

**REGISTERED NUMBER: 8793316 (England and Wales)**

**HGPE FRWL HOLDCO LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**



## **HGPE FRWL HOLDCO LIMITED**

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**HGPE FRWL HOLDCO LIMITED**

**COMPANY INFORMATION**

**FOR THE YEAR ENDED 30 JUNE 2017**

**Directors:** P Hofbauer (resigned 31 March 2017)  
H de Run (resigned 28 February 2017)  
E Lewis (appointed 21 October 2016)  
P D Noble (appointed 21 October 2016)  
R Wall (appointed 1 March 2017)

**Company Secretary:** Hermes Secretariat Limited

**Registered Office:** Lloyds Chambers  
1 Portsoken Street  
London  
E1 8HZ  
United Kingdom

**Registered Number:** 8793316 (England and Wales)

**Auditor:** KPMG LLP  
15 Canada Square  
London  
E14 5G2  
United Kingdom

**Accountants:** Arnold Hill & Co LLP  
Craven House  
16 Northumberland Avenue  
London  
WC2N 5AP

**Bankers:** HSBC  
Global Banking & Markets Level 18,  
8 Canada Square  
London  
E14 5HQ

# **HGPE FRWL HOLDCO LIMITED**

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 30 JUNE 2017**

The Directors present their annual report and financial statements for the year ended 30 June 2017 for HGPE FRWL Holdco Limited (the "Company").

#### **Introduction**

This Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them assess how the Directors have performed their duty to promote the success of the Company.

#### **Business review**

Revenue is derived from the receipt of dividends from Fallago Rig Windfarm Limited ("FRWL"). Expenses incurred in the year are finance costs charged on a loan provided by the shareholders. The loan is repayable according to an agreed payment schedule.

The Company has also entered into a Contract for Difference ("the Contract", or "CFD") with British Telecommunications Plc ("BT"). Under the Contract, BT and the Company have agreed to make certain payments based upon the difference between the price payable under a Power Purchase Agreement ("PPA") in place between FRWL and BT for electrical output and a fixed price as stated in the Contract. The CFD mitigates risk around the volatility in power price and loss of revenue and therefore dividends from FRWL. The impact of this on the accounts for 2017 is an increase in the value of the non-current asset from £13,577,129 to £13,700,000 due to a change in the underlying asset, which in this case is based on the movement in the wholesale energy price.

#### **Fair value estimation**

The fair value of the investment in the Company's subsidiary has been determined by an external independent valuer. The valuation process adopts an income approach using a discounted cash flow methodology and is supported by cross checks to an earnings based methodology for comparable assets. The fair value of the financial instruments that are not traded in the active market has also been determined using a discounted cash flow financial model.

#### **Key risks**

Key risks affecting the accounts are:

##### **(A) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices principally comprise energy price risk, interest rate risk, currency risk and equity price risk. Financial instruments affected by market risk include bank deposits, investments, receivables and payables.

##### **(i) Energy price risk**

Energy price risk arises from the possibility that energy prices will affect future cash flows or the fair value of financial instruments. A decrease in energy price will cause the value of the underlying investment to drop but conversely the value of the CFD will appreciate as it mitigates the risk of energy price movements. The derivative in place here mitigates the risk of energy price movements.

##### **(ii) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Interest rate risk is mitigated through a fixed rate long-term shareholder loan in place with BriTel Fund Trustees Limited ("Britel") and Hermes Infrastructure Fund I LP ("HIF I LP"), the Company's parents.

**HGPE FRWL HOLDCO LIMITED**  
**STRATEGIC REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2017**

**Key risks (continued)**

(iii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not subject to foreign currency risk.

(iv) Equity price risk

Investments and derivative financial instruments are susceptible to market price risk arising from uncertainties about future values of the instruments. To manage the market price risk, the Directors review the performance of the wind farm regularly.

(B) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from receivables and bank balances. Receivables comprise of amounts accrued for the contract for differences agreement with BT. Bank accounts are maintained with HSBC with the maximum exposure to credit risk equal to the carrying amount of the cash and cash equivalents. The Company monitors credit ratings on a regular basis.

The Directors monitor the credit risk exposure at the company level on a regular basis.

(C) Liquidity risk

Liquidity risk is the risk an entity may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

In view of the above factors the Company is concluded to have minimal risks and uncertainties and has performed to expectations during the year.

**Key performance indicators:**

	Year ended 30 June 2017	Year ended 30 June 2016
	£	£
Revenue	20,926,863	27,518,915
Profit before tax	29,266,910	2,085,559

Generation of profits were in line with expectations based on prior year forecasts and the underlying valuation assumptions.

There were no major health and safety incidents to report in the year ended June 2017.

**HGPE FRWL HOLDCO LIMITED**

**STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2017**

**Business outlook**

As the wind farm owned and operated by FRWL is currently in operation, FRWL will continue to receive renewable products for its generation output. In addition, as the products and electricity generated by FRWL are sold under long term PPAs, the Directors consider that this will support the distribution of dividends from FRWL. In addition, the CFD in place mitigates the energy price risk for the Company.

Other than continuing operations there are presently no plans to expand the operations of the Company. The Company is currently performing in line with budget and expectations. The Directors expect the general level of activity to remain relatively consistent in the forthcoming year.

By Order of the Board.

  
**P D Noble**  
*Director*

28-09-2017

# **HGPE FRWL HOLDCO LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 30 JUNE 2017**

The Directors present their report on HGPE FRWL HoldCo Limited, together with the financial statements, strategic report and auditor's report, for the year ended 30 June 2017.

#### **Principal activities**

The principal activity of the Company in the year under review was that of an investment holding company, investing in renewable energy and an intermediary for intercompany borrowings.

The Company is a subsidiary of Britel, which holds a majority interest in the Company and is the custodian trustee of the BT Pension Scheme. The remaining minority interest is held by HIF I LP. In addition to share capital, the Company has borrowings from its shareholders and has utilised the funds to acquire a majority interest in FRWL.

#### **Results and dividends**

The profit for the year, before taxation, amounted to £29,266,910 (2016: £2,085,559), and after taxation, amounted to £30,849,656 (2016: £4,193,029). £125,000 (2016: £1,361,875) dividends were paid to HIF I LP, and £875,000 (2016: £9,533,125) was paid to Britel.

#### **Going concern**

The Company is an investment holding company and has net assets of £112,645,597 (2016: £82,795,941) and a cash balance of £1,933,567 (2016: £689,155) as at 30 June 2017. The Company has long-term funding in place with its shareholders, Britel and HIF I LP. On this basis, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

#### **Directors**

The Directors who served during the year to the date of this report were as follows:

P Hofbauer (resigned 31 March 2017)  
H de Run (resigned 28 February 2017)  
E Lewis (appointed 21 October 2016)  
P D Noble (appointed 21 October 2016)  
R Wall (appointed 1 March 2017)

#### **Company secretary**

Hermes Secretariat Limited

#### **Future developments**

Information regarding the future developments of the Company can be found in the Strategic Report.

#### **Subsequent events**

As detailed in note 16 to the accounts, there have been no significant events since the balance sheet date to the date of signing of the Annual Report and Financial Statements.

#### **Financial risk management**

Information about the financial risk management strategy employed by the Company can be found in the Strategic Report and in note 15 to the accounts.

**HGPE FRWL HOLDCO LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2017**

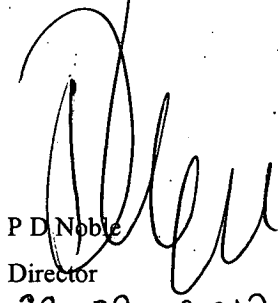
**Auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by:



P D Noble  
Director  
28-09-2017

Lloyds Chambers  
1 Portsoken Street  
London  
E1 8HZ  
United Kingdom



## **HGPE FRWL HOLDCO LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF**

### **HGPE FRWL HOLDCO LIMITED**

#### **Opinion**

We have audited the financial statements of HGPE FRWL Holdco Limited ("the Company") for the year ended 30 June 2017 which comprise the Income Statement and Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### **Strategic report and directors' report**

The Directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

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

We have nothing to report in these respects.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

### HGPE FRWL HOLDCO LIMITED (CONTINUED)

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### **The purpose of our audit work and to whom we owe our responsibilities**

- 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.



**Iain Bannatyne (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London, E14 5GL

28-09-2017

**HGPE FRWL HOLDCO LIMITED**

**INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 30 JUNE 2017**

		<b>Year ended 30 June 2017</b>	<b>Year ended 30 June 2016</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
Dividend income		19,267,489	24,640,000
Net investment revenue	4	1,659,374	2,878,915
Administrative expenses	5	(68,480)	(69,697)
Change in fair value of investment held at year end		20,632,511	(25,800,000)
Change in fair value of derivative financial instrument		122,871	13,017,995
Finance costs		<u>(12,346,855)</u>	<u>(12,581,654)</u>
<b>Profit before taxation</b>		29,266,910	2,085,559
Tax charge on profit	6	1,582,746	2,107,470
<b>Profit for the year</b>		<u><u>30,849,656</u></u>	<u><u>4,193,029</u></u>
<b>Statement of Comprehensive Income</b>			
<b>Total comprehensive income for the year</b>		<u><u>30,849,656</u></u>	<u><u>4,193,029</u></u>
Total comprehensive income attributable to:			
Owners of the Company		<u><u>30,849,656</u></u>	<u><u>4,193,029</u></u>
		<u><u>30,849,656</u></u>	<u><u>4,193,029</u></u>

All amounts relate to continuing operations.  
The notes form part of the financial statements.

**HGPE FRWL HOLDCO LIMITED**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2017**

	Notes	30 June 2017 £	30 June 2016 £
<b>Non current assets</b>			
Investment held at fair value through profit and loss	15	266,400,000	243,300,000
Derivative financial instruments	12	13,700,000	13,577,129
Group relief receivable	6	1,458,263	2,232,023
<b>Total non current assets</b>		<u>281,558,263</u>	<u>259,109,152</u>
<b>Current assets</b>			
Receivables	7	1,074,463	756,517
Cash and bank balances	8	1,933,567	689,155
Group relief receivable	6	2,232,023	-
<b>Total current assets</b>		<u>5,240,053</u>	<u>1,445,672</u>
<b>Total Assets</b>		<u>286,798,316</u>	<u>260,554,824</u>
<b>Current liabilities</b>			
Accruals and payables	10	(134,916)	(589,765)
Shareholders' loans	10,11	(5,257,701)	(3,151,297)
<b>Total current liabilities</b>		<u>(5,392,617)</u>	<u>(3,741,062)</u>
<b>Non current liabilities</b>			
Shareholders' loans	11	(168,760,102)	(174,017,821)
<b>Total non current liabilities</b>		<u>(168,760,102)</u>	<u>(174,017,821)</u>
<b>Net Assets</b>		<u>112,645,597</u>	<u>82,795,941</u>
<b>Equity</b>			
Called up share capital	9	57,723,000	57,723,000
Profit and loss account		54,922,597	25,072,941
<b>Total equity attributable to the owners of the Company</b>		<u>112,645,597</u>	<u>82,795,941</u>

The financial statements of HGPE FRWL HoldCo Limited (registered number 8793316), were approved by the Board of Directors and authorised for issue on 28.09.2017

They were signed on its behalf by:

  
P D Noble - Director

The notes form part of these financial statements.

**HGPE FRWL HOLDCO LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Share Capital £	Retained Earnings £	Total Equity £
Balance at 30 June 2016	57,723,000	25,072,941	82,795,941
Profit for the year	-	30,849,656	30,849,656
Dividends paid	-	(1,000,000)	(1,000,000)
<b>Balance at 30 June 2017</b>	<u><u>57,723,000</u></u>	<u><u>54,922,597</u></u>	<u><u>112,645,597</u></u>

	Share Capital £	Retained Earnings £	Total Equity £
Balance at 30 June 2015	57,723,000	31,774,912	89,497,912
Profit for the year	-	4,193,029	4,193,029
Dividends paid	-	(10,895,000)	(10,895,000)
<b>Balance at 30 June 2016</b>	<u><u>57,723,000</u></u>	<u><u>25,072,941</u></u>	<u><u>82,795,941</u></u>

The notes form part of the financial statements.

**HGPE FRWL HOLDCO LIMITED**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	Year ended 30 June 2017 £	Year ended 30 June 2016 £
<b>Cash flows from operating activities</b>	13	(61,527)	(38,349)
Tax paid		<u>(132,623)</u>	<u>-</u>
		<u>(194,150)</u>	<u>(38,349)</u>
<b>Investing activities</b>			
Net investment income received from CFD		1,122,586	3,291,466
Dividends received		19,267,489	24,640,000
Payment in respect of deferred consideration		(2,467,489)	(2,192,371)
Receipts from/(payments on behalf of) subsidiary		14,146	(14,146)
<b>Net cash from investing activities</b>		<u>17,936,732</u>	<u>25,724,949</u>
<b>Financing activities</b>			
Dividends paid		(1,000,000)	(10,895,000)
Shareholders' loan interest and bank charges		(15,498,170)	(16,712,535)
<b>Net cash paid from financing activities</b>		<u>16,498,170</u>	<u>(27,607,535)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		1,244,412	(1,920,935)
Cash and cash equivalents at beginning of the year		689,155	2,610,090
<b>Cash and cash equivalents at end of the year</b>		<u><u>1,933,567</u></u>	<u><u>689,155</u></u>

The notes form part of the financial statements.

# HGPE FRWL HOLDCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2017

#### 1. General information

The principal accounting policies are summarised below and have been applied consistently throughout the current and previous year.

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted by the European Union. The financial statements have been prepared under the historical cost convention, with the exception of the accounting policy regarding the revaluation of financial investments held at fair value through profit and loss. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The Company's sole investment is in its subsidiary, FRWL. As explained more fully in note 3b (ii) to the accounts, the Company has not prepared consolidated accounts as it meets the definition of an investment entity.

#### 2. Adoption of revised standards

##### Amendments to IFRS that are mandatory effective for the current year

Annual Improvements to IFRSs 2012-2014 Cycle:

The Company has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2012-2014 Cycle for the first time in the current year. The amendments are in the nature of clarifications rather than substantive existing requirements. The application of amendments has had no material impact on the disclosures or the amounts recognised in the financial statements.

##### Consideration of relevant standards in issue but not yet effective

At the date of authorisation of these financial statements, the following Standard which has not been applied in these financial statements was in issue but not yet effective:

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>

The Directors are still evaluating the expected impact that the adoption of the Standards listed above will have on the financial statements of the Company in future periods.

#### 3. Significant accounting policies

##### a) Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis. Further information has been included in the Directors' report.



## HGPE FRWL HOLDCO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 30 JUNE 2017

#### 3. Significant accounting policies (continued)

##### b) Financial instruments at fair value through profit and loss

###### (i) Recognition/derecognition

Purchases and sales of investments are recognised on the trade date – the date on which the Company commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from investments have expired or the Company has transferred all risks and rewards of ownership

###### (ii) Measurement

The Company has applied an exemption under IFRS 10 whereby it meets the definition of an investment entity and therefore is not required to consolidate its subsidiary. The Company is recognised as an investment entity as it has obtained funds from one or more investors for the purpose of providing investment management services, its business is to invest funds solely for investment returns and the Company measures its investment in subsidiary on a fair value basis, with changes in fair value recognised in the Income Statement.

The Company holds 80% of FRWL's shares, its sole subsidiary. The subsidiary was incorporated in United Kingdom with operations based in Scottish Borders.

##### IFRS 13 Fair Value Measurement

The Company has applied IFRS 13. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## HGPE FRWL HOLDCO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

#### 3. Significant accounting policies (continued)

##### b) Financial instruments at fair value through profit and loss (continued)

Financial assets (investment in subsidiary) at fair value through the Income Statement are initially recognised at cost. Transaction costs are expensed in the Income Statement.

Subsequent to initial recognition, financial instruments (investment in subsidiary) through the Income Statement are measured at fair value, as detailed in note 15. Gains and losses arising from changes in the fair value are presented in the Income Statement in the period in which they arise.

##### (iii) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets, other than those measured at fair value through the Income Statement, is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data include that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### c) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### (i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### (ii) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. There were no financial liabilities classified 'at FVTPL' during the year.

##### (iii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

## HGPE FRWL HOLDCO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2017

#### 3. Significant accounting policies (continued)

##### c) Financial liabilities and equity (continued)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

##### (iv) Derivative financial instruments

The Company entered into a derivative financial instrument (CFD) to manage its exposure to volatility in electricity market prices. Further details are disclosed in notes 13 and 15.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

The CFD was valued through an income approach using a discounted cash flow methodology. The CFD was entered into at nil consideration on Day 1. Subsequently at year end, the fair value of the CFD was valued at £13,700,000 (2016: £13,577,129). A gain of £122,871 has been recognised in the Income Statement for the year.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

##### d) Receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### e) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value.

##### f) Operating expenses

Expenses are included in the Income Statement when incurred.

## HGPE FRWL HOLDCO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 30 JUNE 2017

#### 3. Significant accounting policies (continued)

##### g) Dividend and investment income

Dividend and investment income is recognised when the right to receive payment has been established.

Investment income is comprised of amounts receivable under the CFD derivative financial instrument.

##### h) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. In addition, amounts receivable in respect of group relief surrendered to the Company's investments have been recognised in the current year.

###### *Current Tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profits as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

###### *Deferred tax*

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax 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 tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

##### i) Significant accounting judgments and estimates

The preparation of the Company's financial statements requires the Directors to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 15 and below.

# **HGPE FRWL HOLDCO LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE YEAR ENDED 30 JUNE 2017**

#### **3. Significant accounting policies (continued)**

##### **i) Significant accounting judgments and estimates (continued)**

###### *Fair value estimation for investment in subsidiary*

The fair values of the non-derivative financial instruments that are not traded in the active market have been determined by an external independent valuer. The valuation process adopts an income approach using a discounted cash flow methodology and is supported by cross checks to an earnings based methodology for comparable assets.

###### *Fair value estimation for Contract for Difference*

The fair value of the derivative financial instruments that are not traded in the active market has been determined through an income approach using a discounted cash flow methodology.

###### *Provision for doubtful debts*

During the current and prior year, the Company was in dispute with BT in relation to the CFD. This has been resolved under the dispute resolution process provided for under the CFD, and all relevant amounts are included in these financial statements.

#### **4. Investment Revenue**

	<b>Year end 30 June 2017</b>	<b>Year end 30 June 2016</b>
	<b>£</b>	<b>£</b>
Contract for Difference – income	2,139,856	3,952,874
Contract for Difference – expense	(480,482)	-
Provision for doubtful debts	-	(1,073,959)
	<u>1,659,374</u>	<u>2,878,915</u>

#### **5. Operating expenses are stated after charging:**

	<b>Year end 30 June 2017</b>	<b>Year end 30 June 2016</b>
	<b>£</b>	<b>£</b>
Professional fees	48,783	50,951
VAT	<u>11,697</u>	<u>13,518</u>
	<u>60,480</u>	<u>64,469</u>
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	8,000	5,228
	<u>68,480</u>	<u>69,697</u>

**HGPE FRWL HOLDCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2017**

**6. Taxation**

	<b>Year end 30 June 2017 £</b>	<b>Year end 30 June 2016 £</b>
<i><b>Recognised in the income statement</b></i>		
<u>Current tax expense</u>		
Current year	-	124,553
Group relief receivable	(1,458,263)	(2,232,023)
Adjustment for prior years	(124,483)	-
Current tax expense	<u>(1,582,746)</u>	<u>(2,107,470)</u>
<u>Deferred tax expense</u>		
Origination and reversal temporary differences	-	-
Deferred tax expense	-	-
Total tax expense	<u>(1,582,746)</u>	<u>(2,107,470)</u>
	<b>Year end 30 June 2017 £</b>	<b>Year end 30 June 2016 £</b>
<i><b>Reconciliation of current tax expense</b></i>		
Profit for the year	30,849,656	4,193,029
Total tax expense	<u>(1,582,746)</u>	<u>(2,107,470)</u>
Profit excluding taxation	29,266,910	2,085,559
Tax using the UK corporation tax rate of 19.75% (2016: 20.00%)	5,780,215	417,112
Non-deductible expenses	510,876	5,160,000
Tax exempt revenues	(7,880,250)	(4,928,000)
Group relief receivable	(1,458,263)	(2,232,023)
Losses carried back/utilised	(124,483)	(524,559)
Current year losses	1,589,159	-
	<u>(1,582,746)</u>	<u>(2,107,470)</u>

# HGPE FRWL HOLDCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 30 JUNE 2017

#### 7. Receivables

	Year end 30 June 2017 £	Year end 30 June 2016 £
Income receivables from Contract for Difference	941,910	1,407,901
Provision for doubtful debts	-	(665,529)
Corporation tax receivable	132,553	-
Due from subsidiary undertaking	-	14,145
	<u>1,074,463</u>	<u>756,517</u>

#### 8. Cash and bank balances

	Year end 30 June 2017 £	Year end 30 June 2016 £
Cash at bank	1,933,567	689,155
	<u>1,933,567</u>	<u>689,155</u>

#### 9. Called up Share Capital

	Year end 30 June 2017 £	Year end 30 June 2016 £
Authorised, issued and fully paid: 57,723,000 ordinary shares of £1 each	57,723,000	57,723,000
	<u>57,723,000</u>	<u>57,723,000</u>

#### 10. Accruals and payables

	Year end 30 June 2017 £	Year end 30 June 2016 £
Shareholders' loans	5,257,701	3,151,297
Corporation tax	-	124,553
Accrued expenses	130,787	56,782
Trade creditors	4,129	-
Provision for disputed monies already received*	-	408,430
	<u>5,392,617</u>	<u>3,741,062</u>

\*The provision was for monies already received from the Contract for Difference which were under dispute.

**HGPE FRWL HOLDCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2017**

**11. Shareholders' Loans**

	<b>Year end 30 June 2017 £</b>	<b>Year end 30 June 2016 £</b>
Shareholders' loans	<u>168,760,102</u>	<u>174,017,821</u>
	<u>168,760,102</u>	<u>174,017,821</u>
<b>Loan Maturity Analysis</b>		
In less than one year	5,257,701	3,151,297
In more than one year but not more than two years	5,529,650	5,257,701
In more than two years but not more than five years	20,124,301	18,311,301
In more than five years	<u>143,106,151</u>	<u>150,448,819</u>
	<u>174,017,803</u>	<u>177,169,118</u>

Interest on the shareholders' loans is charged at an annual rate of 7%.

**12. Derivative financial instruments**

	<b>2017 Current £</b>	<b>2017 Non- Current £</b>	<b>2016 Current £</b>	<b>2016 Non- Current £</b>
<b>Financial assets carried at fair value through profit or loss</b>				
Contract for Difference	<u>-</u>	<u>13,700,000</u>	<u>-</u>	<u>13,577,129</u>
	<u>-</u>	<u>13,700,000</u>	<u>-</u>	<u>13,577,129</u>



# HGPE FRWL HOLDCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 30 JUNE 2017

#### 13. Notes to the cash flow statement

	Year end 30 June 2017 £	Year end 30 June 2016 £
Profit for the year	30,849,656	4,193,029
Dividend income	(19,267,489)	(24,640,000)
Investment revenue	(1,659,374)	(2,878,915)
Finance costs	12,346,855	12,581,654
Tax payable	(124,483)	124,553
Group relief receivable	(1,458,263)	(2,232,023)
Change in fair value of investment designated at fair value	(20,632,511)	25,800,000
Change in fair value of derivative financial instruments	(122,871)	(13,017,995)
Operating cash flows before movements in working capital	(68,480)	(69,697)
Increase in payables	6,953	31,348
Cash used by operations	(61,527)	(38,349)

#### 14. Management of capital

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the year ended 30 June 2017.

	Year end 30 June 2017 £	Year end 30 June 2016 £
Total borrowings	174,017,803	177,169,118
Cash and cash equivalents	(1,933,567)	(689,155)
Net borrowings	172,084,236	176,479,963
Total equity	112,645,597	82,795,941
Total financing	284,729,833	259,275,904
Gearing ratio	60.44%	68.07%

The Company considers that capital is composed of equity, distributable reserves and retained earnings.

The Company closely monitors the gearing ratio which involves the net debt and equity as shown above.

**HGPE FRWL HOLDCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2017**

**15. Financial risk disclosures**

The objective of the Company is to provide its shareholders with dividends through investing in a wind farm in the United Kingdom.

The Company is exposed to and through its investment in its subsidiary to market risk, credit risk and liquidity risk. However, those risks are regularly monitored and managed by the board of Directors of both the Company and the subsidiary respectively. The board Directors of the Company are also board Directors of the subsidiary.

The Directors review and agree policies for managing each of these risks which are summarised below.

**(A) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices principally comprise energy price risk, interest rate risk, currency risk and equity price risk. Financial instruments affected by market risk include bank deposits, investments, receivables and payables.

**(i) Energy price risk**

Energy price risk arises from the possibility that energy prices will affect future cash flows or the fair value of financial instruments. A decrease in energy price will cause the value of the underlying investment to drop but conversely the value of the CFD will appreciate as it mitigates the risk of energy price movements. The derivative in place here mitigates the risk of energy price movements.

**(ii) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Interest rate risk is mitigated through a fixed rate long-term shareholder loan in place with Britel and HIF I LP, the Company's parents.

**(iii) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not subject to foreign currency risk.

**(iv) Equity price risk**

Investments and derivative financial instruments are susceptible to market price risk arising from uncertainties about future values of the instruments. To manage the market price risk, the Directors review the performance of the wind farm regularly.

**HGPE FRWL HOLDCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2017**

**15. Financial risk disclosures (continued)**

***Reconciliation of Level 3 fair value measurements of financial assets:***

Level 3 financial instruments are valued using an income based approach which incorporates a discounted cash flow methodology. Further information is provided in Note 3 (i).

	<b>Fair value through profit and loss asset</b>			
	Investment in subsidiary £	Derivative financial instrument £	2017 Total £	2016 Total £
Balance at 1 July 2016	243,300,000	13,577,129	256,877,129	269,659,134
Gain/(loss) on investment at fair value through profit and loss	23,100,000	-	23,100,000	(25,800,000)
Gain on derivative financial instruments	-	122,871	122,871	13,017,955
Balance at 30 June 2017	266,400,000	13,700,000	280,100,000	256,877,129

**(B) Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from receivables and bank balances. Receivables comprise of amounts accrued for the CFD agreement with BT. Bank accounts are maintained with HSBC with the maximum exposure to credit risk equal to the carrying amount of the cash and cash equivalents. The Company monitors credit ratings on a regular basis.

The Directors monitor the credit risk exposure at the company level on a regular basis. No provision has been made for the receivables at the reporting date as the Directors consider that all the receivables will be settled in due course.

**(C) Liquidity risk**

Liquidity risk is the risk an entity may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

# **HGPE FRWL HOLDCO LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2017**

### **15. Financial risk disclosures (continued)**

The Company reviews cash flow forecasts on a monthly basis to monitor liquidity requirements. A prudent liquidity risk management approach is adopted to ensure sufficient cash is available for operational expenses. The table below summarises the maturity profile of the Company's financial assets and liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Investment in subsidiary	-	-	-	-	266,400,000	266,400,000
Receivables	-	941,910	-	-	-	941,910
Contract for Difference	-	-	-	-	13,700,000	13,700,000
Group relief receivable	-	2,232,023	-	1,458,263	-	3,690,286
Cash and cash equivalents	1,933,567	-	-	-	-	1,933,567
Corporation tax	-	132,553	-	-	-	132,553
Accruals and other payables	-	-	(134,916)	-	-	(134,916)
Shareholder Loan	-	-	(5,257,701)	(25,653,951)	(143,106,151)	(174,017,803)
<b>Total maturity at 30 June 2017</b>	<b>1,933,567</b>	<b>3,306,486</b>	<b>(5,392,617)</b>	<b>(24,195,688)</b>	<b>136,993,849</b>	<b>112,645,597</b>
Total maturity at 30 June 2016	689,155	742,372	(3,726,917)	(21,336,979)	106,428,310	82,795,941

(D) Fair value measurements recognised in the statement of financial position

	Level 1 £	Level 2 £	Level 3 £	2017 Total £	2016 Total £
Financial assets at fair value through profit and loss:					
Non derivative financial assets	-	-	266,400,000	266,400,000	243,300,000
Derivative financial assets - Contract for Difference	-	-	13,700,000	13,700,000	13,577,129
	-	-	256,877,129	280,100,000	256,877,129

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used).

**HGPE FRWL HOLDCO LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2017**

**15. Financial risk disclosures (continued)**

Financial assets/ financial liabilities	Fair value as at 30 June 2017	Fair value hierarchy	Valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
Investments in Subsidiary	80% per cent equity investment in FRWL engaged in renewable energy generation in the UK - £266,400,000	Level 3	Discounted cash flow	Weighted average cost of capital based on independent third party valuation, taking into account management's experience and knowledge of market conditions of the industry, ranging from 6.15 to 7.65 per cent	The higher the weighted average cost of capital, the lower the fair value.
Contract for Difference	Non current assets - £13,700,000	Level 3	Discounted cash flow	Future electricity price estimates based on third party independent reports	The higher the forecast electricity price estimate, the lower the fair value of the CFD

The following economic assumptions were used in the discounted cash flow valuations:

	2017	2016
<b>Inflation rates –</b>		
(UK RPI – Investment in Subsidiary)	3.08%	3.09%
(UK CPI – Contract for Difference)	1.83%	1.98%

*Investment in Subsidiary*

The valuation method incorporates the discounted cash flows of FRWL to the Company for the period to 31 May 2043. The Directors have satisfied themselves as to the methodology used, and the discount rates applied for the fair value. The Directors have also obtained an independent opinion from a third party with considerable expertise in valuing these types of investments supporting the reasonableness of the fair value. The fair value of the investment is determined by using an appropriate cost of equity. If the discount rate were changed to 6.15% or 7.65% the fair value of the investment and fair value through profit and loss would increase by £17,101,000 or decrease by £15,606,000 respectively.

## HGPE FRWL HOLDCO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 30 JUNE 2017

##### 15. Financial risk disclosures (continued)

###### *Contract for Difference*

The valuation method incorporates the future difference between forecast electricity prices and forecast strike prices over the life of the CFD. The Directors have satisfied themselves as to the methodology used, and the discount rates applied for the fair value. If the estimated future power price were changed by 5% the fair value of the investment and fair value through profit and loss would increase or decrease by £5,818,843 respectively.

##### 16. Subsequent events

There have been no significant events since the balance sheet date to the date of signing of the Annual Report and Financial Statements.

##### 17. Related party disclosures

Transactions with related parties are carried out on terms equivalent to those that prevail at an arm's length transaction.

Britel, the custodian trustee of BT Pension Scheme and HIF I LP has an ownership interest in the Company, and is therefore a related party of the Company.

Transactions between Britel, HIF I LP and the Company are regulated by the terms of the Shareholder Loan Agreement. There were loan repayments of £3,151,315 during the year and a total interest expense of £12,346,855 (2016: £12,581,585) was incurred by the Company.

BT is the Principal Sponsoring Employer of the BT Pension Scheme, the ultimate parent of the Company. During the year, the Company recognised £1,659,374 of income from BT in relation to the CFD (2016: £2,878,915). At the balance sheet date, the amount receivable from BT was £941,910 (2016: £742,372 after provision for doubtful debts).

During the year the Company paid dividends of £875,000 to Britel (2016: £9,533,125) and £125,000 (2016: £1,361,875) to HIF I LP.

##### 18. Ultimate controlling party

The ultimate parent of the Company throughout the year was the BT Pension Scheme.

The financial statements of BT Pension Scheme can be obtained at the Registered Office, Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.