

**GREATER GABBARD  
OFTO**

**Greater Gabbard OFTO Plc**  
**Annual Report and Financial Statements**  
**For the year ended 31<sup>st</sup> March 2019**

# GREATER GABBARD OFTO

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# GREATER GABBARD OFTO

## Operating and financial review

For the year ended 31 March 2019

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### Introduction

This Operating and Financial Review explains the operations of Greater Gabbard OFTO Plc ('Company') and the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2019, as well as those matters which are likely to affect its future development and performance.

Greater Gabbard OFTO Holdings Limited ("GGOHL") is an investment holding company whose sole business is the holdings of investments in its wholly owned subsidiaries, Greater Gabbard OFTO Intermediate Limited and Greater Gabbard OFTO PLC, which together form the Greater Gabbard OFTO Group ("the Group")

GGOHL's subsidiary Greater Gabbard OFTO Plc (the "Company" and "the licensee"), is a public company limited by shares and a holder of an Offshore Electricity Transmission Licence ("the licence") granted under the Electricity Act 1989. The licence was awarded to the Company on 26 November 2013 by The Gas and Electricity Markets Authority ("the Authority").

The ultimate controlling parties of the Group are Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited. The Group Companies are registered in England and Wales, United Kingdom.

The Company principal activity is to provide an electricity transmission service to National Grid Electricity Transmission plc ("NGET") - the electricity transmission system operator for Great Britain. The Company owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore transmission system operated by NGET.

### Background

The Office of Gas and Electricity Markets ("Ofgem"), in partnership with the Department of Energy and Climate Change ("DECC"), has developed a regulatory regime for electricity transmission networks connecting offshore wind farms to the onshore electricity system. A key feature of this regime is that the transmission assets required by offshore generators should be owned and operated by offshore transmission owners ("OFTOs"). OFTOs are subject to the conditions of a transmission licence.

The Company holds the Licence, awarded by the Authority on 26 November 2013. The asset was purchased by the use of bonds and subordinated debt. This Licence, amongst other matters, permits and requires the Company to maintain and operate the Greater Gabbard offshore electricity transmission assets in perpetuity with a revenue entitlement period of 20 years from the date funds were drawn on 29 November 2013. The Company's offshore electricity transmission system exports the output of the Greater Gabbard wind farm owned by Greater Gabbard Offshore Winds Limited (GGOWL) to NGET's onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Company to be certified as complying with the unbundling requirements of European Parliament Directive concerning common rules for the internal market in electricity ("the third package"). This is essentially a separation of control between the electricity generators and transmission owners. On 2 August 2013, the Company was issued a certificate pursuant to section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. The Company has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report.

### The Company's offshore electricity transmission system

The Company transmits the electrical power of the Greater Gabbard wind farm from the offshore connection point of the Company's electrical assets with the electrical assets owned by GGOWL to the onshore connection point of the Company's assets with the electricity transmission system of NGET. The roles and responsibilities of parties at electrical connection points are dealt with through Interface Agreements and industry codes.

The Greater Gabbard offshore wind farm comprises 140 turbines, with a combined capacity of around 504 megawatts ("MW"), and is located off the Suffolk coast in two zones approximately 40km east of Harwich in the Thames Estuary. The power that is generated by the wind farm is transported to shore by the Company and connects into the NGET system at Sizewell in Suffolk.

## Operating and financial review (continued)

For the year ended 31 March 2019

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### **The Company's offshore electricity transmission system (continued)**

The wind farm turbines are interconnected in "strings" by medium voltage (33kV) submarine cables that act as a power collection and transport system. The medium voltage cables are owned by GGOWL and run to the offshore electricity substations that are owned by the Company. At the Inner Gabbard offshore electricity substation the voltage is "stepped up" to 132kV by an electrical transformer and then transported to land by three 45.5km high voltage submarine cables buried in the sea bed. There is a further high voltage submarine cable, 16km in length, which connects the Galloper OSP (off shore platform) to the Inner Gabbard OSP. At landfall the submarine cable is joined to a buried land cable that runs for 0.59km to the Company's onshore electricity substation at Sizewell. At the Leiston substation the power factor of the electricity is corrected using reactive compensation equipment and the transported power is then connected into NGET's electricity transmission system.

### **The Company's long term business objectives**

The Company is a special purpose vehicle formed to hold the Licence. Its non-financial objectives are, therefore, consistent with the objectives of the Licence. The Company will achieve these objectives by ensuring its compliance with the Licence; industry codes and legislation and by operating and maintaining its transmission system in accordance with good industry practice.

The Company's financial objective is to provide financial returns to shareholders consistent with, or in excess of, the business plan that supported its tender offer for the Greater Gabbard offshore transmission system. The Company will achieve this objective by:

- meeting its revenue targets by operating the transmission system at availability levels equal to, or higher than, the Licence target;
- adopting and maintaining a financing structure that is, as a minimum, as efficient as that contemplated by the business plan; and
- controlling costs and seeking efficiency improvements.

### **The Company's operating model**

The Company's operating model is to outsource all operational and maintenance ("O&M") activities including asset management capability. O&M activities were outsourced to Balfour Beatty Utilities Limited ("BBUS") until 31 January 2019 when EDS HV Management Limited ("EDS") took over these activities. Equitix Management Services Limited ("EMS") performs certain financial and management services to the Company through a Professional Services Agreement ("PSA"). As part of its general asset management responsibilities EMS fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Company meets its Licence obligations and complies with good industry practice. The Company has mitigated the performance risk of its outsourced service providers through the O&M and PSA contract.

## Operating and financial review (continued)

For the year ended 31 March 2019

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### **The Company's approach to managing the business**

The Company's general approach to the management and operation of its business is based on ensuring that the right balance is achieved between cost, quality, performance, innovation and financial returns so as to optimise the cost of its services to the end consumer. In doing so the Company:

- has a relentless focus on transmission system availability;
- recognises that the inherently hazardous nature of the Company's assets and operations requires an extraordinary focus on Health, Safety and the Environment ("HS&E");
- has the right contractors / subcontractors working safely to standards using the right processes, technology and systems;
- has implemented a risk management approach that ensures that risks are assessed, managed and reported appropriately; and
- has adopted a governance framework that enforces compliance with law, regulations and licence conditions.

### **Principal regulatory, industry contracts and industry code matters**

The Company enjoys benefits and is subject to a number of regulatory and contractual obligations arising from and including: the Licence; the Transmission Owner Construction Agreement ("TOCA") with NGET and the System Operator – Transmission Owner Code ("STC"). The Company's operations are also subject to a range of industry specific legal requirements.

A summary of some of the major features of the Licence, industry contracts and electricity code matters are described below.

#### **Licence obligations**

Under the terms of the Licence the Company is required to carry out its licenced activities and have in place governance arrangements that ensure (amongst other obligations) that the Company does not provide cross-subsidies to, or receive cross-subsidies from any other business of the Licensee or of any affiliate. In addition, the Licence places restrictions on the Company's activities and how it conducts its transmission activities. In carrying out its transmission activities it must do so in a manner that does not confer upon it an unfair commercial advantage, in particular, in relation to any activity that does not relate to the operation of the offshore transmission business.

A failure by the Company to materially comply with the terms of the Licence could ultimately lead to the revocation of the Licence. The Board of Directors take very seriously its obligations to comply with the terms of the licence and has processes, procedures and controls in place to ensure compliance.

#### **Regulated revenue and incentives**

The Licence awarded by the Authority to the Company determines how much the Company may charge for the OFTO services that it provides to NGET in any relevant charging year in accordance with a regulatory formula. The charging year is from 1 April to 31 March. The Licence also provides the Company with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Company's transmission system in any given calendar year versus the regulatory target. The regulatory target availability is 98% of the total megawatt hour capacity of the Company's electricity transmission system (as determined by the Company's System Capability Statement) in any given calendar year, or part thereof.

**Principal regulatory, industry contracts and industry code matters (continued)**

Transmission charges are based on the target transmission system availability of 98%, and increase on 1 April following any given year by reference to the average rate of increase in the UK retail price index (“RPI”) in the year to the previous December. The revenue derived from charges based on this target availability represents the Company’s “base revenue”. For the avoidance of doubt, the Company’s transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

As previously noted, the Licence contains mechanisms to incentivise the Company to provide the maximum possible electricity transmission system availability, having regard to the safe running of the system. The Company is incentivised on a monthly basis with higher targets, and higher potential penalties or credits, in the winter months, and lower targets, and lower potential penalties or credits, in the summer months. These incentive mechanisms help drive the management of the Company to manage proactively the transmission system availability across the year by focusing maintenance activities, which could lower transmission system availability, into those months with the lowest targets and related penalties or credits.

If the achieved transmission system availability is different to the target availability then there is a mechanism contained within the Licence that could potentially affect the Company’s charges and hence its revenue in future periods. The Licence provides for adjustments to “base revenue” where the OFTO’s system availability performance is different to the target system availability. If transmission system availability in any given year is in excess of the target availability level then credits are “earned” and if availability is less than target then penalties accrue. The Company is then permitted or required to change its prices to reflect the credits earned or penalties accrued as necessary. The maximum credit which the Company can “earn” and collect in charges amounts to around 5% of base revenue for that year and the maximum penalty that can be reflected in charges is around 10% of base revenue for that year. The detailed mechanism that is used to adjust charges to reflect these credits and penalties in charges is described below.

The penalties and credits are recorded on a monthly, but notional basis, during each calendar year. Individual net monthly penalties are first offset against any brought forward net cumulative credits from the previous calendar year. Thereafter, individual monthly net penalties are eligible for offset against credits arising in the current calendar year. If at the end of any calendar year there is a cumulative net credit, this net credit is eligible for collection in charges as an adjustment to charges at the beginning of the sixth financial year following the end of the calendar year in which the first credit arose. The maximum amount of credit that is eligible to be reflected in charges in the sixth financial year is the lesser of the credit that arose in the first calendar year and the cumulative net credit outstanding at the end of the preceding calendar year.

In respect of net penalties which are outstanding at the end of the calendar year then, in principle, the charges in respect of the following financial year are lowered by an amount that would reduce the charges for that financial year by the amount of the net penalty. However, the reduction in charges can never exceed 10% of the base revenue for that year.

To the extent that the cumulative net penalty, if applied, to the Company’s charges would result in those charges being reduced by more than 10% of the base revenue for that year, the excess net penalty is carried

## Operating and financial review (continued)

For the year ended 31 March 2019

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### **Principal regulatory, industry contracts and industry code matters (continued)**

forward on a cumulative and notional basis and aggregated with additional credits and penalties arising in the subsequent period. The maximum period that penalties relating to a particular calendar year can be carried forward is five years.

As a result of the arrangements described above, there are a number of risks that the Company faces that affect the level of transmission system availability and therefore affect potential incentive credits and penalties. The principal risks associated with transmission system availability stem from the following:

- 1) The inherent design of the transmission system e.g. system redundancy;
- 2) The management of maintenance activities so that the assets are maintained to good industry practice, and where possible, the Company seeks to carry out such maintenance without the need for planned outages whilst having regard to the safe operation of those assets; and
- 3) The management of planned outages of the transmission system having regard to the activities of other interested parties and to bias such outages towards those periods during the year, with the lowest system availability targets and related penalties or credits.

As the end of the 20 year Licence period approaches the agreed regulatory formula relating to the Company's ability to collect credits as explained above changes. There is an acceleration of the Company's ability to collect such credits in its invoicing.

In certain circumstances, and in respect of certain costs, such as non-domestic rates relating to the Company's onshore electricity network and costs charged by the Authority associated with running the OFTO tender regime, the Company is permitted under the terms of its Licence to pass these costs to its customer by altering charges as required.

### **Transmission system capability (capacity)**

As described above, the Company is incentivised to provide the maximum transmission system availability as is possible having regard to the safe running of the system. The maximum availability of the system is defined in the Licence and is expressed in megawatt hours (MWhr).

Under the terms of the TOCA with NGET, the Company provides a transmission service on the basis of a declared maximum capacity of the transmission system. The declared maximum capacity for Performance Year ended 31 December 2018 was 500 MW. The practical significance of the declared maximum capacity is that the maximum declared capacity of the transmission system determines the maximum MWhr availability of the transmission system for the purpose of comparing with the Company's actual transmission availability during any performance year – which in turn determines the Company's performance credits or penalties as described under Regulated revenue and incentives earlier in this Operating and Financial Review.

The Company has provided 99.42% transmission capacity based on the declared maximum capacity of the transmission system during the performance year ended 31 December 2018 – see Transmission System Availability below. In the incentive period January to March 2019 the transmission capacity was 100.00%. The Company minimises the risk of unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs by carrying out appropriate maintenance in accordance with good industry practice.

# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

### Transmission system quality of supply

The STC sets out the minimum technical, design and operational and performance criteria that Offshore Transmission Owners must ensure that their transmission system can satisfy. For the Company's transmission system the most significant requirements are in respect of the reactive power capability, voltage control and the quality of the power (as measured by harmonic performance) deliverable at the connection point of the Company's transmission system with NGET's transmission system.

The Company has met its requirements to transmit electricity in accordance with the parameters agreed with NGET during the year under review.

### Key performance indicators ("KPIs")

The Company has identified the following KPIs as being instrumental to the management of the transmission business. Such KPIs include financial and non-financial KPIs:

|  | Definition   | Objective  |
|--|--|--|
| <b>Financial KPI's</b>   |  |  |
| Profit before taxation   | Profit before taxation:<br>£2,128k (2018: £2,956k)   | To increase.   |
| Cash available for debt service  | Net cash outflow from operating activities less net cash inflow from investing activities £27,891k (2018: -£7,718k).   | To increase.   |
| <b>Non-Financial KPI's</b>   |  |  |
| Maximise transmission availability   | Making the transmission system available to transmit electricity over the performance year 1 January 2018 to 31 December 2018: 99.42% (year from 1 January 2017 to 31 December 2017: 99.97%).                    | To exceed the Licence target availability 98%.   |
| Ensure that the quality of electricity at the export connection point is compliant with SQSS and the STC | To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.  | To be compliant. This has been achieved for the year ended March 2019.   |
| HS&E   | 1) Zero lost time accidents ("LTIs") for contractors;<br>2) Zero reportable environmental incidents;<br>3) Compliance with transferred obligations under GGOWL's Marine Management Organisation ("MMO") Licence. | 1) Zero LTIs;<br>2) Zero reportable environmental incidents;<br>3) Compliance with MMO Licence<br>All of the above objectives have been met for the year ended March 2019. |

Where appropriate adjustments will be made where events give rise to unusual patterns of income, expenditure and/or one-off events.



# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

### The Company's operational performance

The Company's prime operational objectives are to maximise transmission system availability and to ensure that the quality of electricity at the onshore connection point is compliant with the SQSS and the STC having regard in all respects to the safety of employees, contractors and the general public.

The OFTO has a fully wrapped O&M contract with EDS HV Management Limited that contains requirements to effectively operate and maintain the assets in accordance with the OFTO Operating Approvals. Maintenance is required to be delivered taking into account Statutory obligations, the requirements and recommendations of the Original Equipment manufacturer (OEM) plus condition, age and service duty of the asset. The OFTO regularly monitors O&M delivery performance. Balfour Beatty PT&D has ISO 9001, 14001 and 18001 certification for its business including O&M activity on OFTO assets.

### Transmission system availability

The performance of the Company's transmission system for the performance year ended 31 December 2018 and 2017 were as tabulated below:

| MW Hours   | Note | Performance Year ended 31 December 2018 | Performance Year ended 31 December 2017 |
|--|------|---|---|
| Maximum system availability (capability - MWhrs)                 | (a)  | 4,383,000                               | 4,383,000                               |
| Actual system availability (MWhrs)                               |      | 4,357,664                               | 4,381,903                               |
| Actual system availability (%)                                   |      | 99.42%                                  | 99.97%                                  |
| Regulatory target system availability (%)                        |      | 98%                                     | 98%                                     |
| <b>Availability credits (MWhrs)</b>                              |      |   |   |
| Availability credits at 1 January                                |      | 382,323                                 | 288,268                                 |
| Net availability / credits for the performance year <sup>1</sup> |      | 68,313                                  | 94,055                                  |
| Net availability credits at 31 December                          | (b)  | 450,636                                 | 382,323                                 |

The performance of the Company's transmission system for the performance quarter ended 31 March 2019 and 2018 were as tabulated below:

| MW Hours   | Note | Performance Period 1 January 2019 to 31 March 2019 | Performance Period 1 January 2018 to 31 March 2018 |
|--|------|--|--|
| Maximum system availability (capability - MWhrs)       | (a)  | 1,083,000  | 1,083,000  |
| Actual system availability (MWhrs)                     |      | 1,083,000  | 1,065,831  |
| Actual system availability (%)                         |      | 100.00%  | 98.41%   |
| Regulatory target system availability (%)              |      | 98%  | 98%  |
| <b>Availability credits (MWhrs)</b>                    |      |  |  |
| Availability credits at 1 January                      |      | 450,636  | 382,323  |
| Net availability / credits for the performance quarter |      | 25,124   | 7,748  |
| Net availability credits at 31 December                | (b)  | 475,760  | 390,071  |

(1) The maximum system availability of the Company's transmission system as declared to NGET during the performance year.

# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

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### **Quality of supply**

The quality of supply constraints agreed with NGET (see “Transmission system quality of supply” above) requires the Company to transmit electricity within certain parameters in relation to: voltage control; reactive power; and harmonic distortion. A failure to meet these qualities of supply constraints could result in NGET requiring the Company’s transmission system to be disconnected from NGET’s electricity transmission system, resulting in loss of transmission availability and reduced incentive credits or performance penalties. The Company closely monitors compliance with these qualities of supply constraints and carries out appropriate maintenance activities consistent with good industry practice to allow the Company to meet these qualities of supply obligations.

During the financial year the Company has met its obligations to transmit electricity compliant with these operational obligations. The Company has continued to comply with these obligations through to the date of this report.

### **Health, safety, and environmental performance**

The Board recognises that the nature of its business requires an exceptional focus on health, safety, and the environment. Safety is critical both to business performance and to the culture of the Company. The operation of the Company’s assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled. Our objective is to eliminate or minimise those risks to achieve zero injuries or harm, and to safeguard members of the general public.

During the year under review there were no health or safety incidents that required reporting under applicable legislation and that contractor “lost days” arising from safety incidents that required reporting under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 were zero.

The Company is committed to reducing the environmental impact of its operations to as low as practically possible. The Company will do so by reducing the effect its activities have on the environment by: respecting the environmental status and biodiversity of the area where the Company’s assets are installed; considering whole life environmental costs and benefits in making business decisions; looking for ways to use resources more efficiently through good design, use of sustainable materials, responsibly refurbishing existing assets, and reducing and recycling waste; and continually improving management systems to prevent pollution and to reduce the risk of environmental incidents.

The Board is pleased to report that during the year under review there were no environmental incidents or matters that required reporting to any relevant competent authority and that it had complied with the Marine licence obligations transferred under the Sale and Purchase Agreement (“SPA”) by GGOWL when the transmission assets were acquired by the Company.

# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

### Stakeholder relationships

The potentially hazardous nature of Company's operations and the environmentally sensitive nature of the locations where its assets are located require the Company to engage and communicate with a wide audience of stakeholders and to establish good relationships with them. As well as industry participants and local and national government bodies this audience includes: Port Authorities; the emergency services; the maritime community; environmental agencies and organisations; landowners and the general public. Accordingly the Company has established a shareholder matrix and implemented a stakeholder engagement and communications plan. The Directors consider that stakeholder relationships are satisfactory.

### Principal risks and uncertainties

The principal risks and uncertainties faced by the Company have been discussed and referenced in this Operating and Financial Review, alongside a discussion of the operational and financial performance of the Company.

### The Company's financial performance

#### Summary

The financial performance of the Company for the year ended 31 March 2019, and its financial position as at 31 March 2019, was satisfactory and is summarised below. In this report all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k.

The Company reports its results in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

|  | 2019   | 2018    |
|--|--------|---------|
|  | £'000  | £'000   |
| Operating (loss)/profit  | (930)  | (218)   |
| Net finance income   | 3,058  | 3,174   |
| Profit before taxation   | 2,128  | 2,956   |
| Taxation   | (444)  | (515)   |
| Profit after taxation  | 1,684  | 2,441   |
|  |        |         |
|  | 2019   | 2018    |
|  | £'000  | £'000   |
| Net cash inflow/(outflow) from operating activities and investing activities | 27,891 | (7,718) |

## Operating and financial review (continued)

For the year ended 31 March 2019

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### **Operating and finance income**

Operating and finance income is derived from the Company's activities as a provider of transmission services. The vast majority of the Company's income is derived from NGET.

Finance income for the year amounted to £19,320k (2018: £19,687k), and represents the finance income that would have been generated from an efficient stand-alone "transmission owner".

The finance income has been recorded in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company is shown in the accounting policies section of the financial statements commencing on page 36.

Operating income for the year amounted to £2,597k (2018: £3,705k), and primarily represents the operating income that would be generated by an efficient provider of operating services to NGET, our principal customer.

Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a stand-alone transmission owner. Operating income has been recorded in accordance with the principal accounting policies adopted by the Company.

### **Operating costs**

Operating costs for the year amounted to £3,527k (2018: £3,923k.)

The most significant costs included within operating costs for the year to 31 March 2019 were those costs associated with operations and maintenance £1,755k (2018: £2,387k); insurance £1,007k (2018: £795k) and professional service fees amounting to £104k (2018: £101k.) The non-domestic rates associated with the transmission network are £552k (2018: £536k).

Additionally, one off costs were incurred for the year to 31 March 2019 relating to the change in O&M provider £690k (2018: Nil) and maintenance £86k (2018: Nil).

### **Operating (loss)/profit**

Operating profit/(loss) being the net of operating income and operating costs amounted to a loss of £930k (2018: loss of £218k).

### **Interest income**

Interest income relates to interest on bank deposit of £236k (2018: £105k) and notional interest of £19,320k (2018: £19,687k).

### **Finance costs**

Finance costs amounted to £16,498k (2018: £16,618k.) Funding was required to acquire the transmission system Transmission owner asset from GGOWL and the acquisition of the Transmission owner asset took place on 29 November 2013.

The vast majority of the finance costs relates to the interest cost of servicing senior debt holders £11,050k (2018: £11,439k) and holders of subordinated debt £4,801k (2018: £4,808k.) Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset.

**Operating and financial review (continued)**

For the year ended 31 March 2019

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**Taxation**

The net taxation charge on profit before taxation for the year is £444k (2018: £515k) and relates solely to deferred taxation. There was no current taxation arising in the year (2018: £nil) as the Company incurred taxable losses. The taxation charge for the year has been computed at 19% (2018: 19%)

A taxation charge of £467k (2018: £235k) has been recognised in other comprehensive income relating to pre-taxation gains arising on marking the Company's cash flow hedges to market at 31 March 2019.

The taxation charge relates solely to deferred taxation as the Company incurred taxable losses during the year. This taxation credit has been computed at 19% (2018: 19%).

**Profit after taxation**

Profit for the year after taxation amounted to £1,684k (2018: £2,441k.)

**Cash flows**

Net cash flow used in operating activities amounted to £741k (2018: £35,298k) primarily reflecting the cash outflows relating to operating activities incurred during the year to 31 March 2019.

Net cash inflows from investing activities amounted to £28,632k (2018: £27,580k).

Cash available for debt servicing defined as net cash flows from operations less (or add) net cash flows used in (or generated from) investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset) and includes interest income received of £236k (2018: £105k) amounted to £27,891k (2018: -£7,718k).

Net cash outflows from financing activities amounted to £10,173k (2018: outflow £9,263k).

Payments to service senior debt holders during the year amounted to £21,178k (2018: £24,939k.) Payments to subordinated debt holders during the year amounted to £2,100k (2018: £3,900k).

No corporation tax was paid in the year (2018: £nil.).

No dividend was paid in the year (2018: £nil.)

There were no undisclosed dividends proposed between the year end and the date of the approval of the financial statements.

# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

### Statement of Financial Position and consideration of financial management

#### Going concern

Having made enquiries, the Directors consider that the Company has adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Company. More details of the Company's funding and liquidity position are provided under the headings "Current funding structure" and "Going concern, Liquidity and treasury management" below.

#### Statement of Financial Position

The Company's Statement of Financial Position as at 31 March 2019 is summarised below:

|   | Assets<br>£'000       | Liabilities<br>£'000    | Net assets<br>£'000  |
|---|-----------------------|-------------------------|----------------------|
| Non-current Transmission owner assets       | 297,546               | -                       | 297,546              |
| Non-current deferred taxation               | -                     | (4,723)                 | (4,723)              |
| Decommissioning provision                   | -                     | (3,806)                 | (3,806)              |
| Current assets and liabilities <sup>1</sup> | <u>34,445</u>         | <u>(6,348)</u>          | <u>28,097</u>        |
|   | 331,991               | (14,877)                | 317,114              |
| Borrowings                                  | -                     | (308,592)               | (308,592)            |
| Derivatives financial assets                | <u>11,477</u>         | -                       | <u>11,477</u>        |
| <b>Totals at 31 March 2019</b>              | <b><u>343,468</u></b> | <b><u>(323,469)</u></b> | <b><u>19,999</u></b> |
| Totals at 31 March 2018                     | <u>346,494</u>        | <u>(330,459)</u>        | <u>16,035</u>        |

(1) Excluding borrowing

#### Transmission owner asset and decommissioning

The Transmission owner asset is a financial asset and is carried at the costs incurred, and directly attributable to the acquisition of the Greater Gabbard offshore transmission system at the date of acquisition, plus finance income less receipts attributable to the carrying value of that asset and is carried at amortised cost. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Company. A discussion of the critical accounting policies adopted by the Company that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 37.

# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

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### Transmission owner asset and decommissioning (continued)

The Transmission owner asset was acquired on 29 November 2013 from Greater Gabbard Offshore Winds Limited. The total costs of acquisition of this asset amounted to £317.1m. The estimate of the costs of decommissioning the Transmission owner asset at the end of its economic useful life in 2033 amounted to £9,412k (2018: £9,412k). These costs will be incurred from year 18 onwards.

### Deferred taxation

The Company has recognised a deferred taxation liability of £2,771k (2018: £2,383k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising to March 2019, including taxable losses. This is increased by a deferred tax liability of £1,951k (2018: £1,484k) relating to pre-taxation gains arising on marking the Company's cash flow hedges to market at 31 March 2019, which gives a total deferred tax liability of £4,723k (2018: £3,869k).

### Net debt

Net debt is defined as all borrowings (senior and subordinated debt) less the carrying value of all financial derivative contracts that are marked to market (UK Retail Price Index (RPI) related swaps).

At 31 March 2019 net debt stood at £297,115k (2018: £307,046k) and included £11,477k asset (2018: £8,730k) relating to the carrying value of financial derivatives that were marked to market at that date.

A discussion of the capital structure and the use of financial derivatives is provided below.

### Current funding structure

The Company is funded through a combination of senior debt, subordinated debt and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator, and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000.

Senior debt is comprised of fixed rate bonds credit enhanced by the European Investment Bank's ("EIB") Project Bond Credit Enhancement ("PBCE") instrument at a level of 15% of senior bonds outstanding. All senior debt is serviced on a six monthly basis and is expected to amortise over the life of the project through to November 2032. The total carrying value of the bonds outstanding at 31 March 2019 amounted to £259,377k (2018: £269,548k). The bonds carry a fixed rate coupon which requires servicing on a half yearly basis.

The subordinated loan ranks behind the senior debt and is held by the Company's intermediate holding Company, Greater Gabbard OFTO Intermediate Limited ("GGOIL"). The subordinated loan was issued by GGOIL on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2019 the total principal carrying value of the subordinated loan outstanding amounted to £45,989k (2018: £45,989k).

Ordinary equity share capital amounted to £51k at 31 March 2019 (2018: £51k).

## Operating and financial review (continued)

For the year ended 31 March 2019

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### **Current funding structure (continued)**

#### **Going concern, liquidity, and treasury management**

As indicated previously, the Directors have confirmed that after due enquiry they have sufficient evidence to support their conclusion that the Company is a going concern, and has adequate resources in the foreseeable future to meet its ongoing obligations, including the servicing of bond holders, as those obligations fall due. This conclusion is based on a number of factors which are summarised below.

The expected cash in-flows that are likely to accrue to the Company over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under Regulated revenue and incentives. In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET is very low. As at 31 March 2019 there were no sums outstanding from NGET (2018: £nil) and from 31 March to the date of this report all amounts due from NGET had been received on time.

The Company enjoys certain protections afforded under the Licence granted to the Company. In particular, provided that the Company can demonstrate that it has applied good industry practice in the management of the Company and its assets, then in the event that an unforeseen incident results in the Company suffering a loss in excess of £1,000k (in so far as it relates to its activities under the Licence) it can apply to the Authority for an income adjusting event and recover the lost amount.

The Company has also put in place prudent insurance arrangements primarily in relation to property damage such that it can make claims in the event that an insurable event takes place and thereby continue in business.

The licence protections together with the insurance arrangements reduce uncertainties and address certain risks regarding loss/destruction of assets that arise from remote and/or catastrophic events.

The Company has also entered into certain hedging and other contractual arrangements that have been put in place to achieve a high degree of certainty (and thereby reduce uncertainty) as to the likely cash out-flows that are expected to occur over the life of the project.

The hedging arrangements are explained in more detail below under Hedging arrangements. In summary the RPI swaps have the impact of effectively converting a proportion of the RPI variable cash flows arising from the Company's transmission services activities into a known series of cash flows over the life of the project.

Other contractual arrangements with third parties have been entered into that have a pricing mechanism that features linkages to RPI or other indices, which has the effect of reducing the uncertainty as to the quantum and frequency of cash outflows arising. As a consequence, it is the opinion of the Directors that the costs and related cash flows associated with these arrangements are more likely than not to vary in a similar manner with the principal cash inflows generated by the Company in relation to its transmission services that are not subject to the RPI swaps arrangements.



## Operating and financial review (continued)

For the year ended 31 March 2019

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### **Going concern, liquidity, and treasury management (continued)**

The Company also has access to a liquidity facility of £5,614k (2018: £5,326k) that the Company can access in the event that it has an insurable or income adjusting event.

The EIB has provided a letter of credit at a level of 15% of senior bonds outstanding which is £38,906k at 31 March 2019 (2018: £40,432k) as a form of subordinated credit enhancement instrument for the Company in relation to the bonds and the hedging agreements.

Under the terms of the loan note instrument, the loan notes are redeemable from 2032.

### **Credit rating**

It is a condition of the regulatory ring-fence around the Company that it uses reasonable endeavours to maintain an investment grade credit rating in respect of its senior debt. The rating agency carries out regular and periodic reviews of the rating. The Company has maintained an investment grade credit rating of A3 in respect of its senior debt consistent with its obligations under the licence.

During the rating agency's assessment of the Company's credit rating, amongst other matters, the rating agency will and has considered: actual and expected cash flows over the term of the project; the regulatory environment within which the Company operates; the nature of the principal contractual arrangements in place; the insurance arrangements; and the credit risk of all material counterparties in arriving at their assessment of the appropriate credit rating.

It is the Directors' assessment, that having regards to the principal risks and uncertainties regarding cash flows, the creditworthiness of counterparties, the regulatory environment, the insurance arrangements and other matters that are discussed in this Operating and Financial Review, that there are reasonable grounds to believe that the rating agency will continue to confirm that the Company's bonds are investment grade status in the foreseeable future based on the information available to the Directors at the date of this annual report.

### **Ongoing funding requirements**

The Company does not expect to have any significant funding requirements over the expected life of the project that will require additional external funding. Debt servicing and other obligations of the Company are expected to be met by the cash inflows generated by the Company. Consequently, based on the current capacity of the existing transmission system operated by the Company, there is minimal refinancing risk.

To the extent that a requirement for significant expenditure is required in the future as a result of additional capital works being required to provide incremental transmission capacity, there is a mechanism in the Company's transmission licence to allow the Company to increase its charges in respect of such expenditure. The Directors would expect that such additional expenditure would be capable of being funded based on the increased cash flows arising from such additional expenditure. No such additional expenditure is planned or expected in the foreseeable future.

# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

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### Surplus funds

The Company invests surplus funds in term deposits with banks that have a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. At 31 March 2019, the Company had Nil (2018: £16,488k) on deposit of which Nil (2018: £16,488k) was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. Of the cash and cash equivalents, £19,695k (2018: £2,073k) were held in reserve accounts, the Common Terms Agreement ("CTA") defines the requirements to transfer in and withdraw funds from these accounts. If the request is not defined in the CTA the consent of the Company's lenders is required prior to use, but are held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

The Company has some variability of cash flows in relation to the interest it earns on its investments, as typically these investments are held in deposits with a typical maturity of six months or less and earn variable rates of interest. However, in the context of the other cash flows generated by the Company these amounts are insignificant.

### Hedging arrangements

#### General

It is the policy of the Board that the Company will only enter into derivative financial instruments for the purpose of hedging an economic risk. No derivative financial instruments will be entered into unless there is an underlying economic position to be hedged. No speculative positions are entered into.

#### RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 63.5%) of variable cash inflows arising from the electricity transmission service it provides to NGET in exchange for a pre-determined stream of cash inflows with the final payment date expected on 29 November 2032. This arrangement meets the definition of a derivative financial instrument. The period covered by these arrangements closely matches the period over which the Company enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the vast majority of cash flows from the project are expected to be generated.

As previously described (see "Regulated revenue and incentives"), under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its customer, NGET, an agreed amount for the transmission services it provides, the price of which is uplifted each year commencing 1 April by a sum equivalent to the average increase in RPI over the previous 12-month period measured from January to December. Where there is a reduction or no increase in RPI over the relevant period, then the charges remain unchanged from the previous year. These derivative arrangements ("RPI swaps") have the effect of exchanging the vast majority of variable cash inflows derived from the Company's transmission services (impacted by changes in actual RPI) in exchange for a known and predetermined stream of rising cash flows over the same period.

The Directors believe that the use of these RPI swaps is consistent with the Company's risk management objective and strategy for undertaking the hedge. The majority of the Company's cash outflows relate to

## Operating and financial review (continued)

For the year ended 31 March 2019

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### Hedging arrangements (continued)

borrowings that effectively carry a fixed coupon so that both the resultant principal repayments and coupon payments are predetermined. The purpose of the RPI swap arrangements is to generate highly certain cash inflows (thereby reducing uncertainty) so that the Company can meet its obligations under the terms of the Company's borrowing arrangements and therefore reduce the risk of default. The Directors believe that RPI swaps have a highly effective hedging relationship with the forecast cash inflows that are considered to be highly probable, and as a consequence have concluded that these derivatives meets the definition of a cash flow hedge and have formally designated them as such.

The carrying value of the RPI swaps asset at 31 March 2019 was £11,477k (2018: £8,730k). A corresponding entry has been recorded in other comprehensive income.

### Lending covenants and other restrictions

The Company is subject to certain covenants and conditions under lending agreements with the senior debt holders. The Company entered into the lending agreements to allow it to fund the acquisition of the Transmission owner asset. Under these lending agreements, a Security and Bond Trustee has been appointed to represent the senior debt holders and to monitor compliance by the Company with the conditions of the lending agreements it has entered into. In addition, a Technical Adviser and an Insurance Adviser have also been appointed under the terms of the lending agreements to support the Security and Bond Trustee in the discharge of their duties. The covenants and conditions of the lending agreements include (but are not limited to) the following:

- 1) The Company is required to operate on the basis of a financial plan while the lending agreements are in place (19 years) which the Security and Bond Trustee has approved and subject to certain allowances; any deviation from that plan requires the approval of the Security and Bond Trustee. The financial plan is refreshed on a six monthly basis and revised on an annual basis as required;
- 2) The Company is required to deliver financial and other information at specified intervals (typically six monthly) to the Security and Bond Trustee;
- 3) The lending agreements specify the bank accounts that the Company is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose. With the exception of one bank account, all withdrawals from bank accounts require the consent of the Security and Bond Trustee;
- 4) The Company is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments it cannot exceed a specified gearing ratio;
- 5) The Company is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically this results in the Company investing in term deposits with maturities not exceeding six months;
- 6) The Company is required to maintain adequate insurances at all times; and

# GREATER GABBARD OFTO

## Operating and financial review (continued)

For the year ended 31 March 2019

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### **Lending covenants and other restrictions (continued)**

7) The Company is required to meet all the conditions contained within the lending agreements before any servicing of the subordinated debt holders can take place or any distributions can be made to shareholders.

There is a risk that if the Company materially fails to comply with the terms of the lending agreements, or has failed to apply one of the specified remedies, the Company would be in default of the lending agreements. In these circumstances the amounts due under the lending agreements are immediately due and payable or are repayable on demand. The Company monitors and has put in place controls and procedures to ensure material compliance with the terms of the lending agreement at all times.

Since entering into the lending agreements the Company has complied with all of the lending covenants and conditions and has continued to do so through to the date of this report.

### **Accounting policies**

The financial statements present the results of the Company using the accounting policies outlined in the financial statements and are in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS permits certain choices and the following material choices have been made as follows:

#### Presentation of financial statements

The Company uses the nature of expense method for the presentation of its Income Statement and presents its Statement of Financial Position showing net assets and total equity.

In the Income Statement the Company presents a sub-total of operating loss being the total of operating income and operating costs.

#### Financial Instruments

The Company has elected to apply hedge accounting to its stand-alone derivative financial instruments.

#### Critical accounting policies

The application of accounting principles requires the Directors of the Company to make estimates, judgements, and assumptions that are likely to affect the reported amounts of assets, liabilities, revenue, and expenses, and the disclosure of contingent assets and liabilities in the financial statements. Better information, or the impact of an actual outcome, may give rise to a change as compared with any estimates used, and consequently the actual results may differ significantly from those estimates. The impact of revised estimates, or the impact of actual outcomes, will be reflected in the period when the better information or actual outcome is known.

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 37.

# GREATER GABBARD OFTO

## Strategic Report

For the year ended 31 March 2019

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The Directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

### Principal activities and business review

A full description of the Company's principal activities, business, and principal risks, and uncertainties is contained in the Operating and Financial Review on pages 3 to 20, which are incorporated by reference into this report.

No change in the Company's future developments is anticipated

### Material interests in shares

Greater Gabbard OFTO Plc is a wholly-owned subsidiary undertaking of Greater Gabbard OFTO Holdings

### Review of the business

The Directors have performed a full review of the Company's results for the year as part of the Operating and Financial review section on pages 3 to 20.

### Future developments of the business

No change in the Group's future developments is anticipated.

### Key Financial Performance Indicators

The Company has set specific business objectives, which are monitored using key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below.

|                                 | 31 March 2019 | 31 March 2018 |
|---------------------------------|---------------|---------------|
|                                 | £'000         | £'000         |
| Profit before taxation          | 2,128         | 2,956         |
| Cash available for debt service | 11,403        | 8,770         |

### Principal risks and uncertainties

The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to enable the business to improve performance and fulfil its contractual obligations.

#### *Licence obligations*

The Company has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate issued in relation to the European Parliament Directive.

#### *Financial risks*

Credit and cash flow risks to the Company arise from its client, NGET. Credit and cash flow risks to the Company arise from its client, NGET. NGET operates a low risk monopoly business within the UK, and the regulatory regime under which they operate results in a highly predictable, and stable, revenue stream.

#### *Contractual relationships*

The Company operates within a contractual relationship with its principal customer, NGET. A significant impairment of this relationship could have a direct and detrimental effect on the Company's results and could ultimately result in termination of the concession. To manage this risk the Company has regular meetings with NGET.

# GREATER GABBARD OFTO

## Strategic Report

For the year ended 31 March 2019

### Other

At the date of this report the directors of the company included 3 males and 1 female.

This report was approved by the Board on 30 July 2019 and signed by its order by:

  
K Shah

Company Secretary

# GREATER GABBARD OFTO

## Directors' Report

For the year ended 31 March 2019

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The Directors present their annual report together with the audited financial statements for the year ended 31 March 2019.

The following information has been disclosed in the strategic report:

- Principal activities and business review
- Key performance indicators
- Indication of likely future developments in the business

### Returns and dividends

The Company recorded a profit for the year after taxation of £1,684k (2018: £2,441k).

There was no dividend paid in the year (2018: £nil)

### Share Capital

The issued share capital of the Company at 31 March 2019 was £50,999 consisting of 50,999 ordinary shares of £1 each.

### Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Rebecca Collins

Richard Daniel Knight

Robert Alistair Martin Gillespie

Nathan John Wakefield

No Director has any interest in the issued, called up share capital of the Company or the Company's parent undertaking.

### Donations and research and development

No charitable or political donations were made during the year (2018: £nil) and expenditure on research and development activities was £nil (2018: £nil).

### Financial instruments and risk management

Details on the use of financial instruments are included on page 3 to 20 in the Operating and Financial Review and details of financial risk management included in Note 18 of the Notes to the Financial statements.

### Internal Controls and Corporate Governance

The Directors are responsible for the Company's system of internal control and for reviewing its effectiveness. They recognise the importance of a robust control environment to mitigate the key risks of the Company and whilst they consider that the material risks are managed adequately, they have elected to appoint an Audit committee as part of its corporate governance. The responsibilities of the audit committee are mentioned in the Corporate Governance Statement on page 24.

There are no significant issues for the year ended 31 March 2019 that have required the Board to deal with any related material internal control issues.

The Directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the year and confirm that the system of internal controls that are currently in place are considered sufficient that all key risks to the business are adequately managed and mitigated.

**Directors' Report (continued)**

For the year ended 31 March 2019

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**Going concern**

Having made enquiries, the Directors consider that the Company has adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements of the Company. More details of the Company's funding and liquidity position are provided in the Operating and Financial Review under the headings "Current funding structure" and "Going concern, liquidity and treasury management".

**The Company's strategy, long term business objectives and operating model**

The Company's strategy, long term business objectives and operating model are set out in the Operating and Financial Review and includes an explanation of how the Company will generate value over the longer term.

**Employee involvement**

The Company does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Company's Operating Model" in the Operating and Financial Review on page 4.

**Supplier payment policy**

The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of and abide by the terms of the payment. Trade creditors of the Company at 31 March 2019 were equivalent to 68 (2018: 73) days' purchases, based on the average daily amount invoiced by suppliers during the year.

**Company Information**

Greater Gabbard OFTO plc is incorporated in the United Kingdom, registered in England and Wales and domiciled in the United Kingdom.

**Company Secretary and Registered Office**

The Company Secretary is K. Shah. The registered address is 120 Aldersgate Street, 5th Floor, London, England, EC1A 4JQ.

**Statement of disclosure of information to Auditors**

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware, and each Director has taken all reasonable steps to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

  
**Approved by order of the Board**

K Shah

Company Secretary

30 July 2018

Greater Gabbard OFTO Plc

120 Aldersgate Street, 5th Floor, EMS,  
London, EC1A 4JQ, UK



# GREATER GABBARD OFTO

## Corporate governance statement

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The company does not have a premium listing of equity share and is therefore not subject to the UK Corporate Governance Code but seeks to apply the principles of the Code.

As a subsidiary undertaking of Greater Gabbard OFTO Holdings Limited ("GGOHL") the Company operates within the corporate governance framework of GGOHL and its subsidiary undertakings ("the Group"). Consequently, an understanding of the Group's governance framework is required to understand the Company's position within that framework.

Appointments to the Board of Directors of GGOHL and its subsidiary undertakings are governed by a shareholders' agreement ("the Agreement") between the shareholders of GGOHL that jointly control this Company through a common class of ordinary shares, Equitix Transmission 2 Limited and Equitix Capital Investors UK Cable Limited. The Directors receive no emoluments from the Company, consequently there is no link to the service standards of the Company. The Agreement requires that all Boards within the Group must comprise two Directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, no Group Company has a nomination committee and the performance of the Boards is not evaluated.

The Agreement ensures that Boards are balanced, with no one shareholder having majority representation, and allows the Group to draw on the respective financial and operational expertise of each of its shareholders. Accordingly, the Directors have the relevant expertise and experience, drawn from their involvement in a wide range of infrastructure companies, to define and to develop the strategy of the Company so as to meet its objectives and to generate or preserve value over the longer term. The Directors regularly review the effectiveness of the Group's risk management and internal control framework and are satisfied that they are effective.

### **GGOHL**

#### **Meetings of the Board of GGOHL**

GGOHL is governed by a Board of four executive Directors. There are no non-executive or independent Directors. The GGOHL Board does not have a separately appointed chairman. Meetings are chaired by a member of the GGOHL Board and are convened as required, but usually not less than four times per annum. The GGOHL Board is accountable to the shareholders of GGOHL for the good conduct of the Group's affairs, including those of the Company.

#### **Audit committee**

The Group does not have an internal audit function. The Directors have concluded that the Company is far too small to have such a function and assessment of internal controls are via an Audit Committee. The purpose of the Audit Committee is to assist the Board of the Company in the effective discharge of its responsibilities for the consideration of financial and regulatory reporting and for internal control principles in order to ensure high standards of probity and transparency. The Audit Committee acts to safeguard the interests of its shareholders by:

- monitoring the integrity of financial and financial regulatory reports issued by GGOHL and its two subsidiary undertakings with the objective of ensuring that these reports present a fair, clear, and balanced assessment of the position and prospects of the Group including the Company, as the case may be;

**Corporate governance statement (continued)**

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**GGOHL (continued)**

**Audit committee (continued)**

- reviewing the economy, efficiency and effectiveness of the Group's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures;
- reviewing and approving the internal control and risk management policies applicable to the Group;
- maintaining an appropriate relationship with the external auditors.

**The Company**

**Board and management meetings**

The Company is governed by a Board of four executive Directors, none of whom are independent. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board and are convened as required, but usually not less than four times per annum. The Company Board is responsible for monitoring the effectiveness of the day-to-day operation and management of the Company's regulated transmission business.

The Company's operating model is to outsource all O&M activities and asset management capability. EMS provides certain financial and management services to the Company through a PSA. Additional technical, accounting and administration support is provided to the Company by EMS through the PSA.

**Directors and their attendance at Company Board meetings**

The Directors of the Company are as shown below. Board meetings were held on four occasions during the year under review. Attendance by the Directors at Board meetings, expressed as a number of meetings attended out of a number eligible to attend is shown below.

|                        |        |
|------------------------|--------|
| Rebecca Collins        | 4 of 4 |
| Richard Daniel Knight  | 4 of 4 |
| Robert A. M. Gillespie | 2 of 4 |
| Nathan J. Wakefield    | 4 of 4 |

# GREATER GABBARD OFTO

## Corporate governance statement (continued)

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### Compliance committee

The Company has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role to fulfil the compliance requirements of the Licence, without executive functions, with powers of information, assessment, and presentations to the Board. Following consultation with the Gas and Electricity Markets Authority, on 25 November 2013 the Board appointed Henderson Loggie as Compliance Officer. Henderson Loggie is not engaged in the management or operation of the Company's Licensed transmission business system, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee and the Boards of the Group at least once annually.

The principal role of the Compliance Officer is to provide relevant advice and information to Directors of the Company, the compliance committee and consultants and other third parties providing services to the Company. The Compliance Officer is required to facilitate compliance with the Licence as regards the prohibition of cross subsidies; restriction of activities, and financial ring fencing; the conduct of the transmission business and restriction on the use of certain information. In addition, the Compliance Officer is required to monitor the effectiveness of the practices, procedures and systems adopted by the Company in accordance with the compliance statement required by amended standard condition E12 - C2 of the Licence (Separation and Independence of the Transmission Business).

Members of the Compliance Committee and their attendance, expressed as a number of meetings attended out of a number eligible to attend during the year under review was as follows:

|                     |        |
|---------------------|--------|
| R Collins           | 2 of 2 |
| Nathan J. Wakefield | 2 of 2 |

The compliance committee met in July 2018 and March 2019 to receive the compliance report for the year ended 31 March 2019 from the compliance officer and in turn produced a report approved by the Board.

### Compliance statement

The Company has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from [www.ggofto.com](http://www.ggofto.com)) that addresses how the Company has addressed its Licence obligations.

**Corporate governance statement (continued)**

**Health, Safety and Environment**

The Board recognises that the nature of the Company's business requires an exceptional focus on health, safety and the environment (HSE). The OFTO General Manager provides the Board with a monthly report that shows HSE performance through the month and year to date.

The OFTO Board has a Health and Safety Committee that meets at least bi-annually and comprises the Director Responsible for Health and Safety, the "OFTO Representative", OFTO General Manager and co-opted members as appropriate, with the following objectives:

- Ensure the OFTO achieves the highest possible levels of HSE performance through the use of leading and lagging indicators
- Ensure that the OFTO incorporates best practice
- Create a culture of innovation to promote and develop new ways of working that will transform operational practice in the pursuit of excellence in HSE
- Oversee HSE management to ensure that:
- Appropriate levels of Assurance and reporting are provided by the various parties with accountability in the area of HSE
- All Accidents, HSE Incidents and Near Misses are reviewed and actions implemented

There have been no RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) reportable incidents or accidents to date.

## Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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 Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 IFRSs as adopted by the European Union 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.

### Directors' confirmations

Each of the directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Operating and financial review includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



K Shah  
Company Secretary  
30 July 2019

***Independent auditors' report to the members of Greater  
Gabbard OFTO plc***

**Report on the audit of the financial statements**

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**Opinion**

In our opinion, Greater Gabbard OFTO plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2019; the income statement, the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

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**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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 April 2018 to 31 March 2019.

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**Our audit approach**

**Overview**

|                   |   |
|-------------------|---|
| Materiality       | • Overall materiality: £106k (2018: £147k), based on 5% of profit before tax.   |
| Audit scope       | • We tailored the scope of our audit taking into account the significant balances within the Company, the accounting processes and controls, and the industry in which the company operates.<br>• We obtained an understanding of internal controls in place and then performed substantive testing where required over the significant balances. |
| Key audit matters | • Valuation of derivatives.   |

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**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

**Capability of the audit in detecting irregularities, including fraud**

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of conditions of the Company's Offshore Electricity Transmission Licence granted by the Gas and Electricity Markets Authority, 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 preparation of 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

## Independent Auditors' Report to the Members of Greater Gabbard OFTO Plc (continued)

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principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Understanding of management's controls designed to prevent and detect irregularities;
- Review of Board minutes;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular analysing detailed journal listings to determine if there have been any unusual journal postings or significant transactions out with the ordinary course of business.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would be aware of it. 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.

### *Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and our comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

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#### *Key audit matter*

#### *How our audit addressed the key audit matter*

##### *Valuation of derivatives*

*(see note 12 of the financial statements)*

The Company has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

We focused on this area as valuation of derivatives requires the use of judgement by the Directors and the involvement of valuation experts. Derivative valuation requires judgements because, for some instruments, quoted prices are not readily available. As such, management use models to estimate their fair value. The key judgements for derivative valuation is whether an appropriate valuation methodology and input assumptions have been used.

Our audit work in respect of the valuation of derivative assets and liabilities included understanding and assessing the models and methodology used for the derivative investments, using our valuation specialists. This included recalculating the valuations using independent models, sourcing our own input data from recognised independent market data and investigating any differences found where they were greater than predefined thresholds.

We determined that the assumptions used, and the resulting valuations of the derivatives, were within ranges that we consider to be acceptable.

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#### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

#### *Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

**Independent Auditors' Report to the Members of Greater Gabbard  
OFTO Plc (continued)**

|  |   |
|--|---|
| <b>Overall materiality</b>             | £106k (2018: £147k).  |
| <b>How we determined it</b>            | 5% of profit before tax.  |
| <b>Rationale for benchmark applied</b> | We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5k (2018: £7k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

**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 Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

**Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and 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, 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.



# GREATER GABBARD OFTO

## Independent Auditors' Report to the Members of Greater Gabbard OFTO Plc (continued)

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### *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.

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](http://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.

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## Other required reporting

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### **Companies Act 2006 exception reporting**

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

- we have not received 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.

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### **Appointment**

Following the recommendation of the audit committee, we were appointed by the directors on 30 November 2016 to audit the financial statements for the year ended 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2017 to 31 March 2019.



Mark Hoskyus-Abraham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh

30 July 2019

### **A. Basis of preparation of financial statements under IFRS**

These financial statements have been prepared on a going concern basis in accordance with IFRS as adopted by the EU and interpretations issued by the IFRS Interpretations Committee (IFRS IC). They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for the year ended 31 March 2019, and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The accounting policies have been applied consistently, other than where new policies have been adopted. The financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates as referred in section J, Critical accounting judgements, key assumptions and sources of estimation uncertainty on page 37.

### **B. Transmission availability arrangements - income and related recognition**

The Company owns and operates an electricity transmission network that is principally offshore based. This network electrically connects a wind farm generator to the onshore electricity transmission operator (NGET). The ownership of this transmission network is subject to regulatory and contractual arrangements that permit it to charge for making its transmission network available ("transmission availability charges") to the wind farm generator thereby allowing the wind farm generator to transmit its electricity.

The characteristics of the regulatory, legal and contractual arrangements that give rise to the transmission availability charges referred to above are consistent with the principles contained within IFRIC 12, an interpretation issued by the IFRS Interpretations Committee. Consequently, the accounting for charges made by the Company for transmission network availability is consistent with that interpretation.

The major characteristics that result in the application of IFRIC 12 include the following:

- the regulatory arrangements determine the price charged by the Company for its transmission availability services; and
- the regulator has granted a licence to operate the transmission system for an exclusive period of around 20 years and retains the rights to grant a transmission licence to a future operator.

A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12. The Transmission owner asset includes: the cost of acquiring the Transmission network asset from the constructor of the network; and those costs incurred that are directly attributable to the acquisition of the transmission network. The Transmission Owner asset has been classified as a financial asset and is accounted for as described below – see C – Financial Instruments.

# GREATER GABBARD OFTO

## Accounting policies (continued)

For the year ended 31 March 2019

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### **B. Transmission availability arrangements - income and related recognition (continued)**

In accordance with IFRIC 12 and IFRS 15, transmission availability charges are recognised in the financial statements in three ways:

- as an adjustment to the carrying value of the Transmission owner asset – see C. Financial Instruments below;
- as finance income - see G. Operating and finance income below;
- as operating income - see G. Operating and finance income below.

Transmission availability payments are recognised at the time the transmission service is provided.

The value of amounts invoiced for transmission availability services in any one year is determined by a regulatory agreement that allows the transmission system operator to invoice an amount primarily relating to the expected availability of the transmission system during that year, together with the recovery of certain costs. Where the level of availability of the transmission system or the costs that are permitted to be recovered is different to that expected this might result in an adjustment to charges in a subsequent accounting period. Such potential adjustments to future charges are not recognised in the financial statements as assets or liabilities, until as such time as prices are changed to reflect these adjustments and, consequently, there is no impact on the Income Statement until such time as prices are changed.

### **C. Financial instruments**

Financial assets, liabilities, and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on the trade date.

Trade and loan receivables, including time deposits and demand deposits, are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. Expected credit losses are considered at each reporting date. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Indications that the trade or loan receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment.

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

The Transmission owner asset is classified as a contract asset under IFRS 15 and is carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value as referenced above – see B. Transmission availability arrangements. The annual revenue is agreed upfront with the client including the RPI uplift per the licence. The maximum credits available are 5% and penalties available are 10% of base revenue for that year which is shared. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty. Finance income relating to the Transmission owner asset is recognised in the Income Statement as a separate line item – “Finance income”, see G. Operating and finance income below.

Borrowings, which include fixed interest-bearing debt, are recorded at their carrying value which reflects the proceeds received, net of direct issue costs.

Subsequently all borrowings are stated at amortised cost, using the effective interest rate method.

**Accounting policies (continued)**

For the year ended 31 March 2019

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**C. Financial instruments (continued)**

Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. Gains and losses arising from the changes in fair value are included in other comprehensive income in the period they arise.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts.

There are no embedded derivatives in host contracts that are not considered to be closely related; consequently, no embedded derivatives are separately accounted for as derivative financial instruments.

**D. Hedge accounting**

As permitted by IFRS 9, the company continues to apply the hedge accounting requirements of International Accounting Standard 39.

The Company has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps). The Company has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Company's net cash flows.

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement.

Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in equity and any ineffective portion is recognised immediately in the Income Statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Income Statement in the same period in which the hedged item affects net profit or loss.

**E. Impairment of assets**

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. Value in use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired. Impairments are recognised in the Income Statement and, where material, are disclosed separately.

**Accounting policies (continued)**

For the year ended 31 March 2019

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**F. Income taxation**

Income taxation comprises current and deferred taxation. Income taxation is recognised where a taxation asset or liability arises that is permitted to be recognised under generally accepted accounting principles. All identifiable taxation assets or liabilities are recognised in the Income Statement except to the extent that the taxation arising relates to other items recognised directly in equity, in which case such taxation assets or liabilities are recognised in equity.

**Taxation**

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date.

**Deferred taxation**

Deferred taxation is provided using the Statement of Financial Position liability method, and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements, and the corresponding tax bases used in the computation of taxable profit.

Deferred taxation liabilities are generally recognised on all taxable temporary differences, and deferred taxation assets are recognised to the extent that is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates (and tax laws) that have been enacted, or substantively enacted, by the Statement of Financial Position date.

Unrecognised deferred taxation assets are reassessed at each Statement of Financial Position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred taxation asset to be recovered.

**G. Operating and finance income**

**General**

As indicated above, see B. Transmission availability arrangements, amounts invoiced in respect of transmission availability charges, net of value added tax, are attributed to operating income, finance income or as an adjustment to the carrying value of the Transmission owner asset in the manner described below. Finance and operating income reflect the principal revenue generating activity of the Company, that being revenue associated with the provision of transmission availability services and consequently, are presented as separate line items within the Income Statement before other costs and net interest costs.

**Operating income**

Operating income represents the income derived from the provision of operating services. Such services include those activities that result in the efficient and safe operation of the Company's transmission assets, and are reflective of the costs incurred in providing those services, including the cost of operations and maintenance and insuring the transmission assets on behalf of a stand-alone transmission owner. An estimate has been made as to the appropriate revenue that should be attributable to a stand-alone operator with responsibility for operations, maintenance and insurance.

# GREATER GABBARD OFTO

## Accounting policies (continued)

For the year ended 31 March 2019

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### G. Operating and finance income (continued)

#### Finance income

Finance income arising from the provision of transmission availability services represents the return that an efficient stand-alone “transmission owner” would expect to generate from the holding of the Transmission owner asset and an estimate has been made as to the appropriate return that such an owner would generate having regard to the risks associated with those arrangements. The return that is generated on this asset is allocated to each period using the effective interest rate method.

#### H. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than six months that are readily convertible to known amounts of cash, and subject to an insignificant change in value.

#### I. Decommissioning Costs

Provision is made for costs expected to be incurred at the end of the useful life of the offshore transmission network associated with the safe decommissioning of that network. Provision for these costs is based on future estimated expenditures, discounted to present values. Changes in the provision arising from revised estimates or discount rates, or changes in the expected timing of expenditures, are recognised in the income statement. The unwinding of the discount and changes arising from revisions to the discount rate are included within the income statement as a component of the service margin calculations used to calculate the operating income. Changes in estimates arising from revised cost assessments are included within operating costs.

#### J. Critical accounting judgements, key assumptions and sources of estimation uncertainty

The preparation of financial statements requires management to make accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Assumptions and estimates are reviewed on an ongoing basis and any revisions to them are recognised in the period the revision occurs. The following is a summary of the critical accounting policies adopted by the Company together with information about the key judgements, estimations and assumptions that have been applied.

##### i) Transmission availability arrangements - income and related recognition

The Directors after due enquiry have identified that the characteristics of the regulatory, legal and contractual arrangements that give rise to transmission availability charges are consistent with the principles contained within IFRIC 12 and IFRS 15. Consequently, the accounting for charges made by the Company for transmission network availability is consistent with that interpretation.

As a consequence of this decision, the following outcomes follow:

- a. A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12 and IFRS 15; and
- b. In accordance with IFRIC 12 and IFRS 15, transmission availability charges are recognised in the financial statements in three ways: as finance income, as operating income and as an adjustment to the carrying value of the Transmission owner asset.

**Accounting policies (continued)**

For the year ended 31 March 2019

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**J. Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)**

**i) Transmission availability arrangements – income and related asset recognition (continued)**

An alternative accounting analysis could result in a significantly different accounting outcome which would affect the amounts and classification of asset and liabilities in the Statement of Financial Position and alter the income recognition and presentation of amounts included within the Income Statement.

The Company has determined that the Transmission owner asset will be recovered over a period of 20 years from the date of Licence grant (29 November 2013) – being the principal period over which the Company is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project.

**ii) Operating and finance income**

**Operating income**

Operating income represents the income derived from the provision of operating services to our principal customer, NGET. Such services include those activities that result in the efficient and safe operation of those assets and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a stand-alone transmission owner. Estimates and judgements have been made by management to estimate the appropriate amount of revenue that would be attributable to this income classification as if this service were provided by an independent stand-alone operator with responsibility for operations, maintenance and insurance. To the extent that an alternative judgement or estimate was made as to the reasonable level of revenue attributable to such an operator, then in the case of the Company, the level of income attributed to finance income (see below) would be amended.

**Finance income**

Finance income arising from the provision of transmission availability services represents an estimate of the return that an efficient stand-alone and independent “transmission owner” would expect to generate from the holding of the Transmission owner asset. Estimates and judgements have been exercised by management to determine an appropriate return to the owner of such an asset having regard to the risks associated with those arrangements. To the extent that an alternative judgement or estimate was made as to the reasonable level of return attributable to such a transmission asset owner, then in the case of the Company, the level of income attributed to operating income (see above) would be amended.

**Accounting policies (continued)**

For the year ended 31 March 2019

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**J. Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)**

**iii) Hedge accounting and consideration of the fair value of derivative financial instruments**

The Company uses derivative financial instruments to hedge certain economic exposures in relation to movements in RPI as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The Company fair values its derivative financial instruments and records the fair value of those instruments on its Statement of Financial Position.

Movements in the fair values of the Company's derivative financial instruments may be accounted for using hedge accounting where the requirements of hedge accounting are met under IFRS including the creation of compliant documentation and meeting the effectiveness testing requirements. If a hedge does not meet the criteria for hedge accounting, or where there is some degree of ineffectiveness, then the change in fair value in relation to these items will be recorded in the Income Statement. Otherwise, in respect of the Company's derivative financial instruments, these changes in fair value are recognised in other comprehensive income.

The Company's derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not have been met these movements would have been recognised in the Income Statement.

As referred to above, the Company carries its derivative financial instruments in its Statement of Financial Position at fair value. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by a third party that is independent of the Company, but use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments. Where observable market data is not available, as in the case of valuing the Transmission owner asset, unobservable market data is used which requires the exercise of management judgement.

**iv) Income taxation**

**Current taxation**

The taxation charge or credit arising on profit before taxation and in respect of gains or losses recognised through other comprehensive income reflect the tax rates in effect or substantially enacted at the Statement of Financial Position date as appropriate. The determination of appropriate provisions for taxation requires the Directors to take into account anticipated decisions of HM Revenue and Customs which inevitably requires the Directors to use judgements as to the appropriate estimate of taxation provisions.



**Accounting policies (continued)**

For the year ended 31 March 2019

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**J. Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)**

**iv) Income taxation (continued)**

**Deferred taxation**

Deferred taxation is provided using the Statement of Financial Position liability method and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding taxation bases used in the computation of taxable profit.

Judgements are required to be made as to the calculation and identification of temporary differences and in the case of the recognition of deferred taxation assets, the Directors have to form an opinion as to whether it is probable that the deferred taxation asset recognised is recoverable against future taxable profits arising. This exercise of judgement requires the Directors to consider forecast information over a long time horizon having regard to the risks that the forecasts may not be achieved and then form a reasonable opinion as to the recoverability of the deferred taxation asset.

**v) Decommissioning Provision**

Provisions are made for certain liabilities where the timing and amount of the liability is uncertain. The Company's only provision relates to the estimated costs of decommissioning the Company's offshore transmission system at the end of its expected economic life - being 20 years. These estimated costs have then been discounted at an appropriate rate and the resultant liability reflected in the balance sheet. The plan for decommissioning these assets has not yet been approved by the Secretary of State for Business, Energy and Industrial Strategy but the preliminary assessment of the decommissioning plan includes many assumptions.

The estimates and judgements used in determining the carrying value of this provision include, but are not limited to, the following:

- the estimated economic useful life of the transmission system is assumed to be 20 years being the period the Company has exclusive rights to operate under the Licence and collect revenue which is expected to generate the vast majority of cash flows relating to the ownership of the system.
- estimates of costs relating to the appropriate and safe removal, disposal, recycle and making safe of the transmission system having regards to market prices and access to the appropriate level of technology; and
- discount rate appropriate to the 20 year life of the assets being decommissioned. The Company has adopted the practice (absent a significant unforeseen event taking place) of considering the appropriate discount rate to apply to be the finance interest rate applicable to the project life, reflective of the long term nature of this liability, rather than re-evaluating the discount rate over a shorter time period.

The estimates are based on management estimates with the use of technical consultants and are subject to periodic revision. The initial estimated discounted cost of decommissioning the offshore transmission system is included within the carrying value of the Transmission owner asset. All subsequent changes to estimates in relation to estimated gross cost of decommissioning or the appropriate discount rate are reflected in the income statement via changes in the service margin applied to calculate the operating income.

# GREATER GABBARD OFTO

## Accounting policies (continued)

For the year ended 31 March 2019

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### **K. Accounting developments**

#### **i) Accounting standards as applied to these financial statements**

In preparing the financial statements the subsidiary has complied with IFRS, International Accounting Standards (IAS) and interpretations applicable for 2018/2019.

The above new and amended standards do not have a material quantitative effect on the Company.

At the date of authorisation of the financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 14 Regulatory Deferral Accounts; Standards not yet in effect
- IFRS 16 Leases;

Amendments to the following standards:

- IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exemption;
- IFRS 11: Accounting for Acquisitions of Interests in Joint Operations;
- IAS 1: Disclosure Initiative;
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation;
- IAS 16 and IAS 41: Agricultural: Bearer Plants;
- IAS 27: Equity Method in Separate Financial Statements.

With the exception of the items disclosed below, the above standards and interpretations are either not relevant to the Company's current activities or are not expected to have any significant impact on the measurement of assets or liabilities or disclosures in the financial statements. Those standards and interpretations that are expected to impact on the financial statements, either by way of measurement or disclosure, are as follows:

#### **ii) IFRS 9, 'Financial instruments'**

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. The Company has assessed the impact of IFRS 9 with effect from 1 April 2018 and considers that the classification and measurement basis for its financial assets and liabilities to be materially unchanged by the adoption of IFRS 9.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

**Accounting policies (continued)**

For the year ended 31 March 2019

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**K. Accounting developments (continued)**

**ii) IFRS 9, 'Financial instruments'**

Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income, not recycling. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

The requirements for hedge effectiveness under IFRS 9 is relaxed as compared with IAS 39 by replacing the bright-line hedge effectiveness tests. To qualify for hedge accounting, it requires an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that management actually uses for risk management purposes. Contemporaneous documentation is still required, but it is different from that currently prepared under IAS 39. However, IFRS 9 does allow for an accounting policy choice to continue to account for all hedges under IAS 39.

The Company has performed an evaluation of the expected credit loss on its recognised contract asset in accordance with IFRS 15. Under this assessment, management believe the credit risk associated with the future cash flows to be extremely low. The expected credit losses were deemed to be immaterial and no further provision was made to the financial statements and therefore no restatement of comparative information was required.

**iii) IFRS 15, 'Revenue from contracts with customers'**

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Variable consideration is included in the transaction price if it is highly probable that there will be no significant reversal of the cumulative revenue recognised when the uncertainty is resolved. The standard replaces IAS 18, 'Revenue', and IAS 11, 'Construction contracts', and related interpretations.

The standard is effective for annual periods beginning on or after 1 January 2018. The Company determined the impact of implementing IFRS 15 with effect from 1 April 2018. Additionally it carried out a review of existing contractual arrangements as a part of this process. This review also considered the interaction between IFRS 15 and IFRIC 12 "Service Concession Arrangements". The conclusion reached is that the licence agreement constitutes a contract asset under IFRS 15 and will therefore continue to be carried at amortised cost, net of expected credit losses. Further, there has been no change to the recognition of operating income.

**iv) IFRS 16, 'Leases'**

IFRS 16 'Leases' is expected to be applicable to the Company's financial statements commencing 1 April 2019 as endorsed by the EU. IFRS 16 is applicable to the Company's financial statements commencing 1 April 2019.

The Company is evaluating this new accounting standard, and it is expected to have an impact on the measurement and disclosure of lease liabilities and related right-of-use assets within the balance sheet presented by the Company. In addition, there is likely to be an impact on income statement geography and the timing and recognition of lease related expenses. The evaluation is not yet complete and so quantification of the impact is not yet available.

# GREATER GABBARD OFTO

## Income Statement

For the year ended 31 March 2019

|   | Note | 2019<br>£'000       | 2018<br>£'000       |
|---|------|---------------------|---------------------|
| Operating income                                  | 2    | 2,597               | 3,705               |
| Operating costs                                   | 3    | <u>(3,527)</u>      | <u>(3,923)</u>      |
| <b>Operating (loss)/profit</b>                    |      | <u><b>(930)</b></u> | <u><b>(218)</b></u> |
| Bank interest                                     | 4    | 236                 | 105                 |
| Finance Income                                    | 4    | 19,320              | 19,687              |
| Finance costs                                     | 4    | <u>(16,498)</u>     | <u>(16,618)</u>     |
| <b>Profit before taxation</b>                     |      | <b>2,128</b>        | 2,956               |
| Income taxation charge                            | 5    | (444)               | (515)               |
| <b>Profit attributable to equity shareholders</b> |      | <u><b>1,684</b></u> | <u><b>2,441</b></u> |

The notes on pages 49 to 66 form part of these financial statements.

The results reported above relate to continuing operations.

# GREATER GABBARD OFTO

## Statement of comprehensive income

For the year ended 31 March 2019

|   | Note | 2019<br>£'000       | 2018<br>£'000       |
|---|------|---------------------|---------------------|
| <b>Profit attributable to equity shareholders</b>         |      | <b>1,684</b>        | <b>2,441</b>        |
| Other comprehensive (expense)/income:                     |      | -                   | -                   |
| <b>Amounts to be reclassified subsequently to the</b>     |      |                     |                     |
| <b>income statement when specific conditions are met</b>  |      | -                   | -                   |
| Net income taken to equity in respect of cash flow hedges | 12   | 2,747               | 1,381               |
| Deferred taxation on cash flow hedges                     | 5    | <u>(467)</u>        | <u>(235)</u>        |
| Total other comprehensive income                          |      | <u>2,280</u>        | <u>1,146</u>        |
| <b>Total comprehensive income for the year</b>            |      |                     |                     |
| <b>attributable to equity shareholders</b>                |      | <b><u>3,964</u></b> | <b><u>3,587</u></b> |

# GREATER GABBARD OFTO

## Statement of Financial Position As at 31 March 2019

|                                |      | 2019<br>£'000    | 2018<br>£'000    |
|--------------------------------|------|------------------|------------------|
|                                | Note |                  |                  |
| <b>Non-current assets</b>      |      |                  |                  |
| Transmission owner asset       | 6    | 297,546          | 304,854          |
| Derivative financial asset     | 12   | <u>11,477</u>    | <u>8,730</u>     |
| Total non-current assets       |      | <u>309,023</u>   | <u>313,584</u>   |
| <b>Current assets</b>          |      |                  |                  |
| Financial asset                | 8    | 0                | 16,488           |
| Trade and other receivables    | 8    | 9,123            | 7,562            |
| Transmission owner asset       | 6    | 5,091            | 6,347            |
| Cash and cash equivalents      | 9    | <u>20,231</u>    | <u>2,513</u>     |
| Total current assets           |      | <u>34,445</u>    | <u>32,910</u>    |
| <b>Total assets</b>            |      | <u>343,468</u>   | <u>346,494</u>   |
| <b>Current liabilities</b>     |      |                  |                  |
| Borrowings                     | 10   | (17,057)         | (12,675)         |
| Trade and other payables       | 11   | <u>(6,348)</u>   | <u>(7,263)</u>   |
| Total current liabilities      |      | <u>(23,405)</u>  | <u>(19,938)</u>  |
| <b>Net current assets</b>      |      | <u>11,040</u>    | <u>12,972</u>    |
| <b>Non-current liabilities</b> |      |                  |                  |
| Borrowings                     | 10   | (291,535)        | (303,101)        |
| Deferred taxation liability    | 7    | (4,723)          | (3,869)          |
| Decommissioning Provision      | 13   | <u>(3,806)</u>   | <u>(3,551)</u>   |
| Total non-current liabilities  |      | <u>(300,064)</u> | <u>(310,521)</u> |
| <b>Total liabilities</b>       |      | <u>(323,469)</u> | <u>(330,459)</u> |
| <b>Net asset</b>               |      | <u>19,999</u>    | <u>16,035</u>    |
| <b>Equity</b>                  |      |                  |                  |
| Called-up share capital        | 14   | 51               | 51               |
| Retained earnings              | 15   | 10,423           | 8,739            |
| Cash flow hedge reserve        | 15   | <u>9,525</u>     | <u>7,245</u>     |
| <b>Total Equity</b>            |      | <u>19,999</u>    | <u>16,035</u>    |

These financial statements, comprising Accounting Policies, the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, and Notes to the financial statements, on pages 34 to 66 for Greater Gabbard OFTO plc, company registered number 08180541 were approved by the Board of Directors and authorised for issue on 30 July 2019 and were signed on its behalf by:

Director



Greater Gabbard OFTO plc

# GREATER GABBARD OFTO

## Statement of changes in equity

For the year ended 31 March 2019

|   | Called-up<br>share<br>capital<br>£'000 | Cash flow<br>hedge reserve<br>£'000 | Retained<br>earnings<br>£'000 | Total<br>shareholders'<br>funds<br>£'000 |
|---|--|-------------------------------------|-------------------------------|--|
| At 1 April 2017   | 51                                     | 6,099                               | 6,298                         | 12,448                                   |
| Recognised profit for the year                            | -                                      | -                                   | 2,441                         | 2,441                                    |
| Net income taken to equity in respect of cash flow hedges | -                                      | 1,381                               | -                             | 1,381                                    |
| Deferred taxation on cash flow hedges                     | -                                      | (235)                               | -                             | (235)                                    |
| Total comprehensive (expense)/ income                     | 51                                     | 7,245                               | 8,739                         | 16,035                                   |
| Dividend Paid   | -                                      | -                                   | -                             | -  |
| At 31 March 2018  | 51                                     | 7,245                               | 8,739                         | 16,035                                   |
| Recognised profit for the year                            | 0                                      | 0                                   | 1,684                         | 1,684                                    |
| Net income taken to equity in respect of cash flow hedges | 0                                      | 2,747                               | 0                             | 2,747                                    |
| Deferred taxation on cash flow hedges                     | 0                                      | (467)                               | 0                             | (467)                                    |
| Total comprehensive (expense)/ income                     | 51                                     | 9,525                               | 10,423                        | 19,999                                   |
| Dividend Paid   | -                                      | -                                   | -                             | -  |
| At 31 March 2019  | 51                                     | 9,525                               | 10,423                        | 19,999                                   |
| Note  | 14                                     | 15                                  | 15                            |  |

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory and borrowing obligations, including a requirement to ensure it has sufficient resources and facilities to enable it to carry on its business, and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

The cash flow hedge reserve recognises the effective portion of cash flow hedges whilst any ineffectiveness is taken to the Income Statement.

# GREATER GABBARD OFTO

## Cash flow statement

For the year ended 31 March 2019

|   | Note | 2019<br>£'000   | 2018<br>£'000   |
|---|------|-----------------|-----------------|
| <b><u>Cash flows from operating activities</u></b>          |      |                 |                 |
| Operating (loss)/profit for the year                        |      | (930)           | (218)           |
| Adjustments for:  |      |                 |                 |
| Income recognised in respect of financial asset             |      | (2,001)         | (3,121)         |
| Interest paid   |      | (13,465)        | (15,730)        |
| Taxation paid   |      | (23)            | -               |
| Decrease in debtors   |      | 16,448          | 425             |
| (Decrease) in creditors                                     |      | (770)           | (16,654)        |
|   |      | <u>189</u>      | <u>(35,080)</u> |
| <b>Net cash flow used in operating activities</b>           |      | <b>(741)</b>    | <b>(35,298)</b> |
| <b><u>Cash flows from investing activities</u></b>          |      |                 |                 |
| Cash receivable on the finance asset                        |      | 28,396          | 27,475          |
| Interest received   |      | 236             | 105             |
| <b>Net cash flow generated from investing activities</b>    |      | <b>28,632</b>   | <b>27,580</b>   |
| <b><u>Cash flows from financing activities</u></b>          |      |                 |                 |
| Repayment of senior debt                                    |      | (10,173)        | (9,263)         |
| Dividends paid  |      | -               | -               |
| <b>Net cash flow used in financing activities</b>           |      | <b>(10,173)</b> | <b>(9,263)</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | 16   | <b>17,718</b>   | <b>(16,981)</b> |
| Cash and cash equivalents at the start of the year          |      | <u>2,513</u>    | <u>19,494</u>   |
| <b>Cash and cash equivalents at the end of the year</b>     |      | <b>20,231</b>   | <b>2,513</b>    |



**Notes to the financial statements**

For the year ended 31 March 2019

**1 Operating segment**

The Board of Directors is the Company's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment – electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities). The Company and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Income Statement, the Statement of Financial Position and cash flow statement on page 44, 46 and 48 respectively. Additional notes relating to the Company and segment are shown in the notes to the financial statements on pages 49 to 66.

The electricity transmission operation of the Company comprises the transmission of electricity from a wind farm located approximately 26km off the coast of Suffolk within the Thames Estuary, and then connecting directly into the national grid at an electricity substation near Sizewell.

All of the Company's sales and operations take place in the UK.

All of the assets and liabilities of the Company arise from the activities of the segment.

**2 Operating income**

Operating income of £2,597k (2018: £3,705k) relates primarily to the Company's activity as a provider of electricity transmission services to the Company's principal customer – NGET. The vast majority of the Company's income is derived from NGET.

**3 Operating costs**

Operating costs are analysed below:

|  | 2019                | 2018                |
|--|---------------------|---------------------|
|  | £'000               | £'000               |
| Operations and maintenance                                     | 1,755               | 2,387               |
| Insurance costs  | 1,007               | 795                 |
| Non-domestic rates   | 552                 | 536                 |
| Professional services fees                                     | 104                 | 101                 |
| Auditors' remuneration   | 33                  | 22                  |
| Other professional services                                    | 31                  | 34                  |
| Directors' Remuneration <sup>(1)</sup>                         | -                   | -                   |
| Other  | 44                  | 48                  |
| <b>Total</b>   | <b><u>3,527</u></b> | <b><u>3,923</u></b> |
| <br>   |                     |                     |
| Auditors' remuneration <sup>(2)</sup>                          | 26                  | 15                  |
| Other services supplied pursuant to legislation <sup>(3)</sup> | 7                   | 7                   |
| <b>Total</b>   | <b><u>33</u></b>    | <b><u>22</u></b>    |

1. The Directors receive no emoluments from the Company, consequently there is no link to the service standards of the Company.

2. These represent fees payable for services in relation to engagements which are required to be carried out by the auditor. In particular this includes fees for audit reports on regulatory returns.

3. These represent fees payable for services in relation to engagements which are required to be carried out by the compliance officer. In particular this includes fees for the compliance audit and report on the licensee's compliance statement.

# GREATER GABBARD OFTO

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 3 Operating costs (continued)

The Directors received no salary, fees or other benefits in the performance of their duties during the current or preceding year. There were no Directors' fees paid by the Company to the shareholders. The Company had no employees in the current or preceding year. All salary, fees or other benefits of the Directors and other staff are borne by the shareholders who second their employees to the Company.

### 4 Net interest income

Net interest income is tabulated below:

|   | 2019<br>£'000       | 2018<br>£'000       |
|---|---------------------|---------------------|
| <b>Interest income and other financial income</b> |                     |                     |
| Interest on bank accounts and deposits            | 236                 | 105                 |
| Finance income                                    | <u>19,320</u>       | <u>19,687</u>       |
|   | 19,556              | 19,792              |
| <b>Interest expense and other financial costs</b> |                     |                     |
| Interest on senior debt                           | (11,050)            | (11,439)            |
| Interest on subordinated debt                     | (4,801)             | (4,808)             |
| Other financial costs                             | <u>(647)</u>        | <u>(371)</u>        |
|   | (16,498)            | (16,618)            |
| <b>Net interest income</b>                        | <u><u>3,058</u></u> | <u><u>3,174</u></u> |

### 5 Income taxation charge

#### a) Taxation on items included in the Income Statement

The net taxation charge for the year is £444k (2018: £515k), and the composition of that charge is shown in the table below.

The taxation charge on current year profits arising in the year represents deferred taxation, and has been computed at 19% (2018: 19%) and adjusted to re-measure at 17% (2018: 17%). There is no current taxation included in the Income Statement (2018: nil).

The taxation charge for the year differs from the standard rate of corporation tax in the UK of 19% (2018: differs 19%) for the reasons outlined below:

|   | 2019<br>£'000     | 2018<br>£'000     |
|---|-------------------|-------------------|
| Profit before taxation                                | <u>2,128</u>      | <u>2,956</u>      |
| Taxation at 19% (2018: 19%) on profit before taxation | 404               | 562               |
| <b>Effects of:</b>                                    |                   |                   |
| - permanent differences                               | 83                | 12                |
| - effect of change of tax rate                        | <u>(43)</u>       | <u>(59)</u>       |
| <b>Total tax charge</b>                               | <u><u>444</u></u> | <u><u>515</u></u> |

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**5 Income taxation charge (continued)**

**b) Taxation on items included in other comprehensive income**

The net taxation charge on items included in other comprehensive income for the year is £467k (2018: 235k) and comprises a charge on items arising in the current year computed at 19% (2018: 19%) of £467k (2018: 235k).

**c) Rates of taxation - current and future years**

In the Finance Act 2016, the rate of corporation tax was reduced to 17% from 1 April 2020. This change was enacted on 15 September 2016 and as such, deferred tax at the balance sheet date has been recognised at the rate of 17% on the basis that all temporary differences are expected to reverse after 1 April 2020.

**6 Transmission owner asset**

The movement in the carrying value of the transmission owner asset is shown in the table below:

|   | 2019<br>£'000  | 2018<br>£'000  |
|---|----------------|----------------|
| At 1 April                                    | 311,201        | 316,877        |
| <sup>1</sup> Adjustment to the carrying value | <u>(8,564)</u> | <u>(5,676)</u> |
| At 31 March                                   | <u>302,637</u> | <u>311,201</u> |
| <b>Comprising:</b>                            |                |                |
| Amounts falling due within one year           | 5,091          | 6,347          |
| Amounts falling due after more than one year  | <u>297,546</u> | <u>304,854</u> |
|   | <u>302,637</u> | <u>311,201</u> |

<sup>1</sup> Arising from the application of the effective interest rate method and reflected through finance income in the income statement.

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2019 was £352,689k (2018: £361,592k). The basis for estimating the fair value of the Transmission owner asset was to estimate the net cash flows arising over the estimated economic life of the project, and to discount those expected net cash flows at a discount rate, representing an equivalent gilt rate plus a risk premium as estimated by the Board to apply to the asset of 3.68% (2018: 3.79%) per half year.

# GREATER GABBARD OFTO

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 7 Deferred taxation liability

The net deferred taxation liability recognised in the Statement of Financial Position arises as follows:

|                              | Fair value<br>gains on<br>derivatives<br>£'000 | Accelerated<br>capital<br>allowances<br>£'000 | Tax losses<br>£'000 | Total<br>£'000 |
|------------------------------|--|---|---------------------|----------------|
| At 1 April 2017              | (1,249)  | (22,956)                                      | 21,086              | (3,119)        |
| Additions                    | (235)  | 6,405   | (6,920)             | (750)          |
| Effect of change in tax rate | -  | -   | -                   | -              |
| At 31 March 2018             | (1,484)  | (16,551)                                      | 14,166              | (3,869)        |
| Additions                    | (467)  | (159)   | (228)               | (854)          |
| Effect of change in tax rate | -  | -   | -                   | -              |
| At 31 March 2019             | <b>(1,951)</b>                                 | <b>(16,710)</b>                               | <b>13,938</b>       | <b>(4,723)</b> |

The Deferred tax liability of £4,723k (2018 liability: £3,869k) is calculated at 17% (2018 : 17%) and is due after more than 1 year.

The deferred tax asset is derived from tax losses in previous accounting years which will be used against future profits as currently forecast.

There were no unrecognised deferred tax assets in the year.

### 8 Trade and other receivables

|                                | 2019<br>£'000 | 2018<br>£'000 |
|--------------------------------|---------------|---------------|
| Financial Asset                | -             | 16,488        |
| Trade debtors                  | 41            | -             |
| Prepayments and Accrued Income | 8,532         | 7,227         |
| Other receivables              | 551           | 335           |
|                                | <b>9,123</b>  | <b>24,050</b> |

Financial Asset comprise of amounts held within deposit accounts with a maturity of not more than 6 months from the initial deposit.

Management have assessed that expected credit losses on trade debtors to be Nil.

### 9 Cash and cash equivalents

Cash and cash equivalents comprise short term deposits of £nil (2018 : £nil). Short-term deposits are made for various periods of between one day and six months, depending on immediate cash requirements, and earn interest at the respective short-term deposit rates.

Cash and cash equivalents include amounts of £19,695k (2018: £2,073k) that the Company can only use for specific purposes and with the consent of the Company's lenders. Of the remaining cash and cash equivalents £536k (2018 : £440k) require the consent of the Company's lenders prior to use, but are held for general corporate purposes.

The estimated fair value of cash and cash equivalents approximates to its carrying value.

# GREATER GABBARD OFTO

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 10 Borrowings

The following table analyses borrowings:

|   | 2019                  | 2018                  |
|---|-----------------------|-----------------------|
|   | £'000                 | £'000                 |
| <b>Current</b>                              |                       |                       |
| Bonds – fixed rate                          | 11,820                | 10,172                |
| Less arrangement fees                       | (384)                 | (417)                 |
| Accrued interest on subordinated debt loans | 5,621                 | 2,920                 |
|   | <u>17,057</u>         | <u>12,675</u>         |
| <b>Non-current</b>                          |                       |                       |
| Bonds – fixed rate                          | 247,557               | 259,376               |
| Less arrangement fees                       | (2,011)               | (2,264)               |
| Subordinated debt loans                     | 45,989                | 45,989                |
|   | <u>291,535</u>        | <u>303,101</u>        |
| <b>Total borrowings</b>                     | <u><u>308,592</u></u> | <u><u>315,776</u></u> |

Total borrowings are repayable as follows:

|  | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
|  | £'000                 | £'000                 |
| In one year or less                                    | 17,441                | 13,093                |
| In more than one year, but not more than two years     | 12,914                | 11,820                |
| In more than two years, but not more than three years  | 13,849                | 12,914                |
| In more than three years, but not more than four years | 15,486                | 13,849                |
| In more than four years, but not more than five years  | 15,242                | 15,486                |
| In more than five years other than by instalments      | 236,055               | 251,295               |
| Less arrangement fees                                  | (2,395)               | (2,681)               |
|  | <u><u>308,592</u></u> | <u><u>315,776</u></u> |

£305,140,000 4.137 per cent Secured Indexed Bonds due November 2032 were issued on 29 November 2013 and listed on the Irish Stock Exchange and are secured over all of the assets of the Company.

The secured subordinated loan stock has been subscribed by a fellow Group company, Greater Gabbard OFTO Intermediate Limited. The loan stock bears interest at 10% per annum and is repayable in instalments between 2032 and 2034.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 18.

There have been no instances of default or other breaches of the terms of the financing agreements during the year in respect of all borrowings outstanding at 31 March 2019

The Company also has access to a liquidity facility of £5,614k (2018: £5,326k) that the Company can access in the event that it has an insurable or income adjusting event.

The EIB has provided a letter of credit at a level of 15% of senior bonds outstanding which is £38,906k at 31 March 2019 (2018: £40,432k) as a form of subordinated credit enhancement instrument for the Company in relation to the bonds and the hedging agreements..

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**11 Trade and other payables**

Trade and other payables are as tabulated below.

|                  | 2019         | 2018         |
|------------------|--------------|--------------|
|                  | £'000        | £'000        |
| Trade payables   | 868          | 855          |
| Other taxes      | 391          | 658          |
| Accrued expenses | 5,089        | 5,750        |
|                  | <u>6,348</u> | <u>7,263</u> |

Due to their short maturities, the fair value of all financial instruments included within trade and other payables approximates to their book value. All trade and other payables are recorded at amortised cost.

**12 Derivative financial asset**

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The Company's use of derivative financial instruments is described below.

RPI swaps

The Company has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 63.5%) of variable cash inflows arising from the operation of the Company's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Company entered into these derivative arrangements on 26 November 2013 with a forward start date for the calculation of the relevant rates commencing on 31 March 2012 and ending on 29 November 2032.

Under the terms of the Licence, regulatory and other contractual agreements, the Company is permitted to charge its principal customer, NGET, an agreed amount for the services it provides. This amount is uplifted each year commencing 1 April by an amount computed by reference to the average increase in RPI over the previous 12-month period measured from 1 January through to 31 December. Where there is a reduction, or no increase, in the retail price index over the relevant period, then the charges remain unaltered from the previous year. These derivative arrangements (RPI swaps) have the effect of exchanging variable cash inflows (impacted by changes in RPI) in exchange for a known and predetermined stream of cash flows expected to arise over the same period.

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at market value. The carrying value of all derivative financial assets at 31 March 2019 was £11,477k (2018: 8,730k). All of the movement in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a charge of £2,747k (2018: charge of £1,381k). The change in the carrying value is a result of changes in the RPI assumptions used for valuation purposes.

Ineffective portion of cash flow hedge recognised in the income statement was £nil (2018: £nil). No amounts were reclassified to Profit on Loss from Other comprehensive income during the year (2018: Nil).

Further details regarding financial instruments and their related risks are given in note 18.

# GREATER GABBARD OFTO

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 13 Decommissioning Provision

|                                    | £'000        |
|------------------------------------|--------------|
| At 1 April 2017                    | 3,308        |
| Unwinding of discount on provision | 243          |
| At 31 March 2018                   | 3,551        |
| Unwinding of discount on provision | 255          |
| At 31 March 2019                   | <u>3,806</u> |

The provision for decommissioning relates to the decommissioning and related management costs for the necessary removal of transmission cables and equipment expected to occur at the of the 20 year licence period.

The timing and amounts settled in respect of these provisions are uncertain and dependant on various factors that are not always within management control:

- the timing of decommissioning is contingent upon any re-powering of the offshore wind farm and therefore the potential for the transmission assets to be used beyond the initial licence revenue. In such circumstance, the cost for decommissioning would be expected to be deferred until such time as would be agreed in any subsequent term. However, current assumption is that it is too uncertain to assume the wind farm would be repowered and therefore, decommissioning costs have been assumed to be incurred at the earliest most likely date.
- the amount of costs to be incurred at the time of decommissioning have been estimated based upon expected costs of decommissioning. However, given the time frame for the incurring of such costs, the level of provision is reviewed on an annual basis. The current decommissioning provision represents the present value of expected future cash flows which are estimated to settle the entity's future obligations in relation to decommissioning.

### 14 Called-up share capital

Called-up share capital is as analysed below.

|   | No. (thousand) | £'000 |
|---|----------------|-------|
| Authorised, allotted, called-up and fully paid at 1 April 2018<br>and 31 March 2019 | 51             | 51    |

The Company has one class of Ordinary Share with a nominal value of £1 each which carries no right to fixed income. The holders of Ordinary Shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

# GREATER GABBARD OFTO

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 15 Reserves

The Company's reserves are analysed below.

|  | Retained earnings | Cash flow hedge reserve | Total  |
|--|-------------------|-------------------------|--------|
|  | £'000             | £'000                   | £'000  |
| 1 April 2017                             | 6,298             | 6,099                   | 12,397 |
| Profit after tax                         | 2,441             | -                       | 2,441  |
| Dividends                                | -                 | -                       | -      |
| Loss on cash flow hedges taken to equity | -                 | 1,381                   | 1,381  |
| Deferred taxation on cash flow hedges    | -                 | (235)                   | (236)  |
| 31 March 2018                            | 8,739             | 7,245                   | 15,984 |
| Profit after tax                         | 1,684             | -                       | 1,684  |
| Dividends                                | -                 | -                       | -      |
| Loss on cash flow hedges taken to equity | -                 | 2,747                   | 2,747  |
| Deferred taxation on cash flow hedges    | -                 | (467)                   | (467)  |
| 31 March 2019                            | 10,423            | 9,525                   | 19,948 |

### 16 Cash flow statement

#### (a) Reconciliation of net cash flow to movement in net debt

The reconciliation of net cash flow to movement in net debt is as analysed below:

|   | 2019<br>£'000    | 2018<br>£'000    |
|---|------------------|------------------|
| Movement in cash and cash equivalents               | 17,718           | (16,981)         |
| Net decrease in borrowings                          | 7,184            | 8,061            |
| <b>Change in net debt resulting from cash flows</b> | <b>24,902</b>    | <b>(8,920)</b>   |
| Non-cash net interest expense included in net debt  | 2,702            | 909              |
| Change in fair values of derivatives                | 2,747            | 1,381            |
| <b>Movement in net debt in the year</b>             | <b>30,351</b>    | <b>(6,630)</b>   |
| Net debt at start of year                           | (320,791)        | (314,161)        |
| <b>Net debt at end of year</b>                      | <b>(290,440)</b> | <b>(320,791)</b> |

#### (b) Analysis of changes in net debt

|                       | Cash and cash equivalents | Borrowings | Derivatives | Interest accruals | Total     |
|-----------------------|---------------------------|------------|-------------|-------------------|-----------|
|                       | £'000                     | £'000      | £'000       | £'000             | £'000     |
| 1 April 2017          | 19,494                    | (323,838)  | 7,349       | 2,012             | (294,983) |
| Cash flow             | (16,981)                  | 8,061      | -           | -                 | (8,920)   |
| Change in fair values | -                         | -          | 1,381       | -                 | 1,381     |
| Non-cash net interest | -                         | -          | -           | 908               | 908       |
| 31 March 2018         | 2,513                     | (315,777)  | 8,730       | 2,920             | (301,614) |
| Cash flow             | 17,718                    | 7,185      | -           | -                 | 24,903    |
| Change in fair values | -                         | -          | 2,747       | -                 | 2,747     |
| Non-cash net interest | -                         | -          | -           | 2,701             | 2,701     |
| 31 March 2019         | 20,231                    | (308,592)  | 11,477      | 5,621             | (271,263) |



**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**17 Related party transactions**

The following information relates to material transactions with related parties during the year. These transactions were carried out in the normal course of business.

|   | Parent undertakings |               | Other         |               | Total         |               |
|---|---------------------|---------------|---------------|---------------|---------------|---------------|
|   | 2019<br>£'000       | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'000 | 2019<br>£'000 | 2018<br>£'000 |
| <b>Expenditure:</b>                           |                     |               |               |               |               |               |
| Interest <sup>1</sup> (including indexation)  | 4,801               | 4,808         | -             | -             | 4,801         | 4,808         |
| Services received <sup>2</sup>                | -                   | -             | 153           | 119           | 153           | 119           |
|   | <b>4,801</b>        | <b>4,808</b>  | <b>153</b>    | <b>119</b>    | <b>4,954</b>  | <b>4,927</b>  |
| <b>Outstanding balances at 31 March:</b>      |                     |               |               |               |               |               |
| Borrowings payable <sup>(1)</sup> (principle) | 45,989              | 45,989        | -             | -             | 45,989        | 45,989        |
| Interest accrual <sup>(1)</sup>               | 5,620               | 2,919         | -             | -             | 5,620         | 2,919         |
| Other   | -                   | -             | 43            | 20            | 43            | 20            |
|   | <b>51,609</b>       | <b>48,908</b> | <b>43</b>     | <b>20</b>     | <b>51,652</b> | <b>48,928</b> |

<sup>1</sup> Relates to funding related transactions and balances with the intermediate undertaking (GGOIL) all interest has been directly attributed to the Company.

<sup>2</sup> The other services rendered at 31 March 2019 of £153k (2018: £119k) relates to amounts due to Equitix Management Services Limited.

A summary of funding transactions with the intermediate undertaking is shown below:

|  | 2019<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| <b>Borrowings from intermediate undertaking (principal and accrued interest)</b> |               |               |
| At 1 April   | 48,908        | 48,000        |
| Advances   | -             | -             |
| Interest   | (2,100)       | (3,900)       |
| Non-cash interest  | 4,801         | 4,808         |
| <b>At 31 March</b>   | <b>51,609</b> | <b>48,908</b> |

Borrowings from the intermediate undertaking (GGOIL) were negotiated on normal commercial terms and are repayable in accordance with the terms of the secured 10% loan notes 2033 ("the notes"). Payments of interest were made during the year which amounted to £2,100k (2018: £3,900k). Non-cash interest of £4,801k (2018: £4,808k) relates to accrued interest on the secured 10% loan notes. Absent to any non-compulsory repayment of the notes, the notes are contractually repayable by 28 November 2033.

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

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**17 Related party transactions (continued)**

Equitix Management Services Limited (“EMS”) was a related party of the Company during the year ended 31 March 2019 by virtue of it being a related party to Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited through to 31 March 2019. The services provided to the Company by EMS, started on 1 February 2016, were under normal commercial terms and related to professional management and financial services as described in the amended PSA.

Equitix Limited (“Equitix”) was a related party to Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited through to 31 March 2019. The services provided to the Company by Equitix were under normal commercial terms and related to professional management and financial services.

No amounts have been provided at 31 March 2019 (2018: £nil), and no expense was recognised during the year (2018: £nil) in respect of bad or doubtful debts for any related party transactions.

**18 Information relating to financial instruments and the management of risk**

**a) Fair value disclosures**

The following is an analysis of the Company’s financial instruments at the Statement of Financial Position date comparing the carrying value included in the Statement of Financial Position with the fair value of those instruments at that date. None of the Company’s financial instruments have listed prices. Consequently, the following techniques have been used to determine fair values as follows:

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset – based on the net present value of net discounted cash flows;
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the net present value of discounted cash flows in respect of the fixed rate bank bond and loans notes due 2033;
- Derivative financial asset – based on the net present value of discounted cash flows; and
- Financial instrument receivables and payables - approximates to the carrying value because of the short maturity of these instruments.
- Decommissioning provision – approximates the carrying value relating to the decommissioning and related management costs for the necessary removal of transmission cables and equipment expected to occur at the of the 20 year licence period.

The table below compares the carrying value of the Company’s financial instruments with the fair value of those instruments at the Statement of Financial Position date, using the techniques described above. The table excludes those instruments where the carrying value of the financial instrument approximates to its fair value because the carrying value approximates to fair value as a result of the short maturity of those instruments. Consequently, no financial instruments which fall due within the next twelve months are included in this table.

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**18 Information relating to financial instruments and the management of risk**

**a) Fair value disclosures (continued)**

|                                  | Carrying Value |                | Fair Value     |                                | Valuation Method |
|----------------------------------|----------------|----------------|----------------|--------------------------------|------------------|
|                                  | 2019<br>£'000  | 2018<br>£'000  | 2019<br>£'000  | 2018<br>£'000 (see as follows) |                  |
| <b>Assets</b>                    |                |                |                |                                |                  |
| <u>Non-current</u>               |                |                |                |                                |                  |
| Transmission owner asset         | 297,546        | 304,854        | 352,689        | 361,592                        | Level 3          |
| Derivative financial instruments | 11,477         | 8,730          | 11,477         | 8,730                          | Level 2          |
|                                  | <b>309,023</b> | <b>313,584</b> | <b>364,166</b> | <b>393,118</b>                 |                  |
| <b>Liabilities</b>               |                |                |                |                                |                  |
| <u>Non-current</u>               |                |                |                |                                |                  |
| Fixed rate bank bond             | 247,557        | 259,376        | 303,588        | 301,738                        | Level 2          |
| Loan notes 2033                  | 45,989         | 45,989         | 97,502         | 95,295                         | Level 2          |
| Decommissioning Provision        | 3,806          | 3,551          | 3,806          | 3,551                          | Level 3          |
|                                  | <b>297,352</b> | <b>308,916</b> | <b>404,896</b> | <b>400,584</b>                 |                  |

The best evidence of fair value is a listed price in an actively traded market; where this data is available then the instrument is classified as having been determined using a level 1 valuation. In the event that the market for a financial instrument is not active, alternative valuation techniques are used. The Company does not have any financial instruments where it is eligible to apply a level 1 valuation technique.

With the exception of the Transmission owner asset and decommissioning provision, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Company's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data. The valuation is sensitive to RPI changes and underlying changes in costs for decommissioning.

In the case of the Transmission owner asset and decommissioning provision, these have been valued using a valuation technique where significant inputs such as the assumed discount rate are based on unobservable market data. This means that these financial instruments have been classified as having been valued using a level 3 valuation and have been identified as such in the previous table.

The valuation categories that have been assigned to the financial instruments in the forgoing table have been applied throughout the year and there have been no reclassifications or transfers between the various valuation categories during the year.

**b) Management of risk**

The Board has overall responsibility for the Company's risk management framework. This risk framework is discussed further in the Operating and Financial Review.

The Company's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk, and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Company by using financial instruments, including the use of derivative financial instruments – being the RPI swaps described in note 12 that are appropriate to the circumstances and economic environment within which the Company operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

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**18 Information relating to financial instruments and the management of risk (continued)**

**b) Management of risk (continued)**

**i) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Changes in market price are derived from: currency movements; interest rate changes; and changes in prices caused by factors other than those derived from currency or interest rate changes.

The Company operates in the UK and has no significant exposure to foreign currency, and therefore this has an immaterial impact on market risk. Short-term financial assets and liabilities, such as trade receivables and payables, are not subject to market risk. Interest rate risk arises from the use of following financial instruments: Transmission owner asset; borrowings; and cash and cash equivalents.

The Transmission owner asset is carried at amortised cost, and the carrying value is affected by the rate of interest implicit within the calculation of finance income that has a consequential effect on the carrying value of the Transmission owner asset.

The fair value of the Transmission owner financial asset is subject to price risk caused by changes in RPI.

All of the Company's borrowings have been issued at fixed rates. All borrowings are carried at amortised cost, and therefore changes in interest rates, in respect of those borrowings, do not impact the Income Statement or Statement of Financial Position.

Cash and cash equivalents all attract interest at variable rates and therefore are subject to cash flow interest rate risk as cash flows arising from these sources will fluctuate with changes in interest rates. However, the interest cash flows arising from these sources are insignificant to the Company's activities.

The cash flows arising from the Transmission owner financial asset fluctuates with positive changes in RPI. The Company has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in note 12. For the reasons outlined in note 12, the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the Statement of Financial Position. The RPI swaps are considered to be effective cash flow hedges.

**ii) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations.

Credit risk primarily arises from the Company's normal commercial operations that actually, or potentially, arises from the Company's exposure to: a) NGET in respect of invoices submitted by the Company for transmission services; b) the counterparties to the RPI swaps described in note 12; and c) short term deposits. There are no other significant credit exposures to which the Company is exposed. The maximum exposure to credit risk at 31 March 2019 and 31 March 2018 is the fair value of all financial assets held by the Company. Information relating to the fair value of all financial assets is given above – note 18 (a). None of the Company's financial assets are past due or impaired.

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

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**18 Information relating to financial instruments and the management of risk (continued)**

**b) Management of risk (continued)**

ii) Credit risk (continued)

Through to 31 March 2019, NGET was the Company's principal customer, and income derived from NGET represents all of the Company's income. With effect from 1 April 2019, some of the functions previously carried out by NGET have been transferred to a fellow subsidiary undertaking (NGESO) within the National Grid group of companies, in particular, NGESO is now responsible for settling the Company's transmission services invoices. Both NGET and NGESO operates low risk regulated businesses within the UK, and the regulatory regime under which they operate results in a highly predictable, and stable, revenue stream. NGET has an obligation to maintain an investment grade credit rating, which it has currently maintained. It is also subject to a regulatory financial 'ring fence' that restricts NGET's ability to undertake transactions with other National Grid subsidiaries, which includes the paying of dividends, lending or the levying of charges. Even in the very unlikely circumstance of NGET's insolvency, it is probable that any amounts outstanding would still be recovered. This arises because NGET and NGESO are also 'protected energy Companies' under the terms of the Energy Act 2004, which allows the Secretary of State to apply for an energy administration order which would give priority to the rescue of NGET and NGESO as a going concern.

The Directors consider credit quality of financial assets and other financial instruments are neither past due nor impaired.

Having considered the credit risks arising in respect of the exposures to NGET and NGESO, the Directors consider that those risks are extremely low, given the evidence available to them. At 31 March 2019 amounts due from NGET amounted to £nil (2018: £nil).

In respect of the counterparties to the cash flow derivative hedges (RPI swaps) these arrangements have been entered into with reputable banks. At 31 March 2019, the fair values attributable to these positions were assets amounting to £11,477k (2018: £8,730k). The RPI swaps are with multiple well established counterparties and the Directors consider the credit risk exposure on these arrangements to be extremely low.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. It is the Company's policy, and requirement under the Company's lending agreements, that such investments can only be placed with banks and other financial institutions with short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. All of these deposits are subject to insignificant risk of change in value or credit risk.

iii) Liquidity risk and Going Concern

Liquidity risk is the risk that the Company will have insufficient funds to meet its liabilities. The Board of Directors manages this risk.

As a result of the regulatory environment under which the Company operates; the credit worthiness of the Company's principal customer (NGET); and the RPI swaps that has been put in place, the cash inflows generated by the Company are highly predictable and stable. In addition, all of the Company's senior debt carry a fixed coupon, and based on the forecasts prepared by the Company, all of these debt service costs are expected to be met from the cash inflows the Company is expected to generate over the whole period of the project. During the year ending 31 March 2019, senior debt-service costs amounted to £11,050k (2018: £11,439k). There is no contractual obligation on the Company to service the secured borrowing until 28 November 2032, although it is the Company's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the secured borrowings amounted to £11,050k (2018: £11,439k).

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

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**18 Information relating to financial instruments and the management of risk (continued)**

**b) Management of risk (continued)**

iii) Liquidity risk and Going Concern - continued

In accordance with the conditions of the various lending agreements, the Company is required to transfer funds to certain specified bank accounts and/or hold certain amounts on deposit for specified purposes. Access to these bank accounts by the Company is subject to the agreement of the lenders and, in particular, access to amounts held on deposit held for specified purposes is restricted under the lending agreements.

Such specific purposes include the holding of sufficient funds in restrictive bank accounts to meet senior debt servicing requirements for a period of six months in the future. The Company's use of these funds is restricted either to the specific purpose contemplated by the lending agreements, or until certain conditions are met or exceeded. Where these conditions are met or exceeded then the use of any net cash generated in excess of the minimum necessary to meet the restrictive conditions is unfettered.

At 31 March 2019, cash and cash equivalents included £19,695k (2018: £2,073k) and Financial Asset included £nil (2018: £16,488k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £536k (2018: £440k) which requires the consent of the Company's lenders but are available for general corporate purposes.

The Company prepares both short-term and long-term cash flow forecasts on a regular basis to assess the liquidity requirements of the Company. These forecasts also include a consideration of the lending requirements including the need to transfer funds to certain bank accounts that are restricted as to their use. It is the Company's policy to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation.

Future costs are potentially at risk due to the cost of decommissioning. To mitigate this risk a Decommissioning Reserve Account has been opened and will start to be funded from year 11.

In addition to the existing borrowings of the Company, the Company has secured committed credit facilities with the European Investment Bank through the Project Bond Credit Enhancement amounting to £38,907k at 31 March 2019 (2018: £40,432k) which expire in 2032. These facilities were undrawn at 31 March 2019 (2018: £nil) and are available to the Group under certain conditions laid down within the Group's lending agreements.

During the year the Company has continued to meet its contractual obligations as they have fallen due and based on the forecasts prepared the Directors expect that the Company will continue to do so for the foreseeable future. The Company has complied with its financial covenants in relation to the obligations that it has to senior debt holders and the forecasts continue to support that these will continue to be complied. In addition, further liquidity is also available in the form of committed facilities, as referenced above. All of these factors have allowed the Directors to conclude that the Company has sufficient headroom to continue as a going concern. The statement of going concern is included in the Operating and Financial Review."

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

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**18 Information relating to financial instruments and the management of risk (continued)**

**b) Management of risk (continued)**

**iii) Liquidity risk and Going Concern - continued**

The contractual cash flows shown in the table on the following page are the contractual undiscounted cash flows relating to the relevant financial instruments. Where the contractual cash flows are variable based on a price or index in the future, the contractual cash flows in the table have been determined with reference to the relevant price, interest rate or index as at the Statement of Financial Position date.

In determining the interest element of contractual cash flows in cases where the Company has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cash flows have been calculated assuming the Company selects the shortest available interest calculation periods.

Where the holder of an instrument has a choice of when to redeem, the following tables are prepared on the assumption the holder redeems at the earliest opportunity.

The numbers in the following tables have been included in the Company's cash flow forecasts for the purposes of considering Liquidity Risk as noted above. The table on the following page shows the undiscounted contractual maturities of financial assets and financial liabilities, including interest.

# GREATER GABBARD OFTO

## Notes to the financial statements (continued)

For the year ended 31 March 2019

### 18 Information relating to financial instruments and the management of risk (continued)

#### b) Management of risk (continued)

##### iii) Liquidity risk and Going Concern (continued)

| Liquidity risk                                   | 2019                                     | Total contractual cash flows | 2019          | 2019         | 2019          | 2019           |
|--|--|------------------------------|---------------|--------------|---------------|----------------|
|  | Weighted Average Effective Interest Rate |                              | 0-1 years     | 1-2 years    | 2-5 years     | >5 years       |
|  |  | £'000                        | £'000         | £'000        | £'000         | £'000          |
| <b>Non-derivative financial asset</b>            |  |                              |               |              |               |                |
| Transmission owner asset                         |  | 546,666                      | 27,801        | 28,730       | 91,331        | 398,804        |
| Cash and cash equivalents                        |  | 20,231                       | 20,231        | -            | -             | -              |
|  |  | 566,897                      | 48,032        | 28,730       | 91,331        | 398,804        |
| <b>Non-derivative financial liabilities</b>      |  |                              |               |              |               |                |
| Borrowings +                                     | 4.19%                                    | (345,136)                    | (22,429)      | (22,429)     | (71,445)      | (228,833)      |
| Trade and other non-interest bearing liabilities |  | (6,348)                      | (6,348)       | -            | -             | -              |
|  |  | (351,484)                    | (28,777)      | (22,429)     | (71,445)      | (228,833)      |
| <b>Derivative financial asset</b>                |  |                              |               |              |               |                |
| RPI swaps  |  | 9,999                        | 553           | 601          | 1,936         | 6,909          |
| <b>Net total</b>                                 |  | <b>225,412</b>               | <b>19,808</b> | <b>6,902</b> | <b>21,822</b> | <b>176,880</b> |
| <b>2018</b>                                      |  |                              |               |              |               |                |
| Liquidity risk                                   | 2018                                     | Total contractual cash flows | 2018          | 2018         | 2018          | 2018           |
|  | Weighted Average Effective Interest Rate |                              | 0-1 years     | 1-2 years    | 2-5 years     | >5 years       |
|  |  | £'000                        | £'000         | £'000        | £'000         | £'000          |
| <b>Non-derivative financial asset</b>            |  |                              |               |              |               |                |
| Transmission owner asset                         |  | 542,954                      | 27,801        | 28,524       | 90,678        | 395,951        |
| Cash and cash equivalents                        |  | 2,513                        | 2,513         | -            | -             | -              |
|  |  | 545,467                      | 30,314        | 28,524       | 90,678        | 395,951        |
| <b>Non-derivative financial liabilities</b>      |  |                              |               |              |               |                |
| Borrowings +                                     | 4.19%                                    | (366,987)                    | (21,261)      | (22,428)     | (70,896)      | (252,402)      |
| Trade and other non-interest bearing liabilities |  | (7,263)                      | (7,263)       | -            | -             | -              |
|  |  | (374,250)                    | (28,524)      | (22,428)     | (70,896)      | (252,402)      |
| <b>Derivative financial asset</b>                |  |                              |               |              |               |                |
| RPI swaps  |  | 12,752                       | 591           | 683          | 2,283         | 9,195          |
| <b>Net total</b>                                 |  | <b>183,969</b>               | <b>2,381</b>  | <b>6,779</b> | <b>22,065</b> | <b>152,744</b> |

- Including interest payments.



**Notes to the financial statements (continued)**

For the year ended 31 March 2019

**18 Information relating to financial instruments and the management of risk (continued)**

**b) Management of risk (continued)**

**iv) Sensitivities**

Changes in RPI affect the carrying value of those financial instruments that are recorded in the Statement of Financial Position at fair value. The only financial instruments that are carried in the Statement of Financial Position at fair value are the stand-alone derivative financial instruments - RPI as described in note 12 above. As explained in note 12, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future. Any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve, and would not affect the Income Statement. Changes in the fair value of RPI swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged – in the case of RPI swaps a substantial proportion of the cash flows emanating from the Transmission owner asset are carried at amortised cost. Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Company has no substantive economic impact on the Company because of the corresponding economic impact on the underlying derivative financial instruments it is hedging.

Where there is a movement in long term RPI assumptions, the following changes in valuation and equity are likely to occur with no impact on the income statement:

| Sensitive | Future RPI Rate | Valuation<br>£'000s | Movement<br>£'000s |
|-----------|-----------------|---------------------|--------------------|
| -         | 2.885%          | 7,150               | -                  |
| 0.50%     | 3.385%          | 3,975               | (3,175)            |
| (0.50%)   | 2.385%          | 10,224              | 6,249              |

Any changes in future cash flows in relation to the derivative financial instruments held by the Company, arising from future changes in RPI, are expected to be matched by substantially equal and opposite changes in cash flows arising from or relating to the underlying revenues and costs.

**v) Capital management**

The Company is funded by a combination of senior debt, subordinated debt and equity in accordance with the Directors' objectives of establishing an appropriately funded business consistent with that of a prudent offshore electricity transmission operator and the terms of all legal and regulatory obligations including those of the Licence and the Utilities Act 2000.

Senior debt is comprised of fixed bonds credit enhanced by the European Investment Bank through the Project Bond Credit Enhancement Instrument (PBCE) and carries an interest rate of 4.14% per annum. All of the senior debt and related interest rate derivatives is serviced on a six monthly basis and is expected to amortise over the life of the project through to November 2032. At 31 March 2019, the total carrying value of senior debt amounted to £256,982k (2018: £266,867k).

**Notes to the financial statements (continued)**

For the year ended 31 March 2019

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**18 Information relating to financial instruments and the management of risk (continued)**

**b) Management of risk (continued)**

v) Capital management (continued)

Subordinated debt has been issued to the Company's intermediate undertaking, GGOIL and carries a fixed rate coupon. At 31 March 2019 the total principal value of the subordinated debt outstanding amounted to £51,609k (2018: £48,908k).

Ordinary equity share capital issued during the year amounted to £nil (2018: £nil) and at 31 March 2019 amounted to £51k (2018: £51k).

The Directors consider that the capital structure of the Company meets the Company's objectives, and is sufficient to allow the Company to continue its operations for the foreseeable future based on current projections, and consequently has no current requirement for additional funding.

**19 Ultimate parent companies and controlling parties**

Greater Gabbard OFTO Plc is a wholly-owned subsidiary of Greater Gabbard OFTO Holdings Limited which is incorporated in the UK and registered in England and Wales. The only Group in which the results of Greater Gabbard OFTO Plc are consolidated is Greater Gabbard OFTO Holdings Limited whose financial statements are available on the Company's website and from EMS, 120 Aldersgate Street, London.

The Company's ultimate parent companies and controlling parties are Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited (which are incorporated in the UK and registered in England and Wales).

# GREATER GABBARD OFTO

## Glossary

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### A

#### The Agreement

The Shareholders Agreement.

#### Annual General Meeting (AGM)

Meeting of shareholders of the Company, held on an annual basis, to consider ordinary and special business, as detailed in the Notice of AGM.

#### AMP

AMP Capital Investors UK Cable Limited.

#### The Authority

The Gas and Electricity Markets Authority.

### B

#### Board

The Board of Directors of the Company.

#### BBI

Balfour Beatty Investments Limited – supplier of management services to the Group.

#### BBOHL

Balfour Beatty OFTO Holdings Limited.

#### BBUS

Balfour Beatty Utility Services Limited – supplier of Operator services to the Company.

### C

#### called up share capital

Shares that have been issued and have been fully paid for.

#### carrying value

The amount at which an asset or liability is recorded in the Statement of Financial Position.

#### charging year

The period of time in between 1st April in one calendar year, and 31st March, in the following calendar year.

#### Cash Flow Hedges

A hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability such as all or some future interest payments on variable rate debt or a highly probable forecast transaction and (ii) could affect profit or loss.

#### the Company, Greater Gabbard OFTO Plc, GGO, we, our, or us

The terms 'the Company', 'Greater Gabbard OFTO Plc', GGO, 'we', 'our', or 'us' are used to refer to Greater Gabbard OFTO Plc, depending on context.

#### contingent liabilities

Possible obligations or potential liabilities arising from past events, for which no provision has been recorded, but for which disclosure in the financial statements is made.

### D

#### DECC

The Department of Energy & Climate Change, the UK Government Department responsible for those respective fields.

#### deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or received in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the Statement of Financial Position and the value for tax purposes of the same asset or liability.

#### derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates, RPI or commodity prices.

### E

#### EDS

EDS HV Management Limited – supplier of Operator services to the Company

#### EIB

The European Investment Bank, the European Union's long term lending institution, established by the Treaty of Rome in 1958, with the aim of furthering European integration.

#### Equitix Transmission 2 Limited

#### Equitix Capital Investors UK Cable Limited

#### Equitix Management Services Limited ("EAMS")

# GREATER GABBARD OFTO

## Glossary

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### equity

In financial statements, the amount of net assets attributable to shareholders.

### EU

The European Union, consisting of 27 member European national states.

### **F**

#### financial year

For Greater Gabbard OFTO Plc this is the accounting year ending on 31st March.

### **G**

#### Great Britain

The island of Great Britain comprised of its constituent parts, namely: Wales, England, and Scotland.

#### GGO

Greater Gabbard OFTO Plc.

#### GGOHL

Greater Gabbard OFTO Holdings Limited.

#### GGOIL

Greater Gabbard OFTO Intermediate Limited.

#### the Group

Greater Gabbard OFTO Holdings Limited and its subsidiary undertakings.

#### GOWL

Greater Gabbard Offshore Winds Limited.

### **H**

#### HS&E

Health, Safety, and the Environment.

### **I**

#### IAS or IFRS

An International Accounting Standard, or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as a term to describe international generally accepted accounting principles as a whole.

#### IASB

International Accounting Standards Board.

#### IFRIC 12

Service Concessions Arrangements.

#### IFRS

See IAS.

### **K**

#### KPIs

Key performance indicators.

#### kV

Kilovolt – an amount of electrical force equal to 1,000 volts.

#### kWh

Kilowatt hours – an amount of energy equivalent to delivering 1,000 watts of power for a period of one hour.

### **L**

#### LIBOR

London Interbank Offered Rate.

#### the Licence

The Offshore Electricity Licence held by Greater Gabbard OFTO Plc.

#### LTIs

Lost time injury – an incident arising out of Greater Gabbard OFTO Plc's operations which leads to an injury where the employee or contractor normally has time off the following day, or shift following, the incident. It relates to one specific (acute) identifiable incident which arises as a result of Greater Gabbard OFTO Plc's premise, plant, or activities, which was reported to the supervisor at the time, and was subject to appropriate investigation.

#### lost time injury frequency rate

The number of lost time injuries per 100,000 hours worked, over a 12 month period.

# GREATER GABBARD OFTO

## Glossary

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### M

#### MMO

Marine Management Organisation.

#### MW

Megawatts – an amount of power equal to one million watts.

#### MWh

Megawatt hours – an amount of energy equivalent to delivering one million watts of power over a period of one hour.

### N

#### NGET

National Grid Electricity Transmission plc .  
the Notes (see also subordinated loan, subordinated loan agreement, subordinated debt)  
Secured fixed rate Loan Notes 2033.

### O

#### Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

#### OFTO(s)

Offshore Transmission Owner (S).

#### O&M

Operations and Maintenance.

### P

#### Performance year

The year or part thereof (in the case of the commencement and termination years) over which the Company's transmission availability performance is measured – 1 April through to 31 March (or part thereof).

#### PSA

Professional Services Agreement.

### R

#### RPI

The UK retail price index as published by the Office for National Statistics.

#### RPI Swaps

A derivative financial instrument that is a binding agreement between counterparties to exchange cash flows relating to RPI on a predetermined principal amount. The Company pays variable cash flows arising from changes in RPI on a predetermined notional amount in exchange for receipt of fixed amounts.

### S

#### Senior Debt

All borrowings except those arising under the subordinated loan agreement.

#### SPA

Sale and Purchase Agreement.

#### STC

System Operator - Transmission Owner Code.

#### SQSS

Security and Quality of Supply Standard Subordinated loan, subordinated loan agreement, subordinated debt (see also the Notes).  
Amounts borrowed by the Company from GGOIL which ranks behind the senior debt.

### T

#### TEC

Transmission Entry Capacity.

#### TOCA

Transmission Owner Construction Agreement.

### U

#### UK

The United Kingdom of Great Britain and Northern Ireland, comprising: Wales, England, Scotland, and Northern Ireland.