

Sober Hill Wind Farm Limited

Company Number: 05141483

Annual Report and Financial Statements

For the year ended 31 December 2018



Directors

S Pinnell
C Foreman
F d'Alonzo
D Vermeer

Secretary

S Gregory

Auditor

Ernst & Young LLP
Statutory Auditor
2 St Peter's Square
Manchester
M2 3EY

Bankers

MUFG Bank, Limited
Ropemaker Place
25 Ropemaker Street
London, EC2Y 9AN

Registered Office

Level 20
25 Canada Square
London
E14 5LQ

Strategic report

The Directors present the Strategic report of Sober Hill Wind Farm Limited (the Company) for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is the generation of electricity at a wind farm. The Directors do not expect the current activities of the Company to change in the future.

Business review

The accompanying financial statements have been prepared in accordance with Financial Reporting Standard 101-Reduced Disclosure Framework (FRS 101) for both periods presented. The Company has taken advantage of the disclosure exemptions allowed under this standard. There were no material recognition or measurement differences arising on the adoption of FRS 101.

Power market fundamentals improved during 2018 resulting in higher prices. Generation has been increased, but remains lower than forecast due to poor wind yields.

During the year, the Company generated 32.4 GWh of electricity and achieved an average load factor of 30.0%. In the prior year the Company generated 32.2 GWh of electricity and achieved an average load factor of 29.9%. The Company's KPIs include maximising the reliability and availability to maximise the average load factor.

The results of the Company are as follows:

	31 December 2018 £'000	31 December 2017 £'000
Turnover	3,299	2,817
Cost of sales	(946)	(916)
Operating profit	1,985	1,558
Profit for the financial year after taxation	<u>1,283</u>	<u>1,082</u>

The results of the Company are set out in the Statement of Total Comprehensive Income on page 11 and show a profit on ordinary activities before taxation of £1,586,000 (2017: profit of £1,160,000) and a profit after taxation of £1,283,000 (2017: profit of £1,082,000).

The Directors approved payment of interim dividends as shown in note 9 on page 23.

Financial risk management objectives and policies

The Company finances its activities with a loan from its parent company and cash. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into foreign exchange forward contracts, the purpose of which is to manage currency exchange.

The Company's financial instruments therefore give rise to interest rate, credit, price and liquidity risk. Information on how these risks arise is set out below, as are the objectives, policies and processes for their management and the methods used to measure each risk.

Strategic report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as follows:

Liquidity and interest rate risk

The Company is partially financed by a group loan from its immediate parent company. The repayment schedule of the loan is flexible and interest has been charged on the loan at market rates. The Company has no third party debt. The Directors have reviewed the repayment terms of the intercompany loan which state that repayment will not be required until the Company has sufficient funds.

Market risk

The key risks are wind availability, operational breakdown, wholesale electricity prices and legislative change. Wind availability and energy price volatility risk is mitigated where possible through rigorous project assessment and constant review of the forecast profitability of the project. The risk of operational breakdown is mitigated through ongoing maintenance support from the turbine manufacturer Servion GmbH.

Credit risk

The credit risk from counterparties is assessed during negotiation of the Power Purchase Agreement (PPA) for the sale of all Renewable Obligation Certificates, energy and embedded benefits generated by the wind farm to the PPA counterparty, over the life of the PPA. The assessment identifies the form and value of credit support required from the counterparty and is stated within the terms and conditions of the PPA.

Employees

The Company had no employees (2017: none) and incurred no employee related costs in the financial year (2017: £nil). The UK renewables portfolio management costs, including staff costs, are charged as a single management cost from Engie UK Wind Services Limited to the Company's immediate parent undertaking Hayabusa Limited.

Events after the end of the reporting period

Servion GmbH ("Servion") is the O&M provider of the company's wind farm. On 9 April 2019 Servion applied for the opening of insolvency proceedings over its assets with a court in Hamburg. Insolvency proceedings regarding Servion in the form of self-administration proceedings were opened in Germany on 1 July 2019 and a custodian was appointed. The administration proceedings of a key supplier such as Servion qualify as a default under syndicated facilities agreement entered into by the parent undertaking, Hayabusa Limited, until rectified. The implications of the default are that the borrowings under the agreement are repayable on demand. As part of this process we have agreed a cure plan with the lenders indicating our proposed procurement program to replace Servion as the O&M contractor should this be required to remedy the default. The terms of the cure plan state that management has to recommend a replacement contractor and present a form of replacement agreements within agreed timeframes. At the date of signing the accounts Servion is continuing to provide services as contracted therefore no steps have been taken to replace these services with an alternative provider. Alternative O&M providers have been identified should Servion cease to provide the services or at the request of the lenders.

There have been no other significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Strategic report (continued)

Future developments

The future objective of the business is to maximise financial returns generated from the assets. The Directors do not expect this objective to change in the foreseeable future.

By order of the Board



C Foreman

Director

23 September 2019

Directors' report

The Directors present their report and audited financial statements of Sober Hill Wind Farm Ltd (the Company) for the year ended 31 December 2018.

Information disclosed in the Strategic report:

The following information has been disclosed in the Strategic report:

- Principal activities
- Business review
- Principal risks and uncertainties
- Employees
- Events after the end of the reporting period
- Future developments

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The Strategic report also considers the principal risks and uncertainties facing the Company and its policies and processes for managing these. The Company's Directors have reviewed the repayment terms of the intercompany loan and future net cash flows, including sensitivities, of the wind farm which they consider sufficient to meet the current loan obligations. As explained in the post balance sheet note the company's O&M provider, Servion, has instigated insolvency proceedings. At the date of approval of the accounts Servion are continuing to provide the services as contracted and the parent undertaking, Hayabusa Limited, has a letter of support from its shareholders. Therefore, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Directors

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

C Foreman
S Pinnell
F d'Alonzo
D Vermeer

The company secretaries who held office during the financial year and up to the date of this report were:

S Gregory

Directors' and officers' liability insurance

During the year ended 31 December 2018 ENGIE S.A. maintained insurance for the Directors S Pinnell and C Foreman whilst the Directors F d'Alonzo and D Vermeer were covered by a policy maintained by Equitix Limited. This insurance is used to indemnify them against certain liabilities which they may incur in their capacity as Directors or officers of the Company, including liabilities in respect of which the Company is itself unable to provide an indemnity by virtue of Section 232 of the Companies Act 2006 (2017: same).

Share capital

The Company's share capital comprises ordinary shares of £1 each which rank pari passu with each other in respect of all rights, including dividend, voting, and return of capital (2017: same).

Directors' report (continued)

Dividends

The Company paid interim dividends of £1,379,000 during the year (2017: £984,000). The Directors do not propose the payment of a final dividend for the year (2017: £nil).

Disclosure of information to the auditor

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Pursuant to Section 485 of the Companies Act 2006, Ernst & Young LLP will be deemed to be appointed as the auditor.

By order of the Board



C Foreman

Director

23 September 2019

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Sober Hill Wind Farm Limited

Opinion

We have audited the financial statements of Sober Hill Wind Farm Limited for the year ended 31 December 2018, which comprise the Statement of Total Comprehensive Income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report

to the members of Sober Hill Wind Farm Limited (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Independent auditor's report

to the members of Sober Hill Wind Farm Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Ernst & Young LLP

Anne Wong (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

27 September 2019

Statement of Total Comprehensive Income
for the year ended 31 December 2018

		2018	2017
	Note	£'000	£'000
Turnover		3,299	2,817
Cost of sales		(946)	(916)
Gross profit		<u>2,353</u>	<u>1,901</u>
Administrative expenses		(368)	(343)
Operating profit	3	<u>1,985</u>	<u>1,558</u>
Interest payable and similar charges	7	(399)	(398)
Profit on ordinary activities before taxation		<u>1,586</u>	<u>1,160</u>
Tax charge on profit on ordinary activities	8	(303)	(78)
Profit for the financial year		<u><u>1,283</u></u>	<u><u>1,082</u></u>

All realised profits arise as a result of continuing operations.

The notes on pages 14 to 28 form part of these financial statements.

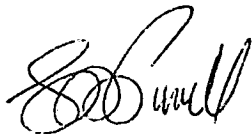
Balance sheet

as at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible fixed assets	10	13,035	13,692
		<u>13,035</u>	<u>13,692</u>
Current assets			
Debtors			
- due within one year	11	988	1,312
- due after one year	12	30	30
Cash at bank and in hand		194	160
		<u>1,212</u>	<u>1,502</u>
Total current assets			
Current liabilities			
Creditors: amounts falling due within one year	13	(1,352)	(1,275)
Net current (liabilities) / assets		<u>(140)</u>	<u>227</u>
Total assets less current liabilities			
		12,895	13,919
Creditors: amounts falling due after more than one year			
	14	(11,279)	(12,239)
Provisions for liabilities and charges	15	(965)	(933)
Net assets		<u>651</u>	<u>747</u>
Capital and reserves			
Called up share capital	17	-	-
Retained earnings		651	747
Equity shareholder's funds		<u>651</u>	<u>747</u>

The notes on pages 14 to 28 form part of these financial statements.

The financial statements of Sober Hill Wind Farm Limited, registered number 05141483, were approved and authorised for issue by the Board of Directors on 23 September 2019 and signed on its behalf by:



S Pinnell
Director

Statement of changes in equity

for the year ended 31 December 2018

	Note	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017		-	649	649
Total comprehensive income		-	1,082	1,082
Dividends	9	-	(984)	(984)
		-----	-----	-----
At 31 December 2017		-	747	747
Total comprehensive income		-	1,283	1,283
Dividends	9	-	(1,379)	(1,379)
		-----	-----	-----
At 31 December 2018		-	651	651
		=====	=====	=====

The notes on pages 14 to 28 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2018

1. General information

Sober Hill Wind Farm Limited (the Company) is a private limited company incorporated and domiciled in the United Kingdom. The Company is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 2, 3 and 4.

These financial statements are separate financial statements. The Company's results are included in the group accounts of Hayabusa Limited. The group accounts of Hayabusa Limited are available to the public and can be obtained from Level 20, 25 Canada Square, London, E14 5LQ.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

2.1 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The Strategic report also considers the principal risks and uncertainties facing the Company and its policies and processes for managing these. The Company's Directors have reviewed the repayment terms of the intercompany loan and future net cash flows, including sensitivities, of the wind farm which they consider sufficient to meet the current loan obligations. As explained in the post balance sheet note the company's O&M provider, Servion, has instigated insolvency proceedings. At the date of approval of the accounts Servion are continuing to provide the services as contracted and the parent undertaking, Hayabusa Limited, has a letter of support from its shareholders. Therefore, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

2.2 Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100), as issued by the Financial Reporting Council. The financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council and in accordance with applicable accounting standards. These financial statements have also been prepared on the going concern basis, and under historical cost convention.

As permitted by FRS 101, the Company has taken advantage of disclosure exemptions from applying the following requirements under that standard in relation to:

- i. financial instruments as required by IFRS 7 'Financial Instruments: Disclosures';
- ii. financial instruments valuation techniques and inputs used for fair value measurement as required by paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- iii. the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of property, plant and equipment (paragraph 73(e) of IAS 16 Property, Plant and Equipment);
- iv. the requirements of IAS 7 Statement of Cash Flows to present a statement of cash flows for the period and the disclosure of cash flow information;
- v. the IAS 1 paragraph 16 requirement to state the compliance with all the requirements of IFRSs;
- vi. the IAS 1 paragraphs 134 to 136 requirement to disclose the entity's objectives, policies and processes for managing capital;
- vii. the requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors to disclose when an entity has not applied a new IFRS that has been issued but is not yet effective; and
- viii. the requirements in IAS 24 Related Party Disclosures for related party transactions entered into between two or more members of a group, and the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures (key management compensation).

Notes to the financial statements

for the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.2 Basis of preparation (continued)

Adoption of new and revised standards

During the year the company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of the adoption of these new standards are listed below

- IFRS 15 Revenue from contracts with customers (effective date 1 January 2018)

IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue and related interpretations and applies, with limited exceptions, to all revenues arising from contracts with customers. The company has adopted IFRS 15 using a modified retrospective approach of adoption with the date of the initial application being 1 January 2018. The company's revenue streams are not considered particularly complex in nature and revenue will continue to be recognised once the control of goods and services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange of the goods provided. The adoption of this standard has not resulted in any material effect due to there being no difference in performance obligations, the timing of recognition or measurement, and there is no restatement of the comparative information.

- IFRS 9 Financial Instruments recognition and measurement (effective date 1 January 2018)

IFRS 9 Financial Instruments replaces IAS 39 Financial instruments: Recognition and Measurement. The company has applied IFRS 9 prospectively, with an initial application date of 1 January 2018. Management has completed an exercise for the ENGIE Group, which has not identified any significant differences. A separate exercise has been performed from a statutory perspective in order to assess any expected credit losses. The adoption of this standard has not resulted in material effect to these financial statements due to there being no differences in the timing of recognition or measurement, and there is no restatement of the comparative information.

2.3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. However, the nature of estimation means that actual outcomes could differ from those estimates.

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

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below:

Notes to the financial statements

for the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.3 Judgements and key sources of estimation uncertainty (continued)

Critical accounting judgements and key sources of estimation uncertainty

The following are critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognised in the financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- *Recoverability of tangible fixed assets*

Management have made key assumptions regarding the future technical availability of the wind farm, electricity prices and the UK inflationary environment which directly impact the future economic benefits to be derived from the tangible fixed assets. Changes in these assumptions may affect the estimated useful lives and residual value of the wind farm and other tangible fixed assets. The Company reviews these estimates at each financial period end and also tests for impairment at least once a year or when a trigger event occurs if sooner. Management expect the future economic benefits that will result from the use of the tangible fixed assets will exceed the costs of the investments and thus the costs of the tangible fixed assets are recoverable.

- *Income and deferred tax provisions*

The Company is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned.

- *Decommissioning provision*

The Company estimates the likely cost of removing the power plant and making good the damage to the site where a contractual decommissioning and restoration obligation exists. The provision reflects the present value (based on an appropriate discount rate), at the balance sheet date of the decommissioning liability.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies

(a) Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and turnover can be reliably measured. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover is solely derived within the UK from its sole revenue stream of the supply of electricity and renewable obligation certificates generated in the normal course of business excluding discounts, VAT and other sales related taxes. Turnover is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, usually on supply of energy to the customer.

(b) Interest expense

Interest expense is accrued on a time-proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. Interest on loan amounts used for capital expenditure are capitalised according to the nature of the capital expenditure.

(c) Operating leases

Leases where the Company is the lessee, and the lessor maintains a significant portion of the risks and rewards related to ownership of the fixed asset are recorded as operating leases. Fixed lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the life of the lease. Where lease payments are contingent, for example on power output, the rent is recognised as an expense in the profit and loss account when the contingency is resolved, for example when the level of power output in the period is known.

(d) Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(e) Foreign currencies

In preparing the financial statements, transactions in foreign currencies are translated into the functional currency (Pounds Sterling) using the exchange rates prevailing at the dates of the individual transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rate ruling at the reporting date are recognised in the profit and loss account. Non-monetary assets and liabilities are not carried at fair value, are not subsequently restated and are carried at the rate of exchange at the date they are acquired (historical costs).

Notes to the financial statements

for the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(f) Sales tax

Turnover, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Debtors and creditors that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of debtors or creditors in the balance sheet.

(g) Income taxes

Income tax on the results for the year comprises current and deferred tax. Income tax is recognised in the Company's profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

In accordance with IAS 12 *Income taxes*, Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred incomes taxes relate to the same fiscal authority.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(h) 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, and it is probable that an outflow of resources will be required to settle the obligation and the amount of that obligation has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

Where contractually obliged, the Company creates provisions for the decommissioning of the wind farm and environmental restoration. The decommissioning and restoration provisions reflect the present value, at the balance sheet date, of the estimated cost. The provisions are reviewed at each balance sheet date and are adjusted to reflect the present value of the expense expected to be realised for the settlement of the liability.

The future cost is recognised in the balance sheet as a decommissioning asset by creating an increase in the tangible fixed assets. The depreciation expenses of capitalised decommissioning and restoration costs are included in the profit and loss account together with the depreciation charge on the wind farm's fixed assets. Any change in estimation in the estimated cost or the discount rate are added or deducted from the fixed asset's cost. The discounting effect on the provision is recorded in the profit and loss account as a finance cost.

(i) Tangible fixed assets

Tangible fixed assets are recognised at historical cost less any accumulated depreciation and any accumulated impairment losses. Costs related to assets under construction are capitalised where, in the opinion of the Directors, the related project is highly likely to be successfully developed and the economic benefits arising from future operations will exceed the amount of capitalised expenditure incurred to date and the cost can be measured reliably. Costs incurred prior to meeting the criteria for capitalisation are recorded as an expense within operating costs in the profit and loss account. Loan costs which are directly attributable to assets under construction and which meet the criteria in IAS 23 are capitalised as part of the cost of those assets. Capitalisation ceases when the asset is fully operational.

Depreciation is provided on all tangible fixed assets, other than land and assets in the course of construction, which are depreciated from the date that they are commissioned, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight-line basis over its useful life. In accordance with the components approach, each significant component of an item of property, plant and equipment with a different useful life from that of the main asset to which it relates is depreciated separately over its own useful life.

Tangible fixed assets are depreciated on a straight-line basis over their useful lives as follows:

- Plant and machinery - 25 years
- Decommissioning asset - 25 years

Depreciation commences when the asset is ready for its intended use. The residual values, if not insignificant, and remaining useful lives are reassessed at each balance sheet date. When parts of an item of tangible fixed assets have different useful lives, those components are accounted for as separate classes of tangible fixed assets. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal of tangible fixed assets are determined by comparing the proceeds received with the carrying amount and are recognised within fixed asset disposals in the profit and loss account.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(j) Loans and loan costs

All loans are initially recognised at the fair value of the consideration received net of issue costs associated with the loan. Loans are subsequently stated at amortised costs; whereby the carrying amount of the loan is increased by the finance cost incurred in respect of the accounting period and reduced by any cash payments made in the period.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Loan costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use, whereas other loan costs are expensed.

Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

(k) Trade and other debtors

Trade debtors, which generally have 14-120 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, debtors are carried at amortised cost. A provision for impairment of trade debtors is made when there is objective evidence that the Company will not be able to recover all amounts due according to the original terms of the debtor. Balances are written off when the probability of recovery is assessed as being remote and the amount of the loss is recognised in the profit and loss account within administrative expenses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the profit and loss accounts.

(l) Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at fair value (transaction price) and subsequently measured at amortised cost using the effective interest method.

(m) Cash at bank and in hand

Cash at bank and in hand and short-term deposits in the balance sheet comprises cash on hand, deposits held at call with banks and short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(n) Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

(o) Operating Profit

Operating profit is stated before interest income and interest payable.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

3. Operating profit

This is stated after charging:

	2018 £'000	2017 £'000
Depreciation of owned assets	657	657
Fees paid to the Company's auditor for the audit of the financial statements	5	5
Operating lease rentals - land and buildings	167	133
	<u>657</u>	<u>657</u>

4. Auditor's remuneration

Fees payable to the auditors for the statutory audit of the Company's financial statements were £4,500 (2017: £4,500).

No non-audit fees were payable in the year ended 31 December 2018 (2017: £nil).

5. Directors' remuneration

The Directors did not receive any fees or emoluments from the Company during the year (2017: £nil) directly attributable to their position within the Company and the amount attributable to the qualifying services provided by the Directors to the Company are inconsequential to their other roles and hence no remuneration is disclosed (2017: same).

6. Staff costs

The Company had no employees during the current or prior year.

7. Interest payable and similar charges

	2018 £'000	2017 £'000
Interest paid to group undertakings	368	366
Interest paid to other related parties	20	20
Unwinding of discount on decommissioning provision	11	12
Total interest expense	<u>399</u>	<u>398</u>

Notes to the financial statements

for the year ended 31 December 2018 (continued)

8. Tax on profit on ordinary activities

The tax charge / (credit) comprises:

	2018 £'000	2017 £'000
Current income tax:		
UK corporation tax on profits of the year	283	192
Adjustments in respect of previous years	-	-
	<u>283</u>	<u>192</u>
Total current income tax	<u>283</u>	<u>192</u>
Deferred tax: (note 16)		
Deferred income tax relating to the origination and reversal of temporary differences	20	33
Adjustments in respect of prior years – deferred tax	-	(147)
	<u>20</u>	<u>(114)</u>
Total deferred tax	<u>20</u>	<u>(114)</u>
Tax charge / (credit) in the profit and loss	<u>303</u>	<u>78</u>

The Company earns its profits primarily in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the average standard rate for UK corporation tax, currently 19% (2017: 19.25%).

The charge / (credit) for the year can be reconciled to the profit in the profit and loss account as follows:

	2018 £'000	2017 £'000
Reconciliation of tax charge / (credit)		
Profit before tax	1,586	1,160
	<u>1,586</u>	<u>1,160</u>
Profit multiplied by rate of corporation tax of 19% (2017: 19.25%)	301	223
Adjustments in respect of prior years – current tax	-	-
Adjustments in respect of prior years – deferred tax	-	(147)
Tax effect of non-deductible or non-taxable items	2	2
Change in deferred tax rate	0	-
	<u>303</u>	<u>78</u>
Tax charge / (credit) in the profit and loss	<u>303</u>	<u>78</u>

The applicable statutory tax rate for the current period is 19%. The prior year rate of 19.25% represents a weighted average rate based on 20% applicable for the three months to 31 March 2017, and 19% applicable from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2017, which received Royal Assent on the 27 April 2017. These include reductions to the main rate to reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and therefore recognised in these financial statements at 17%.

Notes to the financial statements
for the year ended 31 December 2018 (continued)

9. Dividend paid

	2018 £'000	2017 £'000
Amounts recognised as distributions to equity holders in the year:		
Interim dividend for the year ended 31 December 2018 of 1,379,000p per share (2017: 984,000p per share)	1,379	984
	<u>1,379</u>	<u>984</u>

The Directors do not propose a final dividend (2017: £nil).

10. Tangible fixed assets

	Decommissioning asset £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2018 and 31 December 2018	428	15,997	16,425
Accumulated depreciation			
At 1 January 2018	74	2,659	2,733
Charge for the year	17	640	657
At 31 December 2018	91	3,299	3,390
Net book amount			
At 31 December 2018	<u>337</u>	<u>12,698</u>	<u>13,035</u>
At 31 December 2017	<u>354</u>	<u>13,338</u>	<u>13,692</u>

Plant and machinery includes interest capitalised during construction. The net book value of the capitalised interest at the balance sheet date is £392,000 (2017: £412,000).

A decommissioning provision has been recognised for the costs of decommissioning the wind farm. An average inflation rate of 3.2% (2017: 3.2%) has been applied to these costs and then discounted back to their net present value at a rate of 2.6% (2017: 2.6%).

The remaining useful economical life of the wind farm is 20 years.

Notes to the financial statements
for the year ended 31 December 2018 (continued)

11. Debtors due within one year

	2018 £'000	2017 £'000
Amounts owed by group undertakings	135	474
Corporation tax receivable	-	-
Prepayments	138	138
Accrued income	715	700
	<u>988</u>	<u>1,312</u>

12. Debtors due after one year

	2018 £'000	2017 £'000
Other debtors	30	30
	<u>30</u>	<u>30</u>

13. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	39	37
Amounts owed to group undertakings - debt	960	969
Amounts owed to group undertakings - other	4	4
Corporation tax payable	130	103
Other taxation and social security	88	60
Accrued liabilities	131	102
	<u>1,352</u>	<u>1,275</u>

Amounts owed to Hayabusa Limited are unsecured, subject to floating interest rates of LIBOR plus interest margin currently at 2.15% and are repayable bi-annually in June and December.

14. Creditors due after one year

	2018 £'000	2017 £'000
Amounts owed to group undertakings	11,279	12,239
	<u>11,279</u>	<u>12,239</u>

Debt can be analysed as falling due:

	2018 £'000	2017 £'000
Within one year (note 13)	960	969
Between one and two years	1,001	960
Between two and five years	3,308	3,147
After five years	6,970	8,132

Amounts owed to Hayabusa Limited are unsecured, subject to floating interest rates of LIBOR plus interest margin currently at 2.15% and are repayable bi-annually in June and December.

Notes to the Financial Statements
for the year ended 31 December 2018 (continued)

15. Provisions for liabilities and charges

	Decommissioning £'000	Deferred taxation £'000	Total £'000
At 1 January 2018	484	449	933
Arising during the year	12	20	32
	<u>496</u>	<u>469</u>	<u>965</u>
At 31 December 2018	<u>496</u>	<u>469</u>	<u>965</u>

A decommissioning provision has been recognised for the costs of decommissioning the wind farm. An average inflation rate of 3.2% has been applied to these costs and then discounted back to their net present value at a rate of 2.6%

16. Deferred tax

An analysis of the movements in deferred tax is as follows:

	2018 £'000	2017 £'000
Deferred tax liability at 1 January	449	563
Deferred tax charge / (credit) in profit and loss account for the year (note 8)	20	(114)
	<u>469</u>	<u>449</u>
Deferred tax liability at 31 December	<u>469</u>	<u>449</u>
Analysed as:	2018 £'000	2017 £'000
Other short-term temporary differences	469	449
	<u>469</u>	<u>449</u>

17. Share capital

	2018 £	2017 £
<i>Authorised, issued and called up share capital</i>		
100 ordinary share of £1 each	<u>100</u>	<u>100</u>

Notes to the financial statements
for the year ended 31 December 2018 (continued)

18. Operating lease arrangements

The Company as lessee

	2018	2017
	£'000	£'000
Lease payments under operating leases Recognised as an expense in the year	167	133

The land rentals payable are a combination of fixed and variable elements linked to the level of future income from electricity generation.

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under operating leases, which fall due as follows:

	2018	2017
	£'000	£'000
Within one year	56	54
In the second to fifth years inclusive	225	215
After five years	961	973
	<u>1,242</u>	<u>1,242</u>

Operating lease payments represent minimum rentals payable by the Company for the wind farm at North Newbald, East Riding, Yorkshire, YO43 4TF. Leases are negotiated for an average term of 27 years.

19. Financial commitments

	2018	2017
	£'000	£'000
Contracted for but not provided for – other:		
Within one year	26	26
In the second to fifth years inclusive	105	103
After five years	400	418
	<u>531</u>	<u>547</u>

Notes to the financial statements

for the year ended 31 December 2018 (continued)

20. Related party transactions

As at 31 December 2018 and 31 December 2017, the Company was a wholly owned subsidiary of Hayabusa Limited which is a joint venture of Hayabusa Holdings Limited and Equitix Hayabusa 3 Limited. Hayabusa Holdings Limited is wholly owned by the International Power Limited Group. International Power Limited is wholly owned by ENGIE S.A. (a Company registered in France) formerly GDF Suez S.A.

During the year, the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

During the year and prior year, the Company carried out a number of transactions in the normal course of business with the following related parties:

ENGIE Power Limited

The aggregate of the transactions are shown below:

	Turnover		Interest payable	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
ENGIE Power Limited	3,299	2,817	(20)	(20)

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties	
	2018 £'000	2017 £'000
ENGIE Power Limited	133	93

21. Controlling party

The Company's immediate parent undertaking is Hayabusa Limited, a Company registered in England and Wales, the registered address of which is Level 20, 25 Canada Square, London, E14 5LQ, United Kingdom.

The Directors consider the Company's ultimate parent undertaking and controlling party to be Hayabusa Limited which is incorporated in England and Wales and is registered at Level 20, 25 Canada Square, London, E14 5LQ. Hayabusa Limited is jointly controlled by Hayabusa Holdings Limited and Equitix Hayabusa 3 Limited. The largest and smallest group in which the results of the Company were consolidated for the year ended 31 December 2018 was that headed by Hayabusa Limited. Copies of its consolidated financial statements may be obtained from its registered office at Level 20, 25 Canada Square, London, E14 5LQ, United Kingdom.

Notes to the financial statements

for the year ended 31 December 2018 (continued)

22. Non adjusting events after the financial period

Senvion GmbH ("Senvion") is the O&M provider of the company's wind farm. On 9 April 2019 Senvion applied for the opening of insolvency proceedings over its assets with a court in Hamburg. Insolvency proceedings regarding Senvion in the form of self-administration proceedings were opened in Germany on 1 July 2019 and a custodian was appointed. The administration proceedings of a key supplier such as Senvion qualify as a default under syndicated facilities agreement entered into by the parent undertaking, Hayabusa Limited, until rectified. The implications of the default are that the borrowings under the agreement are repayable on demand. As part of this process we have agreed a cure plan with the lenders indicating our proposed procurement program to replace Senvion as the O&M contractor should this be required to remedy the default. The terms of the cure plan state that management has to recommend a replacement contractor and present a form of replacement agreements within agreed timeframes. At the date of signing the accounts Senvion is continuing to provide services as contracted therefore no steps have been taken to replace these services with an alternative provider. Alternative O&M providers have been identified should Senvion cease to provide the services or at the request of the lenders.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.