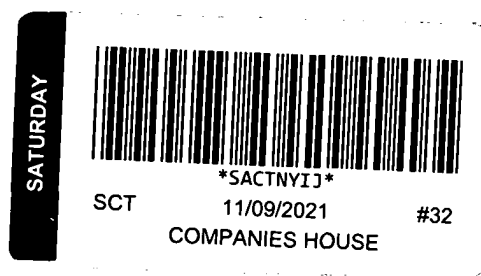


Moray Offshore Windfarm (East) Limited

Annual report and financial statements

Registered number 07101438

For the year ended 31 December 2020



Contents

Page

Directors' report	1
Statement of Directors' Responsibilities in respect of the Directors' Report and the Financial Statements	4
Independent auditors' report	5
Income Statement	9
Statement of Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Equity	12
Cash Flow Statement	13
Notes to the financial statements	14

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 Condor House, 10 St Paul's Churchyard, London, EC4M 8AL effective from 1 March 2019, previously 14/18 City Road, Cardiff, CF24 3DL.

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 is set to continue until construction is complete.

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 24th January 2020, offshore substation enabling works were completed.
- On 27th February 2020, completion of pile campaign.
- On 19th March 2020, cable manufacture, assembly FAT completed.
- By 4th July 2020, jacket installation started.
- On 8th August 2020, OSP & hook up commenced.
- On 28th August 2020, Civils circuit construction complete.
- On 5th October 2020, Commencement of IAC lay campaign 1.
- On 8th October 2020, OSEC lay & pull in to OSP complete.
- On 1st November 2020, Completion of IAC campaign 1 lay.
- On 8th November 2020, OSP installation & Hook Up completion.
- On 10th of November 2020, Completion of cable jointing.
- On 27th of December 2020, Completion of jacket installation.

Key performance indicators

Given the company's current activities and status of the construction project, analysis of performance for the year to 31 December 2020 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 £1,036k (2019: a loss of £636k). The directors do not recommend the payment of a dividend (2019: Nil). The results for the year are detailed in the profit and loss account which is set out on page 9. The financial position is set out on page 11.

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 (appointed 30 July 2020)
M R Haindaday (appointed 17 February 2020)
I Herrero
F Kumura
M M Maino
S Martinis Spettel
S W Thompson
Y Umemura (appointed 1 April 2020)
K Suzuki (resigned 31 March 2020)
D C M Cherel-Sparham (resigned 30 July 2020)

Directors' report *(continued)*

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 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 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 been some, but not a significant, impact on the operations 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.

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.

Note 14 provides quantitative information on the arrangements in place to address the foreign exchange, interest rate and inflation risks set out above.

Liquidity and Capital Risk – The company manages both liquidity and capital risk by way of the utilisation of funding facilities in order to meet the contractual commitments to capital expenditure as per the commitments detailed in note 14. Funding facilities have been provided and agreed based on an economic model for the development of the Offshore Windfarm project. Details of the funding facilities can be found in note 9.

Credit Risk – the company currently evaluates the risk associated with receivables and due to the current operations of the business such risk will be minimal until the construction of the Offshore Windfarm is complete and operational activity begins. The company does not currently have significant receivables due.

Post Balance sheet events

In February 2021, the company decided to change the existing construction strategy and has a consequence the existing land lease was early terminated, being agreed a partial compensation with the counterparty for the early termination.

Directors' report *(continued)*

Future developments

The Company plans to continue with its construction of the Windfarm with a goal to meet its Commercial Operation Date of 30 April 2022.

Political contributions

The Company did not make any political donations or incur any political expenditure during the year (2019:nil).

Going concern

As at 31 December 2020, the Company's current liabilities exceeded their current assets by £267,167k (31 December 2019: £51,852k). During the year, the COVID 19 virus has also affected the regular economic activity but to date there has been some, but not a significant, impact on the operations and financial results of the Company or on MOWEL.

The Company's principal activity during the period is to develop and construct an offshore windfarm in the Moray Firth and this activity is set to continue until construction is complete. The Company is forecasting a Commercial Operation Date of 30 April 2022, when the windfarm construction will be completed and commercial operations can commence. The construction of the windfarm is funded through committed outstanding loan facilities in the form of Transmission Term Facility and Generation Term Facility from a consortium of lenders and Shareholder loans, Equity Bridge loans and Guarantee Fee loans from its shareholders which the Company will utilise for funding the offshore wind project. As at 30 April 2021, the Company has undrawn borrowing facilities on account of the above arrangements amounting to £925m in GBP denominated facilities and €91m in EUR denominated facilities.

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 will commence 3 months after the COD and will be fully repaid by the maturity date. Equity Bridge and Guarantee fee loan repayments will be replaced by a Shareholder Loan at COD of the project or COD + 1 year depending on the year of maturity. Shareholder loan repayments will commence at COD and will be fully repaid by the maturity date.

The Directors have reviewed the Company's cash flow forecasts, sources of funding and liquidity, and potential mitigating actions for the period ending 31 May 2022 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.

Disclosure of information to auditors

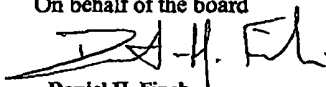
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make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

Condor House,
10 St Paul's Churchyard,
London, EC4M 8AL
28 May 2021

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.

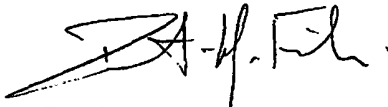
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

Condor House,
10 St Paul's Churchyard,
London, EC4M 8AL
28 May 2021

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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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: Balance Sheet as at 31 December 2020; 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.

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 2020 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.

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 natural gas markets 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 and potential 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 tax matters, non-compliance with laws and regulations and fraud;
- Review of minutes of meetings of 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;
- Identifying and testing the validity of journal entries, in particular any journal entries posted with unusual account combinations and unusual words; and
- Performing procedures to test whether the migration of IT Systems during the period have been executed appropriately with a focus on migration of purchase orders data, to check if any fictitious purchase orders have been created.

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.

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
28 May 2021

Income Statement
For year ended 31 December 2020

	Note	2020	2019
		£000	£000
Administrative expenses		(268)	(815)
Operating Loss		(268)	(815)
Finance income	4	1,770	1,119
Finance costs	4	<u>(467)</u>	<u>(1,659)</u>
Finance costs-net		1,303	(540)
Profit/(Loss) before income tax		<u>1,035</u>	<u>(1,355)</u>
Income tax (credit)/ expense	5	(1)	(719)
Profit/(Loss) for the year		<u>1,036</u>	<u>(636)</u>

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

The notes on pages 14 to 34 are an integral part of these financial statements.

Statement of Comprehensive Income

For year ended 31 December 2020

	2020	2019
	£000	£000
Profit/(Loss) for the year	1,036	(636)
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	(59,475)	(63,386)
Other comprehensive expense relating to the year, net of tax	<u>(59,475)</u>	<u>(63,386)</u>
Total comprehensive expense for the year	<u>(58,439)</u>	<u>(64,022)</u>

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

The notes on pages 14 to 34 are an integral part of these financial statements.

Balance Sheet

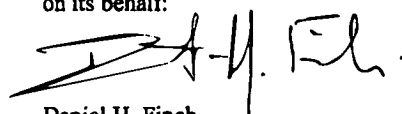
As at 31 December 2020

	Note	2020 £000	2019 £000
Non-current assets			
Property, Plant and equipment	6	2,222,300	1,173,805
Deferred tax assets	5	73,636	42,915
Derivative financial instruments	14	45	370
Right of use assets	6	<u>10,273</u>	<u>5,933</u>
		2,306,254	1,223,023
Current assets			
Trade and other receivables	7	14,325	7,647
Cash and cash equivalents	8	<u>117,889</u>	<u>132,426</u>
		132,214	140,073
Total assets		<u>2,438,468</u>	<u>1,363,096</u>
Non-current liabilities			
Provisions	12	5,578	5,474
Deferred Income	11	1,146	1,145
Borrowings	9	1,980,889	1,148,181
Derivative financial instruments	14	206,580	129,797
Deferred tax liabilities	5	29,185	16,284
Lease Liabilities	6	<u>5,045</u>	<u>1,187</u>
		2,228,423	1,302,068
Current liabilities			
Derivative financial instruments	14	30,530	30,605
Trade and other payables	10	364,105	156,574
Lease Liabilities	6	<u>4,746</u>	<u>4,746</u>
		399,381	191,925
Total liabilities		<u>2,627,804</u>	<u>1,493,993</u>
Net liabilities		<u>(189,336)</u>	<u>(130,897)</u>
Equity			
Share capital	13	10,000	10,000
Accumulated losses	13	(9,838)	(10,874)
Hedge reserve	13	(189,498)	(130,023)
Total equity		<u>(189,336)</u>	<u>(130,897)</u>

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 on pages 14 to 34 are an integral part of these financial statements.

The financial statements on pages 9 to 34 was authorised for issue by the director on 28 May 2021 and were signed on its behalf:



Daniel H. Finch
Director

Company registered number: 07101438
28 May 2021

Statement of Changes in Equity
For year ended 31 December 2020

	Share capital £000	Accumulated losses £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2019	<u>10,000</u>	<u>(10,238)</u>	<u>(66,637)</u>	<u>(66,875)</u>
Loss for the year	-	(636)	-	(636)
Other comprehensive expense for the year	-	-	(63,386)	(63,386)
Balance at 31 December 2019	<u>10,000</u>	<u>(10,874)</u>	<u>(130,023)</u>	<u>(130,897)</u>

	Share capital £000	Accumulated losses £000	Hedge reserve £000	Total equity £000
Balance at 1 January 2020	<u>10,000</u>	<u>(10,874)</u>	<u>(130,023)</u>	<u>(130,897)</u>
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 represents the value of shares issued and paid. Refer to note 13 for detailed information.

The notes on pages 14 to 34 are an integral part of these financial statements.

Cash Flow Statement
for year ended 31 December 2020

	<i>Note</i>	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cash flows from operating activities			
Profit/(Loss) before tax for the year		1,036	(1,355)
<i>Adjustments for:</i>			
Movement in provisions		104	102
Net financial expense		(1,242)	450
Fair value adjustment to derivatives		=	(66,764)
		(102)	(67,567)
(Decrease)/Increase in trade and other receivables	7	(6,678)	(19,839)
Increase/(Decrease) in trade and other payables	10	<u>214,595</u>	<u>72,117</u>
		207,917	52,278
Net cash flow generated from/(used in) operating activities		207,815	(15,289)
Cash flows from investing activities			
Investment in tangible fixed assets		<u>(1,010,306)</u>	<u>(725,196)</u>
Net cash used in investing activities		(1,010,306)	(725,196)
Cash flows from financing activities			
Net financial expense		(7,064)	34,159
Proceeds from borrowings		793,500	783,693
Net cash generated from financing activities		786,436	817,852
Net increase/(decrease) in cash and cash equivalents		(16,055)	77,367
Foreign currency effect in cash and cash equivalents		1,518	(888)
Cash and cash equivalents at 1 January		132,426	55,947
Cash and cash equivalents at 31 December	8	<u>117,889</u>	<u>132,426</u>

The notes on pages 14 to 34 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 £38,189,000.

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 Condor House, 10 St Paul's Churchyard, London, EC4M 8AL effective from 1 March 2020, previously 14/18 City Road, Cardiff, CF24 3DL.

The company financial statements have been prepared and approved by the directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 Going concern

As at 31 December 2020, the Company's current liabilities exceeded their current assets by £267,167k (31 December 2019: £51,852k). During the year, the COVID 19 virus has also affected the regular economic activity but to date there has been some, but not a significant, impact on the operations and financial results of the Company or on MOWEL.

The Company's principal activity during the period is to develop and construct an offshore windfarm in the Moray Firth and this activity is set to continue until construction is complete. The Company is forecasting a Commercial Operation Date of 30 April 2022, when the windfarm construction will be completed and commercial operations can commence. The construction of the windfarm is funded through committed outstanding loan facilities in the form of Transmission Term Facility and Generation Term Facility from a consortium of lenders and Shareholder loans, Equity Bridge loans and Guarantee Fee loans from its shareholders which the Company will utilise for funding the offshore wind project. As at 30 April 2021, the Company has undrawn borrowing facilities on account of the above arrangements amounting to £925m in GBP denominated facilities and €91m in EUR denominated facilities.

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 will commence 3 months after the COD and will be fully repaid by the maturity date. Equity Bridge and Guarantee fee loan repayments will be replaced by a Shareholder Loan at COD of the project or COD + 1 year depending on the year of maturity. Shareholder loan repayments will commence at COD and will be fully repaid by the maturity date.

The Directors have reviewed the Company's cash flow forecasts, sources of funding and liquidity, and potential mitigating actions for the period ending 31 May 2022 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.

1.3 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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.4 Classification of financial instruments issued by the Company

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

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.
- (c) 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.

1.5 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.6 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. 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 (under construction) 25 years
- Plant and equipment 5 years

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

Plant & equipment refers to the Offshore 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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.7 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.

1.8 Intangible assets

Research and development

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

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

1.9 Impairment

Financial assets (including receivables)

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

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

Non-financial assets

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

1.10 Expenses

Financing income and expenses

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

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.11 Provisions

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

1.12 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

1.13 Derivatives

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 Company applies the FRS 102 Interest Rate Benchmark Reform Amendment.

The potential sources of hedge ineffectiveness are as follows:

1. 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.
2. 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.
3. 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 dedesignated or proportionally designated as appropriate.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.14 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, 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.

We have accounted for our obligations to decommission the assets in accordance with the agreements signed with the Crown Estate. These set out that the Company must pay the costs of decommissioning the project to return the land and sea bed to its original state upon the expiry of the lease. The agreements state that a decommissioning plan must be formally agreed with the Secretary of State as per Energy Act, 2004, setting out the way in which this will be executed. As at 31 December 2020, the decommissioning plan had not yet been agreed, therefore no liability for decommissioning has been recorded. When the plan is agreed, the company expects to record its estimation of the financial obligation to decommission the assets in accordance with the decommissioning plan.

1.15 Leases

The company currently has a land lease agreement with a 15-month duration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

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.

1.16 New and amended standards adopted by the company

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8;
- Definition of a Business – Amendments to IFRS 3;
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7; and
- Revised Conceptual Framework for Financial Reporting.

The Group also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2018-2020 Cycle.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the company. These standards are not expected to have a material impact on the entity in the current or future reporting periods on foreseeable future transactions.

Notes to the financial statements (continued)

Accounting policies (continued)

1.17 Critical Accounting estimates and judgements

Impairment of non-financial assets

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

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

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

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

Capitalisation of Assets

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

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

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

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.

Notes to the financial statements (continued)

2 Expenses and Auditors' remuneration:

Included in Operating Loss are the following:

	2020 £000	2019 £000
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	30	18
<i>Other services</i>		
Audit related services	6	-
	<u>36</u>	<u>18</u>

3 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	
	2020	2019
Administration	16	8
Technical	<u>4</u>	<u>10</u>
	<u>20</u>	<u>18</u>

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	729	228
Social security costs	79	26
Other Pension costs- defined contribution	<u>65</u>	<u>20</u>
	<u>873</u>	<u>274</u>

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.

4 Finance income costs

	2020 £000	2019 £000
Finance income		
Bank interest received	252	1,119
Net foreign exchange income	<u>1,518</u>	-
Total finance income	<u>1,770</u>	<u>1,119</u>
Finance costs		
Unwind of discount on provisions	104	102
Net foreign exchange loss	-	888
Hedging ineffectiveness	385	669
IFRS 16 Finance Expense	60	-
Borrowing costs and associated depreciation	67,024	55,256
Capitalised borrowing costs and associated depreciation	<u>(67,106)</u>	<u>(55,256)</u>
Total finance costs	<u>467</u>	<u>1,659</u>

Finance Income & Costs - Borrowing Costs are capitalised as part of the cost of the asset with a capitalisation rate of 100% (2019: 100%). FX exposure and hedging inefficiency are not capitalised, being this reflected on the financial costs value.

Notes to the financial statements (continued)

5 Income tax expense

Recognised in the income statement

	2020 £000	2019 £000
Current tax expense	-	-
Deferred tax expense	(1)	(719)
Income Tax Expense reported in the Income Statement	(1)	(719)

This note provides an analysis of the company's income tax expense, and shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the company's position.

Reconciliation of effective tax rate

	2020 £000	2019 £000
Profit/(Loss) for the year	1,035	(1,355)
Total tax expense	-	-
Profit/(Loss) excluding taxation	1,035	(1,355)
Tax using the UK corporation tax rate of 19.00%	196	(257)
Adjustments in respect of prior years	-	(719)
Non-deductible expenses	42	28
Effects of group relief	-	2
Deferred tax movements	(239)	227
Income Tax Expense reported in the Income Statement	(1)	(719)

The company has 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 £6,425,514 (2019: £6,822,256).

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Deferred tax

	2020 £000	2019 £000
Provision at start of period	26,631	12,905
Adjustments in respect of prior years	-	743
Deferred tax charge to income statement for the period	1	-
Temporary differences on derivatives	17,819	12,983
Deferred tax	44,451	26,631

Breakdown of deferred tax asset/(liability) by nature

	2020 £000	2019 £000
Derivatives	44,450	26,647
Fixed assets	(29,185)	(11,716)
Corporate interest - net restriction	25,125	8,160
Others	4,061	3,540
Deferred tax	44,451	26,631

Notes to the financial statements (continued)

6 Non-financial assets and liabilities

6(a)

Property, Plant and Equipment

	Plant and equipment £000	Assets under construction £000	Total £000
Cost			
Balance at 1 January 2019	18,357	439,152	457,509
Additions	=	<u>730,241</u>	<u>730,241</u>
Balance at 31 December 2019	18,357	1,169,393	1,187,750
Accumulated Depreciation and impairment			
Balance at 1 January 2019	(11,423)	-	(11,423)
Depreciation charge for the year	<u>(2,522)</u>	=	<u>(2,522)</u>
Balance at 31 December 2019	<u>(13,945)</u>	=	<u>(13,945)</u>
Net book value At 31 December 2019	4,412	1,169,393	1,173,805
Cost			
Balance at 1 January 2020	18,357	1,169,393	1,187,750
Additions	=	<u>1,051,017</u>	<u>1,051,017</u>
Balance at 31 December 2020	18,357	2,220,410	2,238,767
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>

The amount of borrowing costs capitalised during the period was £67,105,625 (2019: £55,255,927) with a capitalisation rate of 100% (100%).

Notes to the financial statements (continued)

6 Non-financial assets and liabilities (Continued)

6(b)

Leases

	2020 £000	2019 £000
Right of use assets		
Land Lease	<u>10,273</u>	<u>5,933</u>
	<u>10,273</u>	<u>5,933</u>
Lease Liabilities		
Current	4,746	4,746
Non-current	<u>5,045</u>	<u>1,187</u>
	<u>9,791</u>	<u>5,933</u>

The company has entered into a land lease agreement, which was effective from July 2020 onwards with a 15 months duration. The committed value that results from this agreement was recorded considering the incremental borrowing rate implicit in the lease.

7 Trade and other receivables

	2020 £000	2019 £000
Other trade receivables	14,325	7,641
Prepayments	-	6
	<u>14,325</u>	<u>7,647</u>

8 Cash and cash equivalents

	2020 £000	2019 £000
Cash and cash equivalents	<u>117,889</u>	<u>132,426</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.

9 Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 14.

	2020 £000	2019 £000
Non-current liabilities		
Interest bearing Loans	793,835	754,627
Transmission Term Facility	452,154	276,954
Generation Term Facility	<u>734,900</u>	<u>116,600</u>
	<u>1,980,889</u>	<u>1,148,181</u>

Notes to the financial statements (continued)

9 Borrowings (continued)

	Year of Maturity	2020 £000	2019 £000
Payables: falling due more than one year			
Transmission Term Facility	2038	452,154	276,954
Generation Term Facility	2038	<u>734,900</u>	<u>116,600</u>
Borrowing from the Company's parent sourced from its shareholders as below:		1,187,054	393,554
<u>Shareholder loans</u>			
Moray Offshore Renewable Power Ltd	2038	24,697	30,874
China Three Gorges (UK) Limited	2038	80,851	76,350
<u>Equity Bridge loans</u>			
Moray Offshore Renewable Power Ltd	2022	220,000	212,258
Delphis Holdings Limited	2022	169,151	168,707
Diamond Green Limited	2023	242,475	242,111
<u>Guarantee Fee Loans</u>			
Moray Offshore Renewable Power Ltd	2022	19,299	7,927
Delphis Holdings Limited	2022	14,752	6,506
Diamond Green Limited	2023	<u>22,610</u>	<u>9,894</u>
		793,835	754,627
Total		<u>1,980,889</u>	<u>1,148,181</u>

Repayment terms:

Transmission Term Facility and Shareholder loan repayments will commence at Commercial Operation Date (COD) and will be fully repaid by the maturity date.

Generation Term Facility repayments will commence 3 months after the Commercial Operation Date (COD) and will be fully repaid by the maturity date.

Equity Bridge and Guarantee fee loan repayments will be repaid at COD or COD + 1 year depending on the year of maturity.

The borrowings listed above are all considered to be at market interest rates, and the security on the loans is the project's going concern, if the borrower defaults on the loan repayments then the project's future is at risk.

Notes to the financial statements (continued)

10 Trade and other payables

	2020	2019
	£000	£000
Current		
Trade payables due to related parties	495	1,258
Other trade payables	335,330	119,972
Accrued interest	<u>28,280</u>	<u>35,344</u>
	<u>364,105</u>	<u>156,574</u>

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.

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.

11 Deferred income

	2020	2019
	£000	£000
Other payables – Deferred Income	<u>1,146</u>	<u>1,145</u>
	<u>1,146</u>	<u>1,145</u>

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.

12 Provisions

	Decommissioning Provision
	£000
Balance at 1 January 2020	5,474
Unwinding of discounted amount	<u>104</u>
Balance at 31 December 2020	<u>5,578</u>

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.

Notes to the financial statements (continued)

13 Capital and reserves

Share capital

Ordinary share:

<i>Authorised and issued</i>	2020		2019	
	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>	2020		2019	
	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 (2019: nil).

Accumulated losses	2020 £000	2019 £000
Accumulated losses at 1 January	10,874	10,238
(Loss)/Profit for the year	<u>(1,036)</u>	<u>636</u>
Total accumulated losses at 31 December	<u>9,838</u>	<u>10,874</u>

Hedge reserve	2020 £000	2019 £000
Hedging reserve		
Accumulated cash flow hedge loss at 1 January	130,023	66,637
Loss on effective portion of cashflow hedge for the year (net of tax)	<u>59,475</u>	<u>63,386</u>
Total cash flow hedge reserve at 31 December	<u>189,498</u>	<u>130,023</u>

Notes to the financial statements (continued)

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

The Company's principal financial instruments comprise borrowings, cash and other items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Company's operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments is undertaken for speculative purposes. There has been no significant change to the Company's exposure to market risks during 2020. 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 2020.

(iii) 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:

1. 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.
2. 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
3. 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.

Notes to the financial statements (continued)

14 Derivative Financial instruments (continued)

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 dedesignated or proportionally designated as appropriate.

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 GBP Libor and 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.

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.

14 (a)

Cash flow hedges

Fair values and notionals

	Derivative assets December 2019 £000	Derivative liabilities December 2019 £000	Change in fair value in year £000	Notional amounts (GBP) £000
FX Forwards	370	(45,274)	(61,924)	988,715
Interest rate swaps	-	(107,127)	(21,665)	319,771
Inflation swaps	=	(8,001)	5,015	26,568
	<u>370</u>	<u>(160,402)</u>	<u>(78,574)</u>	<u>1,335,054</u>
	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>

Included in the derivative liabilities above of £237,110k (2019: £160,402k) is £30,530k (2019: £30,605k) of current liabilities and £206,580k (2019: £129,797k) 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.

Notes to the financial statements (continued)

14 Derivative Financial instruments (continued)

14 (a) (continued)

Notional amounts:

31 DECEMBER:	2020	2021	2022	2023-2025
	£000	£000	£000	£000
FX FORWARDS	<u>481,948</u>	<u>477,798</u>	<u>4,150</u>	<u>-</u>
INTEREST RATE SWAPS	<u>1,126,096</u>	<u>1,842,874</u>	<u>1,104,120</u>	<u>954,474</u>
INFLATION SWAPS	<u>26,568</u>	<u>25,568</u>	<u>25,568</u>	<u>257,603</u>
TOTAL	<u>1,634,612</u>	<u>2,346,240</u>	<u>1,133,838</u>	<u>1,212,077</u>

14 (b)

Cash flow hedges - OCI reconciliation and P&L impacts

	Opening OCI- Jan 2019 £000	Amounts deferred in OCI £000	Reclass to assets under construction £000	Closing OCI- Dec 2019 £000	Hedge ineffectiveness £000
FX Forwards	(17,446)	65,611	(4,925)	43,240	96
Interest rate swaps	46,879	60,879	(2,343)	105,415	46
Inflation swaps	<u>50,829</u>	<u>(42,828)</u>	<u>-</u>	<u>8,001</u>	<u>-</u>
	<u>80,262</u>	<u>83,662</u>	<u>(7,268)</u>	<u>156,656</u>	<u>142</u>

	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)	(220)	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>-</u>	<u>-</u>	<u>51,538</u>	<u>-</u>
	<u>156,656</u>	<u>89,679</u>	<u>(11,839)</u>	<u>(545)</u>	<u>233,948</u>	<u>161</u>

14 (c)

Contractual maturity analysis - for derivative liabilities as at December 2019

	0-1 Year £000	1-2 Years £000	2-5 Years £000	More than 5 years £000
FX Forwards	445,737	467,911	4,150	-
Interest rate swaps	6,412	17,207	35,446	55,785
Inflation swaps	-	-	1,759	(10,945)

Contractual maturity analysis - for derivative liabilities as at 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

Notes to the financial statements (continued)

14 Derivative Financial instruments (continued)

14 (d)

Average Strike terms of hedging instruments

FX Forwards (EUR)	0.90
FX Forwards (USD)	1.33
Interest rate swaps	1.69%
Inflation swaps	2.30%

14 (e)

Sensitivity Analysis

FX forwards

	10% weakening of GBP 2020 £000	10% strengthening of GBP 2020 £000	10% weakening of GBP 2019 £000	10% strengthening of GBP 2019 £000
FX Forwards (EUR)	(47,635)	47,655	(59,375)	104,069
FX Forwards (USD)	78	96	5,888	(8,464)

	100 bps fall in rates 2020 £000	100 bps rise in rates 2020 £000	100 bps rise in rates 2019 £000	100 bps rise in rates 2019 £000
Interest rate swaps	(138,910)	123,870	(137,699)	121,626

Inflation swaps

	100 bps fall in inflation curve 2020 £000	100 bps rise in inflation curve 2020 £000	100 bps rise in inflation curve 2019 £000	100 bps rise in inflation curve 2019 £000
Inflation swaps	166,869	(184,074)	164,363	(194,337)

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)

14 Derivative Financial instruments (continued)

14(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:

	Notes	2020 £000 Carrying value	2019 £000 Carrying value	2020 £000 Fair value	2019 £000 Fair value
Financial assets at amortised cost					
Cash and cash equivalents	8	117,889	132,426	117,889	132,426
Other loans and receivables	7	14,325	87	14,325	87
Derivative financial instruments					
Used for hedging	14a	45	370	45	370
Total financial assets		<u>132,259</u>	<u>132,883</u>	<u>132,259</u>	<u>132,883</u>
Liabilities at amortised cost					
Other interest-bearing loans and borrowings	9	1,980,889	1,148,181	1,980,992	1,148,181
Trade and other payables	10	364,105	156,574	364,104	156,574
Lease Liabilities	6	9,791	5,933	9,791	5,933
Derivative financial instruments					
Used for hedging	14a	237,110	160,402	237,110	160,402
Total financial liabilities		<u>2,591,895</u>	<u>1,471,090</u>	<u>2,591,997</u>	<u>1,471,090</u>
Total financial instruments		<u>(2,459,636)</u>	<u>(1,338,207)</u>	<u>(2,459,738)</u>	<u>(1,338,207)</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 Libor interest rates. The inputs used are Level 2.

Notes to the financial statements (continued)

14(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.

	Carrying amount £'000	< 1 years £'000	2020		
			1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000
Non-derivative financial liabilities					
Trade and other payables	364,105	364,105	-	-	-
Borrowings	1,980,889	45,210	467,693	370,725	1,541,174
Lease liabilities	9,791	9,791	-	-	-
	Carrying amount £'000	< 1 years £'000	2019		
			1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000
Non-derivative financial liabilities					
Trade and other payables	156,574	156,574	-	-	-
Borrowings	1,148,181	24,272	24,272	706,113	695,495
Lease liabilities	5,933	2,433	3,609	-	-

15 Commitments

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

	2020	2019
	£000	£000
Property, plant and equipment	719,147	1,392,531

The capital commitments of £719,147 thousand listed above are in relation to the EPCI contracts contracted and entered into prior to year ended 31 December 2020, these are all in relation to the construction of the Windfarm.

16 Subsequent events

In February 2021, the company decided to change the existing construction strategy and has a consequence the existing land lease was early terminated, being agreed a partial compensation with the counterparty for the early termination.

Notes to the financial statements (continued)

17 Related parties

Identity of related parties with which the Company has transacted

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

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

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

Details of Transaction during the year

During the year, Ocean Winds UK Limited recharged staff costs of £6,174,666 (2019: £2,193,000), of which the full amount was capitalised. At the year end, a total of £6,933 remains outstanding.

During the year Diamond Generating Europe Limited recharged staff costs of £285,327 (2019: £298,061) of which the full amount was capitalised.

During the year International Power Limited recharged staff costs of £494,935 (2019: £1,314,079) of which the full amount was capitalised.

18 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.