year £000	1-2 Years £000	2-5 Years £000	More than 5 years £000
FX Forwards	482,199	4,150	-	-
Interest rate swaps	26,904	25,577	54,195	85,182
Inflation swaps	-	-	(4,179)	69,950

Contractual maturity analysis - for derivative liabilities as at 31 December 2021

	0-1 Year £000	1-2 Years £000	2-5 Years £000	More than 5 years £000
Interest rate swaps	(16,309)	(5,926)	(18,750)	(46,954)
Inflation swaps	(206)	(2,503)	(16,574)	(184,652)

16 (d)

Average Strike terms of hedging instruments

	Mean average approach	Notional weighted approach
Interest rate swaps	1.69%	1.754%
Inflation swaps	2.30%	2.301%

16 (e)

Sensitivity Analysis

	100 bps fall in rates 2021 £000	100 bps rise in rates 2021 £000	100 bps rise in rates 2020 £000	100 bps rise in rates 2020 £000
Interest rate swaps	(108,938)	97,521	(138,910)	123,870
	100 bps fall in inflation curve 2021 £000	100 bps rise in inflation curve 2021 £000	100 bps rise in inflation curve 2020 £000	100 bps rise in inflation curve 2020 £000
Inflation swaps	147,486	(161,326)	166,869	(184,074)

Being as these hedging instruments are all designated in effective hedge relationships the impact of these changes would largely be to equity. The sensitivity analysis performed is based upon the management's view of reasonably possible outcomes.

Notes to the financial statements (continued)

16 Derivative Financial instruments (continued)

16(f)

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:

	Note	2021 £000 Carrying value	2020 £000 Carrying value	2021 £000 Fair value	2020 £000 Fair value
Financial assets at amortised cost					
Cash and cash equivalents	10	116,464	117,889	116,464	117,889
Other loans and receivables	9	61,017	-	61,017	-
Derivative financial instruments					
Used for hedging	16	-	45	-	45
Total financial assets		<u>177,481</u>	<u>117,934</u>	<u>177,481</u>	<u>117,934</u>
Liabilities at amortised cost					
Other interest-bearing loans and borrowings	11	2,800,469	1,980,889	2,800,469	1,980,992
Trade and other payables	12	63,148	360,560	63,148	360,560
Lease Liabilities		-	9,791	-	9,791
Derivative financial instruments					
Used for hedging	16	243,698	237,110	243,698	237,110
Total financial liabilities		<u>3,107,315</u>	<u>2,588,350</u>	<u>3,107,315</u>	<u>2,588,453</u>
Total financial instruments		<u>(2,929,834)</u>	<u>(2,470,416)</u>	<u>(2,929,834)</u>	<u>(2,470,519)</u>

The fair value of financial instruments that are not traded in an active market (for example OTC derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to value an instrument are observable, the instrument is included in Level 2 of the fair value hierarchy. All of the Company's financial instruments held at fair value fall into this categorisation.

The fair value of Other interest-bearing loans and borrowings is determined using Forward SONIA interest rates. The inputs used are Level 2.

Notes to the financial statements (continued)

16 Derivative Financial instruments (continued)

16(g) Liquidity risk

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

The Company's primary liquidity risk is associated with the settlement of Borrowings. The Company has reviewed its liquidity risk and has linked the repayment of its borrowings to the Company's lenders by projecting future revenues and costs to be generated from the project from Commercial Operation date up to the maturity of its dues based on undiscounted cash flow basis.

	Carrying amount	2021			
		< 1 years	1 to 2 years	2 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities					
Trade and other payables	63,148	63,148	-	-	-
Borrowings	2,800,469	193,318	973,877	520,849	1,441,978
	Carrying amount	2020			
		< 1 years	1 to 2 years	2 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000
Non-derivative financial liabilities					
Trade and other payables	360,560	360,560	-	-	-
Borrowings	1,980,889	45,210	467,693	370,725	1,541,174
Lease liabilities	9,791	9,791	-	-	-

17 Commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities as follows:

	2021	2020
	£000	£000
Property, plant and equipment	97,314	719,147

The capital commitments of £97,314k listed above are in relation to the EPCI contracts contracted and entered into prior to year ended 31 December 2021, these are all in relation to the construction of the Windfarm.

Notes to the financial statements (continued)

18 Related parties

Identity of related parties with which the Company has transacted

Engie S.A. – Ultimate parent company of GDF International SAS

EDP Renovaeis S.A. – 50% shareholder in OW Offshore, S.L.

GDF International SAS – 50% shareholder in OW Offshore, S.L.

OW Offshore, S.L. – Ultimate holding company of Ocean Winds UK Limited

Ocean Winds UK Limited – Intermediate holding company of Moray Offshore Renewable Power Limited

Moray Offshore Renewable Power Limited – Key shareholder (33.3%) in Moray East Holdings Limited

Delphis Holdings Limited – Key shareholder (23.3%) in Moray East Holdings Limited

Diamond Generating Europe Limited – Key shareholder in Diamond Green Limited

Diamond Green Limited – Key shareholder (33.4%) in Moray East Holdings Limited

International Power Limited – Wholly owned subsidiary forming part of the Engie S.A. Group

Engie UK Markets Limited (formerly IPM Energy Trading Limited) – Wholly owned subsidiary forming part of the Engie S.A. Group

Moray East Holdings Limited – Parent Company of Moray Offshore Windfarm (East) Limited

Details of Transaction during the year

Particulars	2021	2020
	£000	£000
Revenue billed to <i>Engie UK Markets Limited</i>	40,889	-
Cost of sales charged by <i>Engie UK Markets Limited</i>	132	-
Staff cost recharged by <i>Ocean Winds UK Limited</i>	3,163	3,851
Seat cost recharged by <i>Ocean Winds UK Limited</i>	548	600
IT Recharges recharged by <i>Ocean Winds UK Limited</i>	487	454
Other recharges by <i>Ocean Winds UK Limited</i>	131	87
Staff cost recharged by <i>Diamond Generating Europe Limited</i>	342	285
Staff cost recharged by <i>International Power Limited</i>	398	412

Details of balances outstanding at year end

Particulars	2021	2020
	£000	£000
Accrued income from <i>Engie UK Markets Limited</i>	14,211	-
Payable balances due to <i>Ocean Winds UK Limited</i>	305	502
Payable balances due to <i>International Power Limited</i>	66	-
Payable balances due to <i>Diamond Generating Europe Limited</i>	58	18

Notes to the financial statements (continued)

19 Subsequent events

Update on construction of the Windfarm

The Company achieved its Commercial Operation Date as defined under the financing arrangements on 1 April 2022.

Volatility in energy markets due to ongoing geo-political crisis

The Company is continuously monitoring the on-going impact of the COVID-19 pandemic, the market volatility caused by the current geopolitical situation in Ukraine and on the ongoing energy crisis in the UK and Europe, including the impact on economic activity and financial reporting. Whilst the current economic conditions continue to create uncertainty, they have not adversely affected the Company and there was no direct impact as at 31 December 2021, since the events described above are non-adjusting in nature.

Delay in Contract for Differences

Subsequent to year end, in accordance with the terms of the Contract for Differences agreement, the Company has opted to defer the start date of contract until 2023. This decision does not impact the financial statements of the Company for the year ended 31 December 2021, since the event is non-adjusting in nature. The Company is in the process of reviewing the changes to its hedge and revenue arrangements to ensure that the deferral does not adversely impact the financial risk management objectives of the Company.

Update on OFTO asset sale

The sale of the Transmission assets was ongoing at 31 December 2021. Subsequent to year end, the Company has completed the construction of transmission assets. Hence the assets have been reclassified to 'Asset held for sale' since the requisite conditions have been met.

The Company has also progressed its bidding process with OFGEM. A successful bidder has been identified, the process of handover is now awaiting the completion of the audit of Final Transfer Value by OFGEM and other related formalities linked to the sale of OFTO assets. The sale is formally expected to be completed by the end of 2022.

Update to repayment schedule for borrowing

Refer Note 11 for updates to borrowing repayments.

20 Ultimate parent company and parent company of larger group

The Company is controlled by its shareholders. The current shareholder is Moray East Holdings Limited (100%). Moray East Holdings Limited is controlled by several parties, none of which has overall control, as such there is no ultimate controlling party. Moray Offshore Windfarm (East) Limited does not form part of a larger group.