

**Greater Gabbard OFTO Plc**  
**Annual Report and Financial Statements**  
**For the year ended 31<sup>st</sup> March 2021**

## Contents

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**Page**

3	Operating and financial review
21	Strategic Report
23	Directors' Report
25	Corporate governance statement
28	Statement of directors' responsibilities in respect of the financial statements
29	Independent Auditors' report

**Financial statements under IFRS**

35	Accounting Policies
44	Income Statement
45	Consolidated Statement of Comprehensive Income
46	Statement of Financial Position
47	Statement of Changes in Equity
48	Cash Flow Statements
49	Notes to the Regulatory Financial Statements

67	Glossary
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## Operating and financial review

For the year ended 31 March 2021

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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 2021, 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's 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 2021

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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 are outsourced to EDS HV Management Limited ("EDS"). 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 2021

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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.

## **Operating and financial review (continued)**

For the year ended 31 March 2021

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### **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.

## **Operating and financial review (continued)**

For the year ended 31 March 2021

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

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 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 2020 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 99.78% transmission capacity based on the declared maximum capacity of the transmission system during the performance year ended 31 December 2020 – see Transmission System Availability below. In the incentive period January to March 2021 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.

## Operating and financial review (continued)

For the year ended 31 March 2021

### 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: £2,040k (2020: £2,542k)	To increase.
Cash available for debt service	Net cash outflow from operating activities less net cash inflow from investing activities £12,527k (2020: £12,934k).	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 2020 to 31 December 2020: 99.78% (year from 1 January 2019 to 31 December 2019: 99.81%).	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 2021.
HS&E	1) Zero lost time accidents ("LTIs") for contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under GGOWL's Marine Management Organisation ("MMO") Licence.	1) Zero LTIs; 2) Zero reportable environmental incidents; 3) Compliance with MMO Licence All of the above objectives have been met for the year ended March 2021.

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



## Operating and financial review (continued)

For the year ended 31 March 2021

### 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.

Greater Gabbard OFTO achieved 100% availability during the year to 31 March 2020.

### Transmission system availability

The performance of the Company's transmission system for the performance year ended 31 December 2020 and 2019 were as tabulated below:

MW Hours	Note	Performance Year ended 31 December 2020	Performance Year ended 31 December 2019
Maximum system availability (capability - MWhrs)	(a)	4,383,000	4,383,000
Actual system availability (MWhrs)		4,373,357	4,374,458
Actual system availability (%)		99.78%	99.81%
Regulatory target system availability (%)		98%	98%
<b>Availability credits (MWhrs)</b>			
Availability credits at 1 January		535,328	450,637
Net availability / credits for the performance year		95,146	84,691
Net availability credits at 31 December		630,474	535,328

The performance of the Company's transmission system for the performance quarter ended 31 March 2021 and 2020 were as tabulated below:

MW Hours	Note	Performance Period 1 January 2021 to 31 March 2021	Performance Period 1 January 2020 to 31 March 2020
Maximum system availability (capability - MWhrs)	(a)	1,083,000	1,083,000
Actual system availability (MWhrs)		1,083,000	1,083,000
Actual system availability (%)		100.00%	100.00%
Regulatory target system availability (%)		98%	98%
<b>Availability credits (MWhrs)</b>			
Availability credits at 1 January		630,474	535,328
Net availability / credits for the performance quarter		25,124	25,124
Net availability credits at 31 March		655,598	560,452

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

## **Operating and financial review (continued)**

For the year ended 31 March 2021

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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.

## Operating and financial review (continued)

For the year ended 31 March 2021

### 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 2021, and its financial position as at 31 March 2021, 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") in conformity with the requirements of the Companies Act 2006.

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Operating (loss)/profit	<b>(327)</b>	(247)
Net finance income	<b>2,367</b>	2,789
Profit before taxation	<b>2,040</b>	2,542
Taxation	<b>(365)</b>	(851)
Profit after taxation	<b>1,675</b>	1,691

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Net cash inflow from operating activities and investing activities	<b>12,527</b>	12,934

## Operating and financial review (continued)

For the year ended 31 March 2021

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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 £18,122k (2020: £18,752k), 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 34.

Operating income for the year amounted to £3,196k (2020: £3,614k), 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 £3,523k (2020: £3,861k.)

The most significant costs included within operating costs for the year to 31 March 2021 were those costs associated with operations and maintenance £1,635k (2020: £1,805k); insurance £980k (2020: £1,012k) and professional service fees amounting to £269k (2020: £350k.) The non-domestic rates associated with the transmission network are £573k (2020: £564k).

### Operating (loss)

Operating (loss) being the net of operating income and operating costs amounted to a loss of £327k (2020: loss of £247k).

### Interest income

Interest income relates to interest on bank deposit of £139k (2020: £315k) and notional interest of £18,122k (2020: £18,752k).

### Finance costs

Finance costs amounted to £15,894k (2020: £16,278k). 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 £10,106k (2020: £10,480k) and holders of subordinated debt £5,453k (2020: £5,186k). 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 2021

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### **Taxation**

The net taxation charge on profit before taxation for the year is £365k (2020: £851k) and relates solely to deferred taxation. There was no current taxation arising in the year (2020: £nil) as the Company incurred taxable losses. The taxation charge for the year has been computed at 19% (2020: 19%).

A taxation credit of £202k (2020: £1115k) 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 2021.

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% (2020: 19%).

### **Profit after taxation**

Profit for the year after taxation amounted to £1,675k (2020: £1,691k.)

### **Cash flows**

Net cash flow used in operating activities amounted to £19,258k (2020: £16,678k) primarily reflecting the cash outflows relating to operating activities incurred during the year to 31 March 2021.

Net cash inflows from investing activities amounted to £31,785k (2020: £29,612k).

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 £139k (2020: £316k) amounted to £12,527k (2020: £12,934k).

Net cash outflows from financing activities amounted to £12,914k (2020: outflow £11,820k).

Payments to service senior debt holders during the year amounted to £23,032k (2020: £22,006k.) Payments to subordinated debt holders during the year amounted to £5,093k (2020: £2,183k).

No corporation tax was paid in the year (2020: £nil.).

No dividend was paid in the year (2020: £nil.)

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

## Operating and financial review (continued)

For the year ended 31 March 2021

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

#### Going concern

We are operating our offshore transmission system at a time of unprecedented disruption and change as a result of the Covid-19 pandemic. The health and safety of contractors and other third parties who manage our operations are our top priority. The Board has proactively executed a plan to identify the potential key impact areas and put in place measures to address and manage those risks as necessary, while following all governmental requirements and guidelines. We have engaged closely with the O&M service provider, Ofgem and other parties that are critical to the management and successful operation of our operations - focussing on the actions we need to take to protect the health and wellbeing of those people working on our assets with a view to minimising the impact on our operations.

Through to the date of this report, there have been no adverse incidents or disruption to the availability of the offshore transmission system, our operations or finances as a result of the Covid-19 pandemic. Income has been received on a monthly basis with no issues. A risk-based approach has been taken to scheduled work such that statutory inspections and essential works have been undertaken however non-essential maintenance has been deferred until a later date. 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 2021 is summarised below:

	<b>Assets</b>	<b>Liabilities</b>	<b>Net assets</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Non-current Transmission owner assets	275,300	-	275,300
Non-current deferred taxation	-	(6,852)	(6,852)
Decommissioning provision	-	(4,287)	(4,287)
Current assets and liabilities <sup>1</sup>	39,349	(4,648)	34,702
	<u>314,649</u>	<u>(15,787)</u>	<u>298,863</u>
Borrowings	-	(287,886)	(287,886)
Derivatives financial assets	15,073	-	15,073
<b>Totals at 31 March 2021</b>	<u><u>329,722</u></u>	<u><u>(303,673)</u></u>	<u><u>26,050</u></u>
Totals at 31 March 2020	<u><u>343,056</u></u>	<u><u>(316,611)</u></u>	<u><u>26,445</u></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 34.

## Operating and financial review (continued)

For the year ended 31 March 2021

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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 £9,430k (2020: £9,412k). These costs will be incurred from year 18 onwards.

### Deferred taxation

The Company has recognised a deferred taxation liability of £3,988k (2020: £2,772k) which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising to March 2021, including taxable losses. This is increased by a deferred tax liability of £2,864k (2020: £3,066k) relating to pre-taxation gains arising on marking the Company's cash flow hedges to market at 31 March 2021, which gives a total deferred tax liability of £6,852k (2020: £6,689k).

### 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 2021 net debt stood at £242,868k (2020: £252,857k) and included £15,073k asset (2020: £17,346k) 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 2021 amounted to -£234,642k (2020: -£247,557k). 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 2021 the total principal carrying value of the subordinated loan outstanding amounted to £45,989k (2020: £45,989k).

Ordinary equity share capital amounted to £51k at 31 March 2021 (2020: £51k).

## **Operating and financial review (continued)**

For the year ended 31 March 2021

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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 2021 there were no sums outstanding from NGET (2020: £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.

Since the balance sheet date, the outlook of the UK and Global economy has become increasingly uncertain due to the spread of the Covid-19 virus. The Board has proactively executed a plan to identify the potential key impact areas and put in place measures to address and manage those risks as necessary, while following all governmental requirements and guidelines. Through to the date of this report, there have been no adverse incidents or disruption to our operations or finances as a result of the Covid-19 pandemic and as such the Company is not anticipating any significant impact of Covid-19 on its business and operations.



## **Operating and financial review (continued)**

For the year ended 31 March 2021

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

The Company also has access to a liquidity facility of £5,950k (2020: £5,801k) 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 £35,196k at 31 March 2021 (2020: £37,133k) 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 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.

## Operating and financial review (continued)

For the year ended 31 March 2021

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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. Of the cash and cash equivalents, £20,853 (2020: £20,574k) 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.

## Operating and financial review (continued)

For the year ended 31 March 2021

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### Hedging arrangements (continued)

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 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 2021 was £15,073k (2020: £17,346k). 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

## **Operating and financial review (continued)**

For the year ended 31 March 2021

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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) in conformity with the requirements of the Companies Act 2006. 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 34.

## Strategic Report

For the year ended 31 March 2021

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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.

### Material interests in shares

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

### 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.

The Directors do not anticipate any adverse incidents or disruption to the availability of the offshore transmission system, operations or finances as a result of the Covid-19 pandemic.

### 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 2021	31 March 2020
	£'000	£'000
Profit before taxation	2,040	2,542
Cash available for debt service	12,527	12,934

Further discussion of the Company's financial and non-financial KPI's can be found on page 8.

### 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. 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.

## Strategic Report

For the year ended 31 March 2021

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### Section 172 statement

The Board of Directors, in line with their duties under s172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term. Key decisions and matters that are of strategic importance to the Company are appropriately informed by s172 factors.

Through an open and transparent dialogue with our key stakeholders, we have been able to develop a clear understanding of their needs, assess their perspectives and monitor their impact on our strategic ambition and culture. As part of the Board's decision-making process, the Board and its Committees consider the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

Illustrations of how s172 factors have been applied by the Board can be found throughout the 2020/21 Annual Report and Accounts. For example;

- Information on how the Company managing its business and compliance with regulatory requirement can be found on pages 4-7;
- Details on how the Company has considered the impact of its operations on the community and environment see page 10;
- Non-Financial KPIs information on page 8;
- The Company has anti bribery and corporate criminal act policies as part of its commitment to ethical business practice to maintain high standards of business conduct; and
- Information on page 11 sets out how the Company engaged with key stakeholder groups, throughout the and the effectiveness of the engagement.

### 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 2021 and signed by its order by:



K Shah  
Company Secretary

## Directors' Report

For the year ended 31 March 2021

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The Directors present their annual report together with the audited financial statements for the year ended 31 March 2021.

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 £1,675k (2020: £1,691k).

There was no dividend paid in the year (2020: £nil)

### Share Capital

The issued share capital of the Company at 31 March 2021 was £50,999 (2019: £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

Ben Burgess- appointed on 08 October 2020

Nathan John Wakefield- resigned on 08 October 2020

Paul Ellis Gill

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 (2020: £nil) and expenditure on research and development activities was £nil (2020: £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 25.

There are no significant issues for the year ended 31 March 2021 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 2021

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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 Directors have considered the future financial impact to the Company of the Covid-19 pandemic as disclosed in the Directors' Report, and based on the information available to the Directors through to the date of this report, the impact of the Covid-19 pandemic is not expected to materially impact on the future operations or financial position of the Company.

### **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 2021 were equivalent to 3 (2020: 8) 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 3rd Floor (South Building), 200 Aldersgate Street, London, England, EC1A 4HD.

### **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.

MHA MacIntyre Hudson 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 2021

Greater Gabbard OFTO Plc

EMS, 3rd Floor (South Building), 200 Aldersgate Street,  
London, EC1A 4HD, UK



## 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 D. Knight	1 of 4
Nathan J. Wakefield	2 of 2
Paul E. Gill	4 of 4
Ben B. Burgess	2 of 2

## 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
B Burgess	2 of 2

The Compliance Committee met in July 2021 to receive the compliance report for the year ended 31 March 2021 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.co.uk](http://www.ggofto.co.uk)) that addresses how the Company has addressed its Licence obligations.

### 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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material
- 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 Group and 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 the Directors Report confirm that, to the best of their

- the Group and Company financial statements, which have been prepared in accordance with IFRSs in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and 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 Group and Company's auditors 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

By order of the Board



K Shah

Company Secretary

30 July 2021

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

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

For the purpose of this report, the terms "we" and "our" denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Greater Gabbard OFTO plc. For the purposes of the table on page 31 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA MacIntyre Hudson and/or our component teams. The relevant legislation governing the Company is the United Kingdom Companies Act 2006 ("Companies Act 2006").

### Opinion

We have audited the financial statements of Greater Gabbard OFTO plc.

The financial statements that we have audited comprise:

- Company Statement of Financial Position as at 31 March 2021
- Company Income Statement for the year then ended.
- Statement of Comprehensive Income for the year then ended.
- Company Statement of Changes In Equity for the year then ended.
- Company Statement of Cash Flows for the year then ended.
- Notes to the financial statements 1 to 19, including the accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and the Company's result for the year then ended.
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union (IFRS as adopted by the EU); and
- have been prepared in accordance with the requirements of the Companies Act 2006 including those applicable to companies reporting under international accounting standards.

Our opinion is consistent with our reporting to the Directors.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- The consideration of inherent risks to the company's operations and specifically its business model.
- The evaluation of how those risks might impact on the company's available financial resources.

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

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- Where additional resources may be required the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Liquidity considerations including examination of cash flow projections.
- Solvency considerations including examination of budgets and forecasts and their basis of preparation.
- Viability assessment including consideration of reserve levels and business plans.

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

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

**Overview of our audit approach**

<b>Materiality</b>	<b>2021</b>	<b>2020</b>	
Company	£521,000	£470,000	2% of net assets (2020: 2.5% of Earnings Before Interest Tax Depreciation and Amortisation)

<b>Key Audit Matters</b>	
• Valuation of derivatives	
First year transition	We developed a detailed audit transition plan, designed to deliver an effective transition from the Company's predecessor auditor, PricewaterhouseCoopers LLP ("PwC"). Our audit planning and transition commenced in April 2021, following our appointment. Our transition activities included (but were not limited to) virtually meeting relevant senior staff from PwC and reviewing PwC's 2020 audit work papers. Our transition focused on obtaining an understanding of the Company's system of internal control, evaluating the Company's accounting policies and areas of accounting judgement, and virtually meeting with management.

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

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**Key Audit Matters**

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included those matters 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 and, as required for public interest entities, our results from those procedures. These matters 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.

**Valuation of derivatives**

<b>Key audit matter description</b>	<p>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.</p> <p>We focused on this area as valuation, specifically in respect of derivatives, as this is an area which requires the use of judgement by the Directors and the involvement of valuation experts. Derivatives require judgement because, for some instruments, quoted prices are not readily available. As such, management engaged valuation specialists to use models to estimate their fair value. The key judgements for derivative models is to estimate their fair value. The key judgements for derivative valuations is whether appropriate valuation methodology and judgements around input assumptions have been made and whether there are any changes required to the methodology of these models as a result of market practice, accounting or regulatory updates.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>Our audit work in respect of the valuation of derivative assets and liabilities included:</p> <ul style="list-style-type: none"> <li>• An understanding and assessing the methodology used for the derivative investments.</li> <li>• Engaging independent valuation specialists who have reviewed the valuation of the derivatives.</li> <li>• Our independent valuation specialists recalculated the valuations using independent models and reviewed sourced input data from recognised independent market data and investigated any differences found that were greater than predefined thresholds..</li> </ul>
<b>Key Observations</b>	<p>The financial derivative is recognised as an asset and comprises the mid-market value, CVA and bank margin.</p> <p>We determined that the assumptions used, and the resultant valuations of derivatives were within ranges that we consider to be acceptable.</p>

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

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### **Our application of materiality**

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Materiality in respect of the Company was set at £521,000 (2020: £470,000) which was determined on the basis of 2% of net assets. Net assets was chosen as the appropriate benchmark as the primary measure used by the shareholders in assessing the performance of the Company.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality for the Company was set at £364,700 (2020: £352,500) which represents 70% (2020: 75%) of the above materiality levels.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.

We agreed to report any corrected or uncorrected adjustments exceeding £26,050 as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the adequacy of the Company's systems and controls, the impact of there being a number of components and locations, and our knowledge of the number, size and nature of misstatements identified in previous audits.

### **Reporting on other information**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion of the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

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



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

### **Matters on which we are required to report by exception**

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

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

### **Responsibilities of directors**

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements.
- Enquiry of management to identify any instances of non-compliance with laws and regulations.
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

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

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- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Reviewing minutes of meetings of those charged with governance.
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular with respect to provisions for claims incurred but not reported.

A further description of our responsibilities for 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 auditor's report.

### **Use of our report**

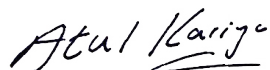
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other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

### **Other matters which we are required to address**

Following the recommendation of the Directors, we were appointed auditor on 22 March 2021 to audit the financial statements for the year ending 31 March 2021. The period of total uninterrupted engagement is 1 years, covering the years ending 31 March 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.



**Atul Kariya FCCA**  
(Senior Statutory Auditor)  
for and on behalf of MHA MacIntyre Hudson  
Statutory Auditor  
London  
30 July 2021

## Accounting policies

For the year ended 31 March 2021

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

These financial statements have been prepared on a going concern basis in accordance with IFRS in conformity with the requirements of the Companies Act 2006 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 2021, 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 "GBP", which is the functional currency of the Company and are rounded to the nearest £1,000.

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 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 39.

### **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".

## Accounting policies (continued)

For the year ended 31 March 2021

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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 initially recorded at fair value under IFRS 9.

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

## Accounting policies (continued)

For the year ended 31 March 2021

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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

The subsidiary continues to apply under IFRS 9, those cash flow hedging arrangements that were originated when the subsidiary previously applied IAS 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 Other Comprehensive Income and any ineffective portion is recognised immediately in the Income Statement. Amounts taken to equity via other comprehensive income 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.

LIBOR is expected to be replaced by alternative risk-free rates by the end of 2021 as part of the IBOR reforms. The Company is currently assessing the impact of these changes on its cash flow hedging arrangements. Amendments to IFRS 7 and IFRS 9 have been issued which modify specific hedge accounting requirements and allow it to be assumed that the interest rate benchmark i.e. LIBOR is not altered as a result of the uncertainties of the IBOR reforms when performing hedge effectiveness testing. These amendments are effective from 1 April 2020 with early adoption allowed. The Company has elected to early adopt these amendments for the year ended 31 March 2020. There has been no impact on the Company's cash flow hedge accounting as a result of adopting these amendments as the Company has assumed that the LIBOR interest rate on which hedged debts are based, does not change as a result of the IBOR reforms. The Company will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms, with respect to the timing and the amount of the underlying cash flows that the Company is exposed to ends.

### 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 2021

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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 it 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.

Corporation tax is recognised in the profit and loss account. Deferred tax on cash flow hedges is recognised in other comprehensive income.

### 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.

## Accounting policies (continued)

For the year ended 31 March 2021

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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 2021

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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. Upon commencement of the contract, estimates and judgements were 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 2021

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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 2021

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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 (6.41%) and the resultant liability reflected in the balance sheet. The plan for decommissioning these assets is being reviewed compared to the plans submitted at financial close. The revised plan is due to be submitted to the Secretary of State for Business, Energy and Industrial Strategy in the upcoming year.

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 review every five years. 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.

## Accounting policies (continued)

For the year ended 31 March 2021

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### **K. Accounting developments**

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

In preparing the financial statements the Company has complied with IFRS, International Accounting Standards (IAS) and interpretations applicable for 2020/2021.

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;

Amendments to the following standards:

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- IAS 16 Property, Plant and Equipment
- IAS 37 Provisions, Contingent Liabilities and Contingent
- IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2
- IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
- IAS 8 Definition of Accounting Estimates
- IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

## Income Statement

For the year ended 31 March 2021

		<b>2021</b>	2020
	<b>Note</b>	<b>£'000</b>	£'000
Operating income	2	3,196	3,614
<b>Operating costs</b>	3	<u>(3,523)</u>	<u>(3,861)</u>
<b>Operating (loss)</b>		<u>(327)</u>	<u>(247)</u>
Bank interest	4	139	315
Finance Income	4	18,122	18,752
Finance costs	4	<u>(15,894)</u>	<u>(16,278)</u>
<b>Profit before taxation</b>		<b>2,040</b>	2,542
Income taxation charge	5	(365)	(851)
<b>Profit attributable to equity shareholders</b>		<u><u>1,675</u></u>	<u><u>1,691</u></u>

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

The results reported above relate to continuing operations.

**Statement of comprehensive income**

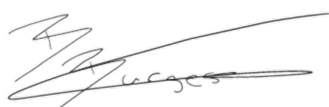
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
<b>Profit attributable to equity shareholders</b>		<b>1,675</b>	1,691
Items in OCI that may be reclassified to profit or loss in future periods			
Net income taken to equity in respect of cash flow hedges	12	(2,272)	5,870
Deferred taxation on cash flow hedges	5	<u>202</u>	<u>(1,115)</u>
Total other comprehensive income		<u>(2,070)</u>	4,755
<b>Total comprehensive (loss)/income for the year attributable to equity shareholders</b>		<b><u>(395)</u></b>	<b><u>6,446</u></b>

**Statement of Financial Position  
As at 31 March 2021**

		2021 £'000	2020 £'000
	Note		
<b>Non-current assets</b>			
Transmission owner asset	6	275,300	285,597
Derivative financial asset	12	15,073	17,346
Total non-current assets		<u>290,373</u>	<u>302,943</u>
<b>Current assets</b>			
Stock		552	551
Trade and other receivables	8	9,560	10,009
Transmission owner asset	6	8,280	8,208
Cash and cash equivalents	9	20,958	21,345
Total current assets		<u>39,349</u>	<u>40,113</u>
<b>Total assets</b>		<u>329,722</u>	<u>343,056</u>
<b>Current liabilities</b>			
Borrowings	10	(22,541)	(21,202)
Trade and other payables	11	(4,648)	(5,710)
Total current liabilities		<u>(27,189)</u>	<u>(26,912)</u>
<b>Net current assets</b>		<u>12,161</u>	<u>13,201</u>
<b>Non-current liabilities</b>			
Borrowings	10	(265,345)	(278,971)
Deferred taxation liability	7	(6,852)	(6,689)
Decommissioning Provision	13	(4,287)	(4,039)
Total non-current liabilities		<u>(276,484)</u>	<u>(289,699)</u>
<b>Total liabilities</b>		<u>(303,673)</u>	<u>(316,611)</u>
<b>Net assets</b>		<u>26,050</u>	<u>26,445</u>
<b>Equity</b>			
Called-up share capital	14	51	51
Retained earnings	15	13,789	12,114
Cash flow hedge reserve	15	12,210	14,280
<b>Total Equity</b>		<u>26,050</u>	<u>26,445</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 35 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 2021 and were signed on its behalf by:



Director  
Ben Burgess

**Statement of changes in equity**

For the year ended 31 March 2021

	<b>Called-up share capital</b>	<b>Cash flow hedge reserve</b>	<b>Retained earnings</b>	<b>Total shareholders' funds</b>
	£'000	£'000	£'000	£'000
At 1 April 2019	<b>51</b>	<b>9,525</b>	<b>10,423</b>	<b>19,999</b>
Recognised profit for the year	-	-	1,691	1,691
Net income taken to equity in respect of cash flow hedges	-	5,870	-	5,870
Deferred taxation on cash flow hedges	-	(1,115)	-	(1,115)
Total comprehensive (expense)/ income	-	4,755	1,691	6,446
At 31 March 2020	<b>51</b>	<b>14,280</b>	<b>12,114</b>	<b>26,445</b>
Recognised profit for the year	-	-	1,675	1,675
Net income taken to equity in respect of cash flow hedges	-	(2,272)	-	(2,272)
Deferred taxation on cash flow hedges	-	202	-	202
Total comprehensive (expense)/ income	-	(2,070)	1,675	(395)
<b>At 31 March 2021</b>	<b>51</b>	<b>12,210</b>	<b>13,789</b>	<b>26,051</b>
<b>Note</b>	<b>14</b>	<b>15</b>	<b>15</b>	

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.

## Cash flow statement

For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
<u>Cash flows from operating activities</u>			
Operating (loss) for the year		(328)	(247)
Adjustments for:			
Income recognised in respect of financial asset		(2,622)	(3,032)
Interest paid		(15,279)	(12,582)
Taxation paid		-	-
Decrease in debtors		21	2
(Decrease) in creditors		(1,050)	(819)
		<u>(18,930)</u>	<u>(16,431)</u>
<b>Net cash flow used in operating activities</b>		<b>(19,258)</b>	<b>(16,678)</b>
<u>Cash flows from investing activities</u>			
Cash received on the finance asset		31,646	29,296
Interest received		139	316
<b>Net cash flow generated from investing activities</b>		<b>31,785</b>	<b>29,612</b>
<u>Cash flows from financing activities</u>			
Repayment of senior debt		(12,914)	(11,820)
<b>Net cash flow used in financing activities</b>		<b>(12,914)</b>	<b>(11,820)</b>
<b>Net increase in cash and cash equivalents</b>	16	<b>(387)</b>	<b>1,114</b>
Cash and cash equivalents at the start of the year		<u>21,345</u>	<u>20,231</u>
<b>Cash and cash equivalents at the end of the year</b>		<b><u>20,958</u></b>	<b><u>21,345</u></b>



## Notes to the financial statements

For the year ended 31 March 2021

### 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 £3,196k (2020: £3,614k) 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:

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Operations and maintenance	<b>1,635</b>	1,805
Insurance costs	<b>980</b>	1,012
Non-domestic rates	<b>573</b>	564
Professional services fees	<b>269</b>	350
Auditors' remuneration	<b>31</b>	43
Other professional services	<b>35</b>	69
Other	-	18
Total	<b><u>3,523</u></b>	<u>3,861</u>
Auditors' remuneration <sup>(1)</sup>	<b>23</b>	28
Other services supplied pursuant to legislation <sup>(1)</sup>	<b>8</b>	15
Total	<b><u>31</u></b>	<u>43</u>

(1) These represent fees payable for services in relation to engagements which are required to be carried out by the auditors. In particular this includes fees for audit reports on statutory returns.

## Notes to the financial statements (continued)

For the year ended 31 March 2021

### 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:

	2021 £'000	2020 £'000
<b>Interest income and other financial income</b>		
Interest on bank accounts and deposits	139	315
Finance income	<u>18,122</u>	<u>18,752</u>
	18,261	19,067
<b>Interest expense and other financial costs</b>		
Interest on senior debt	(10,106)	(10,480)
Interest on subordinated debt	(5,453)	(5,186)
Other financial costs	<u>(335)</u>	<u>(612)</u>
	(15,894)	(16,278)
<b>Net interest income</b>	<u><u>2,367</u></u>	<u><u>2,789</u></u>

### 5 Income taxation charge

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

The net taxation credit for the year is £365k (2020: £851k), 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% (2020: 19%). There is no current taxation included in the Income Statement (2020: nil).

The taxation charge for the year differs from the standard rate of corporation tax in the UK of 19% (2020: differs 19%) for the reasons outlined below:

	2021 £'000	2020 £'000
Profit before taxation	<u>2,040</u>	<u>2,542</u>
Taxation at 19% (2020: 19%) on profit before taxation	388	483
<b>Effects of:</b>		
- non tax deductible	44	42
- effect of change of tax rate	-	326
- adjustments to tax charge in respect of previous period	<u>(230)</u>	<u>-</u>
<b>Total tax charge</b>	<u><u>202</u></u>	<u><u>851</u></u>

## Notes to the financial statements (continued)

For the year ended 31 March 2021

### 5 Income taxation charge (continued)

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

The net taxation credit on items included in other comprehensive income for the year is £202k (2020: 1115k) and comprises a charge on items arising in the current year computed at 19% (2020: 19%) of £202k (2020: 1115k).

Factors that may affect future tax charges:

The UK Government has announced their intention to pass legislation to increase the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. When this legislation has been substantially enacted, the Company would be required to increase its provisions for tax accordingly.

### 6 Transmission owner asset

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

	2021 £'000	2020 £'000
At 1 April	293,805	302,637
<sup>1</sup> Adjustment to the carrying value	<u>(10,225)</u>	<u>(8,832)</u>
At 31 March	<u>283,580</u>	<u>293,805</u>
<b>Comprising:</b>		
Amounts falling due within one year	8,280	8,208
Amounts falling due after more than one year	<u>275,300</u>	<u>285,597</u>
	<u>283,580</u>	<u>293,805</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 2021 was £351,834k (2020: £336,970k). 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 3.03% (2020: 3.68%) per half year.

## Notes to the financial statements (continued)

For the year ended 31 March 2021

### 7 Deferred taxation liability

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

	Fair value gains on derivatives £'000	Accelerated capital allowances £'000	Tax losses £'000	Total £'000
At 1 April 2019	(1,951)	(16,710)	13,938	(4,723)
Additions	(1,115)	(4,887)	4,362	(1,640)
At 31 March 2020	(3,066)	(23,563)	19,940	(6,689)
Additions	202	12,338	(12,703)	(163)
Effect of change in tax rate	-	-	-	-
<b>At 31 March 2021</b>	<b>(2,864)</b>	<b>(11,225)</b>	<b>7,237</b>	<b>(6,852)</b>

The Deferred tax liability of £6,852k (2020 liability: £6,689k) is calculated at 19% (2020: 19%) 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

	2021 £'000	2020 £'000
Prepayments and Accrued Income	<u>9,560</u>	<u>10,009</u>
	<u>9,560</u>	<u>10,009</u>

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

The accrued income value reflects availability incentive of the transmission owner asset payable over a number of years, in line with the licencing agreement held with the Authority.

### 9 Cash and cash equivalents

Cash and cash equivalents comprise short term deposits of £nil (2020: £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 £20,853k (2020: £20,574k) 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 £105k (2020: £771k) 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.

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

For the year ended 31 March 2021

**10 Borrowings**

The following table analyses borrowings:

	2021	2020
	£'000	£'000
<b>Current</b>		
Bonds – fixed rate	13,849	12,914
Less arrangement fees	(293)	(336)
Accrued interest on subordinated debt loans	8,985	8,624
	<b>22,541</b>	21,202
<b>Non-current</b>		
Bonds – fixed rate	220,664	234,513
Less arrangement fees	(1,308)	(1,531)
Subordinated debt loans	45,989	45,989
	<b>265,345</b>	278,971
<b>Total borrowings</b>	<b>287,886</b>	300,173

Total borrowings are repayable as follows:

	2021	2020
	£'000	£'000
In one year or less	22,834	21,538
In more than one year, but not more than two years	15,486	13,849
In more than two years, but not more than three years	15,242	15,486
In more than three years, but not more than four years	15,741	15,242
In more than four years, but not more than five years	16,952	15,741
In more than five years other than by instalments	203,232	220,184
Less arrangement fees	(1,601)	(1,867)
	<b>287,886</b>	300,173

£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 2021

The Company also has access to a liquidity facility of £5,950k (2020: £5,801k) 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 £35,196k at 31 March 2021 (2020: £37,133k) 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 2021

### 11 Trade and other payables

Trade and other payables are as tabulated below.

	<b>2021</b>	2020
	<b>£'000</b>	£'000
Trade payables	<b>209</b>	255
VAT	<b>759</b>	640
Accrued expenses	<b>3,679</b>	4,815
	<b>4,648</b>	5,710

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 fair value. The carrying value of all derivative financial assets at 31 March 2021 was £15,073k (2020: £17,346k) of this, an amount of £10,222k (2020: £10,830k) relates to the margin, payable to or receivable from the counterparty at inception of the contract as compensation in respect of the risk implicit in the contract. 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 credit of £2,273k (2020: charge of £5,869k). 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 (2020: £nil). No amounts were reclassified to Profit on Loss from Other comprehensive income during the year (2020: Nil).

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

## Notes to the financial statements (continued)

For the year ended 31 March 2021

### 13 Decommissioning Provision

	<b>£'000</b>
At 1 April 2019	3,806
Unwinding of discount on provision	233
At 31 March 2020	4,039
Unwinding of discount on provision	248
<b>At 31 March 2021</b>	<b>4,287</b>

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 provision was approved at the start of the license period, subject to a review every 5 years.

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.
- if the expected nominal cost of decommissioning in 2031, 2032 or 2033 was 10% higher or lower than that reflected in the decommissioning provision at 31 March 2021, this would have the effect of increasing or decreasing the carrying value of the decommissioning provision at 31 March 2021 to £4,716k (2020: £4,443k) and £3,858k (2020: £3,635k) respectively.

### 14 Called-up share capital

Called-up share capital is as analysed below.

	<b>No. (thousand)</b>	<b>£'000</b>
Authorised, allotted, called-up and fully paid at 1 April 2020 and 31 March 2021	<b>51</b>	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.

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

For the year ended 31 March 2021

**15 Reserves**

The Company's reserves are analysed below.

	Retained earnings	Cash flow hedge reserve	Total
	£'000	£'000	£'000
1 April 2019	10,423	9,525	19,948
Profit after tax	1,691	-	1,691
Net income on cash flow hedges taken to equity	-	5,870	5,870
Deferred taxation on cash flow hedges	-	(1,115)	(1,115)
31 March 2020	12,114	14,280	26,394
Profit after tax	1,675	-	1,675
Net income on cash flow hedges taken to equity	-	(2,272)	(2,272)
Deferred taxation on cash flow hedges	-	202	202
<b>31 March 2021</b>	<b>13,789</b>	<b>12,210</b>	<b>25,998</b>

**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:

	2021 £'000	2020 £'000
Movement in cash and cash equivalents	(387)	1,114
Net decrease in borrowings	12,288	8,418
<b>Change in net debt resulting from cash flows</b>	<b>11,901</b>	<b>9,532</b>
Non-cash net interest expense included in net debt	360	3,003
Change in fair values of derivatives	(2,272)	5,870
<b>Movement in net debt in the year</b>	<b>9,989</b>	<b>18,405</b>
Net debt at start of year	(252,857)	(271,262)
<b>Net debt at end of year</b>	<b>(242,868)</b>	<b>(252,857)</b>

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

	Cash and cash equivalents £'000	Borrowings £'000	Derivatives £'000	Interest accruals £'000	Total £'000
1 April 2019	20,231	(308,591)	11,477	5,621	(271,262)
Cash flow	1,114	8,418	-	-	9,532
Change in fair values	-	-	5,870	-	5,870
Non-cash net interest	-	-	-	3,003	3,003
31 March 2020	21,345	(300,173)	17,347	8,624	(252,857)
Cash flow	(387)	12,288	-	-	11,901
Change in fair values	-	-	(2,272)	-	(2,272)
Non-cash net interest	-	-	-	360	360
<b>31 March 2021</b>	<b>20,958</b>	<b>(287,885)</b>	<b>15,075</b>	<b>8,984</b>	<b>(242,868)</b>



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

For the year ended 31 March 2021

**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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
<b>Expenditure:</b>						
Interest <sup>1</sup> (including indexation)	5,453	5,186	-	-	5,453	5,186
Services received <sup>2</sup>	-	-	211	285	211	285
	<b>5,453</b>	<b>5,186</b>	<b>211</b>	<b>285</b>	<b>5,664</b>	<b>5,471</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>	8,985	8,624	-	-	8,985	8,624
Other	-	-	-	-	-	-
	<b>54,974</b>	<b>51,609</b>	<b>-</b>	<b>-</b>	<b>54,974</b>	<b>54,613</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 2021 of £211k (2020: £285k) relate to amounts due to Equitix Management Services Limited (EMS). EMS are engaged to provide services under a Management Services Agreement.

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

	2021 £'000	2020 £'000
<b>Borrowings from intermediate undertaking (principal and accrued interest)</b>		
At 1 April	54,613	51,609
Interest	(5,093)	(2,182)
Non-cash interest	5,453	5,186
<b>At 31 March</b>	<b>54,973</b>	<b>54,613</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 £5,093k (2020: £2,182k). Non-cash interest of £5,453k (2020: £5,186k) 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 2021

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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 2021 by virtue of it being a related party to Equitix Transmission 2 Ltd and Equitix Capital Investors UK Cable Limited through to 31 March 2021. 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.

No amounts have been provided at 31 March 2021 (2020: £nil), and no expense was recognised during the year (2020: £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 2021

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

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

	Carrying Value		Fair Value		Valuation Method
	2021 £'000	2020 £'000	2021 £'000	2020 £'000 (see as follows)	
<b>Assets</b>					
<u>Non-current</u>					
Transmission owner asset	275,300	285,597	351,834	336,970	Level 3
Derivative financial instruments	15,073	17,346	15,073	17,346	Level 2
	<b>290,373</b>	<b>302,943</b>	<b>366,907</b>	<b>354,316</b>	
<b>Liabilities</b>					
<u>Non-current</u>					
Fixed rate bank bond	220,664	234,513	270,205	281,491	Level 2
Loan notes 2033	45,989	45,989	101,485	98,356	Level 2
Decommissioning Provision	4,287	4,039	4,287	4,039	Level 3
	<b>270,940</b>	<b>284,541</b>	<b>375,977</b>	<b>383,886</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 2021

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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 2021 and 31 March 2020 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 2021

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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 2021, NGET was the Company's principal customer, and income derived from NGET represents all of the Company's income. With effect from 1 April 2020, 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 2021 amounts due from NGET amounted to £nil (2020: £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 2021, the fair values attributable to these positions were assets amounting to £15,073k (2020: £17,346k). 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 2021, senior debt-service costs amounted to £10,106k (2020: £10,480k). 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 £10,106k (2020: £10,480k).

## Notes to the financial statements (continued)

For the year ended 31 March 2021

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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 2021, cash and cash equivalents included £20,853k (2020: £20,574k) and Financial Asset included £nil (2020: £nil) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £105k (2020: £771k) 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 -£35,196k at 31 March 2021 (2020: -£37,133k) which expire in 2032. These facilities were undrawn at 31 March 2021 (2020: £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 2021

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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.

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

For the year ended 31 March 2021

**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	2021	Total contractual cash flows	2021	2021	2021	2021
	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		488,287	30,953	29,903	95,944	331,487
Cash and cash equivalents		20,958	20,958	-	-	-
		509,245	51,911	29,903	95,944	331,487
<b>Non-derivative financial liabilities</b>						
Borrowings +	4.19%	(323,299)	(23,020)	(23,415)	(95,460)	(181,404)
Trade and other non-interest bearing liabilities		(4,648)	(4,648)	-	-	-
		(327,947)	(27,668)	(23,415)	(95,460)	(181,404)
<b>Derivative financial asset</b>						
RPI swaps		11,093	327	960	2,610	7,196
<b>Net total</b>		192,391	24,570	7,448	3,094	157,279
<hr/>						
Liquidity risk	2020	Total contractual cash flows	2020	2020	2020	2020
	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		517,468	28,730	29,464	93,803	365,471
Cash and cash equivalents		21,345	21,345	-	-	-
		538,813	50,075	29,464	93,803	365,471
<b>Non-derivative financial liabilities</b>						
Borrowings +	4.19%	(323,299)	(23,020)	(23,415)	(95,460)	(181,404)
Trade and other non-interest bearing liabilities		(5,710)	(5,710)	-	-	-
		(329,009)	(28,730)	(23,415)	(95,460)	(181,404)
<b>Derivative financial asset</b>						
RPI swaps		10,256	654	678	2,182	6,742
<b>Net total</b>		220,060	21,999	6,727	525	190,809

+ Including interest payments.



## Notes to the financial statements (continued)

For the year ended 31 March 2021

### 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 £'000s	Movement £'000s
-	3.000%	10,255	-
0.50%	3.500%	1,529	(8,727)
(0.50%)	2.500%	18,675	17,146

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 2021, the total carrying value of senior debt amounted to £232,912k (2020: £245,560k).

## Notes to the financial statements (continued)

For the year ended 31 March 2021

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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 2021 the total principal value of the subordinated debt outstanding amounted to £54,973k (2020: £54,613k).

Ordinary equity share capital issued during the year amounted to £nil (2020: £nil) and at 31 March 2021 amounted to £51k (2020: £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, 3rd Floor South, 200 Aldersgate Street, London, EC1A 4HD.

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).

## Glossary

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<b>A</b> <u>Annual General Meeting (AGM)</u> Meeting of shareholders of the Company, held on an annual basis, to consider ordinary and special business, as detailed in the Notice of AGM.	<u>the Company, Greater Gabbard OFTO Plc, GGO, we, our, or us</u> 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.
<u>The Authority</u> The Gas and Electricity Markets Authority.	<u>contingent liabilities</u> 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.
<b>B</b> <u>Board</u> The Board of Directors of the Company.	<b>D</b> <u>DECC</u> The Department of Energy & Climate Change, the UK Government Department responsible for those respective fields.
<b>C</b> <u>called up share capital</u> Shares that have been issued and have been fully paid for.	<u>deferred tax</u> 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.
<u>carrying value</u> The amount at which an asset or liability is recorded in the Statement of Financial Position.	<u>derivative</u> 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.
<u>charging year</u> The period of time in between 1st April in one calendar year, and 31st March, in the following calendar year.	<b>E</b> <u>EDS</u> EDS HV Management Limited – supplier of Operator services to the Company
<u>Cash Flow Hedges</u> 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.	<u>EIB</u> 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.
	<u>Equitix Transmission 2 Limited.</u>
	<u>Equitix Capital Investors UK Cable Limited</u>
	<u>Equitix Management Services Limited (“EMS”)</u>

## Glossary

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equity

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

EU

The European Union, consisting of European national states.

**F**

financial year

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

**G**

Great Britain

The islands 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.

**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.

SOSS

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.