

Tranche 2 Holdings Limited
Directors' Report and
Audited Consolidated Financial Statements For The Year Ended 31 December 2018



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Tranche 2 Holdings Limited

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Tranche 2 Holdings Limited

Company Information For The Year Ended 31 December 2018

Directors:

J K Rhodes-Journeay
S C Tetot

Registered office:

C/O Reg White Limited
Beaufort Court
Egg Farm Lane
Kings Langley
Hertfordshire
WD4 8LR

Registered number:

07705453 (England and Wales)

Independent auditors:

Deloitte LLP
Statutory Auditor
110 Queen Street
Glasgow
United Kingdom
G1 3BX

Bankers:

HSBC
3 Rivergate
Temple Quay
Bristol
BS1 6ER

Tranche 2 Holdings Limited

Directors' Report For The Year Ended 31 December 2018

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2018.

This directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption.

Further information on the basis of preparation of these financial statements and the going concern assumption can be found in note 2.

Principal activity

The principal activity of the Group in the period under review was the operation of two wind farms with total capacity of 8.5MW. This is expected to continue to be the principal activity of the Group. Tranche 2 Holdings Limited serves as a holding company for the subsidiaries owning the wind farms.

Dividends

The profit for the year after taxation was £300,314 (31 December 2017 : £153,191 profit).

The directors do not recommend the payment of a dividend (31 December 2017: £nil).

Directors

The directors who have held office during the period from 1 January 2018 to the date of this report are as follows:

P G Raftery - resigned 19 December 2018
C D K Reid - resigned 19 December 2018
J K Rhodes-Journeay - appointed 19 December 2018
S C Tetot - appointed 19 December 2018

Risks and uncertainties

The Group is exposed to fluctuations in UK power prices. The Group seeks to manage the volatility in power prices by fixing prices at least six months in advance whenever possible.

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Tranche 2 Holdings Limited

Directors' Report For The Year Ended 31 December 2018

Auditors

The auditors, Deloitte LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

On behalf of the board:



.....
S C Tetot - Director

Date: 23 September 2019

Tranche 2 Holdings Limited

Statement of Directors' Responsibilities For The Year Ended 31 December 2018

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Tranche 2 Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Tranche 2 Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Independent Auditors' Report to the Members of Tranche 2 Holdings Limited

Other information

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

We have nothing to report in respect of these matters.

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 group's and the parent 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 group or the parent 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

**Independent Auditors' Report to the Members of
Tranche 2 Holdings Limited**

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

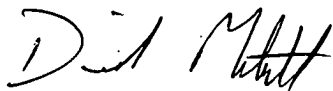
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

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.



David Mitchell (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow
23 September 2019

Tranche 2 Holdings Limited

**Consolidated Income Statement
For The Year Ended 31 December 2018**

| | Notes | 31/12/18 £ | 31/12/17 £ |
|---|-------|---------------|---------------|
| Turnover | 3 | 1,754,210 | 1,808,255 |
| Cost of sales | | (1,002,414) | (1,083,567) |
| Gross profit | | 751,796 | 724,688 |
| Administrative expenses | | (13,681) | (12,703) |
| Operating profit | 4 | 738,115 | 711,985 |
| Interest receivable and similar income | | 424 | - |
| | | 738,539 | 711,985 |
| Interest payable and similar expenses | | (404,955) | (444,939) |
| Profit before taxation | | 333,584 | 267,046 |
| Tax on profit | | (33,270) | (113,855) |
| Profit for the financial year | | 300,314 | 153,191 |
| Profit attributable to: Owners of the parent | | 300,314 | 153,191 |

The notes on pages 13 to 24 form part of these financial statements

Tranche 2 Holdings Limited (Registered number: 07705453)

**Consolidated Balance Sheet
31 December 2018**

| | Notes | 31/12/18 £ | 31/12/17 £ |
|--|-------|--------------------|--------------------|
| Fixed assets | | | |
| Tangible fixed assets | 6 | 8,171,381 | 8,898,609 |
| Investments | 7 | - | - |
| | | <u>8,171,381</u> | <u>8,898,609</u> |
| Current assets | | | |
| Debtors | 8 | 1,197,821 | 1,147,994 |
| Cash at bank | | 117,691 | 272,495 |
| | | <u>1,315,512</u> | <u>1,420,489</u> |
| Creditors | | | |
| Amounts falling due within one year | 9 | (9,184,169) | (10,319,612) |
| Net current liabilities | | <u>(7,868,657)</u> | <u>(8,899,123)</u> |
| Total assets less current liabilities | | 302,724 | (514) |
| Provisions for liabilities | 11 | <u>(172,924)</u> | <u>(170,000)</u> |
| Net assets/(liabilities) | | <u>129,800</u> | <u>(170,514)</u> |
| Capital and reserves | | | |
| Called up share capital | | 1 | 1 |
| Retained earnings | | 129,799 | (170,515) |
| | | <u>129,800</u> | <u>(170,514)</u> |

The financial statements have been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The financial statements were approved by the Board of Directors on 23 September 2019 and were signed on its behalf by:



.....
S C Tetot - Director

The notes on pages 13 to 24 form part of these financial statements

Tranche 2 Holdings Limited (Registered number: 07705453)

**Company Balance Sheet
31 December 2018**

| | Notes | 31/12/18 £ | 31/12/17 £ |
|--|-------|----------------|----------------|
| Fixed assets | | | |
| Tangible fixed assets | 6 | - | - |
| Investments | 7 | 2,000 | 2,000 |
| | | <u>2,000</u> | <u>2,000</u> |
| Current assets | | | |
| Debtors | 8 | 1 | 1 |
| Creditors | | | |
| Amounts falling due within one year | 9 | (2,000) | (2,000) |
| Net current liabilities | | <u>(1,999)</u> | <u>(1,999)</u> |
| Total assets less current liabilities | | <u>1</u> | <u>1</u> |
| Capital and reserves | | | |
| Called up share capital | | 1 | 1 |
| | | <u>1</u> | <u>1</u> |
| Company's profit for the financial year | | - | - |

The financial statements have been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The financial statements were approved by the Board of Directors on 23 September 2019 and were signed on its behalf by:



.....
S C Tetot - Director

The notes on pages 13 to 24 form part of these financial statements

Tranche 2 Holdings Limited

**Consolidated Statement of Changes in Equity
For The Year Ended 31 December 2018**

| | Called up share capital £ | Retained earnings £ | Total equity £ |
|------------------------------------|------------------------------------|---------------------------|----------------------|
| Balance at 1 January 2017 | 1 | (323,706) | (323,705) |
| Changes in equity | | | |
| Total comprehensive income | - | 153,191 | 153,191 |
| Balance at 31 December 2017 | 1 | (170,515) | (170,514) |
| Changes in equity | | | |
| Total comprehensive income | - | 300,314 | 300,314 |
| Balance at 31 December 2018 | 1 | 129,799 | 129,800 |

The notes on pages 13 to 24 form part of these financial statements

Tranche 2 Holdings Limited

**Company Statement of Changes in Equity
For The Year Ended 31 December 2018**

| | Called up share capital £ | Retained earnings £ | Total equity £ |
|-----------------------------|------------------------------------|---------------------------|----------------------|
| Balance at 1 January 2017 | 1 | - | 1 |
| Changes in equity | | | |
| Balance at 31 December 2017 | 1 | - | 1 |
| Changes in equity | | | |
| Balance at 31 December 2018 | 1 | - | 1 |

The notes on pages 13 to 24 form part of these financial statements

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements For The Year Ended 31 December 2018

1. General information

Tranche 2 Holdings Limited is a company incorporated in the United Kingdom, England and Wales, under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's and Group's operations and its principal activities are set out in the Directors' report on page 2.

2. Accounting policies

Basis of preparing the financial statements

The financial statements have been prepared in accordance with the applicable United Kingdom accounting standards, including Financial Reporting Standard 102 section 1A small entities - 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements apply the July 2015 amendments to FRS 102. The particular accounting policies adopted are described below and have been applied consistently throughout the current financial period. The prior financial period was prepared under Financial Reporting Standard 102 without taking the section 1A exemption for small companies.

Section 1A for small companies has been applied on the basis that the entity meets the criteria set out within the Companies Act. The directors believe the entity is part of an eligible group on the basis that the ultimate controlling party is not listed on any market.

The Company has taken advantage of the exemptions available to small entities under section 1A in relation to presentation of a cash flow statement and disclosures of net finance charge, current taxation, financial instruments, share capital and reserves.

The financial statements are prepared under the historical cost convention, except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

Going concern

The financial statements have been prepared on the basis the Group is a going concern, which the directors consider appropriate.

The directors have separately reviewed integrated forecasts for the Group, for the foreseeable future, which indicate that the Group will be able to meet its cash flow demands and liabilities as they fall due from cash flows from operations and existing working capital.

The directors have written confirmation that RI Income UK Holdings Limited intends to continue to financially support the Company and Group during the 12 months following the date the financial statements are signed.

Notes to the Consolidated Financial Statements - continued
For The Year Ended 31 December 2018

2. Accounting policies - continued

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements.

Deferred taxation

Deferred tax assets are only recognised when management deem that it is highly probable that there will be sufficient taxable profits in future periods which can utilise the deferred tax asset.

Operating lease commitments

The classification of leases as operating or finance leases requires the Company to determine, based on evaluation of the terms and conditions of the arrangements, whether it acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires recognition on the balance sheet.

Decommissioning provision

Liabilities for decommissioning costs are recognised when the Company has an obligation to decommission and restore the land, with which the project has been built upon, to its original state. The obligation is assessed annually for changes in estimated costs which are then discounted to their net present value. If the net present value is deemed to be immaterial then no provision is recognised.

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements - continued For The Year Ended 31 December 2018

2. Accounting policies - continued

Turnover

Turnover represents the value of power generated during the year, excluding value added tax, in the UK.

Turnover recognition

Turnover is recognised when the significant risks and rewards are considered to have transferred to the buyer and is recorded at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before turnover is recognised:

a) Generation and embedded benefits turnover

Turnover from the sale of electricity represents the invoice value, pre sales tax, of electricity provided to third parties and is recognised when electricity is generated. Embedded benefits are paid to generating plant located on the distribution network to reflect the lower cost of transporting electricity to the end user and are recorded at the invoice value.

b) TRIADS turnover

Turnover from the sale of TRIADS (bonus for generating at peak demand times during the winter months) represents the invoice value, before sales tax, of TRIADS provided to third parties and is recognised when eligible electricity is generated.

c) ROCs turnover

Renewable Obligation Certificates (ROCs) are issued to qualifying renewable generators under the terms of the generating station's OFGEM Renewable Obligation registration. These certificates may be traded separately from the electricity to which they relate. The ROCs are recorded as accrued income at fair value and recognised in turnover when the electricity to which they relate is generated. Any impairment of ROCs due to reduction in the market price is recorded in profit and loss.

Tangible fixed assets

Plant and machinery is stated at cost less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met, but excludes the costs of day-to-day servicing which is expensed as incurred.

Depreciation is provided on all tangible fixed assets, other than freehold land, at the following annual rates in order to write off each asset over its estimated useful life.

| | | |
|----------------------|---|----------|
| Operating wind sites | - | 20 years |
|----------------------|---|----------|

Notes to the Consolidated Financial Statements - continued
For The Year Ended 31 December 2018

2. Accounting policies - continued

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements - continued For The Year Ended 31 December 2018

2. Accounting policies - continued

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to interest rate movements. The Company does not hold derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Fair value measurement

The Company determines the fair value of its derivatives using the income approach which converts future cash flows to a single current (discounted) amount, reflecting current market expectations about those future amounts through the use of observable inputs, e.g. interest rates and yield curves observable at commonly quoted intervals.

Hedge accounting

The Company designates certain derivatives as cash flow hedging instruments in respect of variable interest rate risk of the cash flows associated with recognised debt instruments measured at amortised cost.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with the clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge and on an ongoing basis, the Company assesses whether the hedging instrument is highly effective in offsetting the designated hedged risk.

Notes to the Consolidated Financial Statements - continued
For The Year Ended 31 December 2018

2. Accounting policies - continued

The effective portion of changes in the fair value of the designated hedging instrument is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Notes to the Consolidated Financial Statements - continued
For The Year Ended 31 December 2018

2. Accounting policies - continued

Taxation

Current tax, including UK corporation and foreign 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 balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

-provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

-deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Deferred tax assets and liabilities are offset only if the Company has a legally enforceable right to set off current tax assets against current tax liabilities.

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements - continued For The Year Ended 31 December 2018

2. Accounting policies - continued

Cash

Cash at bank and in hand on the balance sheet comprise cash in hand and deposits held at call with banks.

Accrued income

Accrued income represents accruals for electricity generation and ROC income not yet billed.

Dividend distribution

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

Decommissioning provision

Liabilities for decommissioning costs are recognised when the Company has an obligation to decommission and restore the land, with which the project has been built upon, to its original state. The obligation is assessed annually for changes in estimated costs which are then discounted to their net present value. If the net present value is deemed to be immaterial then no provision is recognised.

When this provision relates to an asset with sufficient future economic benefits, a decommissioning asset is recognised and included as part of the associated plant and equipment and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within plant and equipment. Unwinding of the discount on the provision is included in the income statement within interest expense.

Operating leases

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period which they arise.

Borrowing costs

Borrowing costs are expensed as incurred.

Investments

Fixed asset investments are stated at cost less any provision for impairment.

3. Turnover

The turnover and profit before taxation are attributable to the one principal activity of the Group.

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements - continued For The Year Ended 31 December 2018

4. Operating profit

The operating profit is stated after charging:

| | 31/12/18 | 31/12/17 |
|---|----------------|----------------|
| | £ | £ |
| Rentals under operating lease | 41,294 | 43,361 |
| Depreciation - owned assets | 672,686 | 673,549 |
| Auditor's remuneration - auditing of financial statements | 11,912 | 12,009 |
| | <u>725,892</u> | <u>728,919</u> |

5. Individual income statement

As permitted by Section 408 of the Companies Act 2006, the Income Statement of the parent company is not presented as part of these financial statements.

The result of the Company for the financial year has been included within the Company balance sheet.

6. Tangible fixed assets

Group

| | Plant and machinery £ |
|------------------------|--------------------------|
| Cost | |
| At 1 January 2018 | 12,879,397 |
| Disposals | (85,000) |
| | <u>12,794,397</u> |
| At 31 December 2018 | |
| Depreciation | |
| At 1 January 2018 | 3,980,788 |
| Charge for year | 672,686 |
| Eliminated on disposal | (30,458) |
| | <u>4,623,016</u> |
| At 31 December 2018 | |
| Net book value | |
| At 31 December 2018 | <u>8,171,381</u> |
| At 31 December 2017 | <u>8,898,609</u> |

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements - continued For The Year Ended 31 December 2018

7. Fixed asset investments

Company

| | Shares in group undertaking £ |
|-----------------------|----------------------------------|
| Cost | |
| At 1 January 2018 | |
| and 31 December 2018 | 2,000 |
| Net book value | |
| At 31 December 2018 | 2,000 |
| At 31 December 2017 | 2,000 |

Investments are directly owned 100% holdings of the ordinary share capital of two subsidiaries, High Haswell Limited and Loscar Limited. These subsidiaries are both incorporated in the United Kingdom with their principle activities in the period being the operation of wind farms.

8. Debtors: amounts falling due within one year

| | Group | | Company | |
|----------------------------------|------------------|------------------|----------------|----------|
| | 31/12/18 | 31/12/17 | 31/12/18 | 31/12/17 |
| | £ | £ | £ | £ |
| Amounts owed by group companies | 211,187 | 4,557 | - | - |
| Other debtors | 91,898 | 3,525 | - | - |
| VAT | 19,447 | 9,131 | - | - |
| Deferred tax asset | 360,118 | 604,575 | - | - |
| Called up share capital not paid | 1 | 1 | 1 | 1 |
| Accrued income | 390,680 | 408,450 | - | - |
| Prepayments | 124,490 | 117,755 | - | - |
| | <u>1,197,821</u> | <u>1,147,994</u> | <u>1</u> | <u>1</u> |

Deferred tax asset

| | Group | | Company | |
|--------------------------------|----------------|----------------|----------------|----------|
| | 31/12/18 | 31/12/17 | 31/12/18 | 31/12/17 |
| | £ | £ | £ | £ |
| Accelerated capital allowances | <u>360,118</u> | <u>604,575</u> | <u>-</u> | <u>-</u> |

Within amounts owed to group companies is £nil (31 December 2017: £4,427) owed by Denzell Downs Limited as Denzell Downs Limited received the VAT due back to the Company as part of the VAT group registration arrangement, an amount owed to Glens of Foudland Wind Farm Limited of £nil (31 December 2017: £130) and the remaining balance of £211,187 relates to intercompany group relief estimates (31 December 2017: £nil).

Amounts owed by group companies are repayable on demand.

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements - continued For The Year Ended 31 December 2018

9. Creditors: amounts falling due within one year

| | Group | | Company | |
|---------------------------------|------------------|-------------------|--------------|--------------|
| | 31/12/18 | 31/12/17 | 31/12/18 | 31/12/17 |
| | £ | £ | £ | £ |
| Trade creditors | 8,512 | 2,210 | - | - |
| Amounts owed to group companies | 9,127,560 | 10,242,579 | 2,000 | 2,000 |
| Other creditors | - | 48,582 | - | - |
| Accruals | 48,097 | 26,241 | - | - |
| | <u>9,184,169</u> | <u>10,319,612</u> | <u>2,000</u> | <u>2,000</u> |

The Company has creditors of £2,000 falling due within one year relating to unpaid share capital (31 December 2017 £2,000).

The Group amounts owed to group companies includes an interest free loan of £3,136,259 owed to RI Income UK Holdings Limited (31 December 2017: £3,426,605), an interest bearing loan of £5,980,761 owed to BRI UK Finance Limited (31 December 2017: £6,811,559), a balance of £4,415 (31 December 2017: £4,415) relates to group relief owed to RI Income UK Holdings Limited and the remaining balance of £6,125 (31 December 2017: £nil) relates to tax group relief owed by Roskrow Barton.

Amounts owed to group companies are repayable on demand.

10. Leasing agreements

Minimum lease payments fall due as follows:

Group

| | Non-cancellable operating leases | |
|----------------------------|----------------------------------|----------------|
| | 31/12/18 | 31/12/17 |
| | £ | £ |
| Within one year | 23,000 | 23,000 |
| Between one and five years | 92,000 | 92,000 |
| In more than five years | 296,000 | 319,000 |
| | <u>411,000</u> | <u>434,000</u> |

11. Provisions for liabilities

| | Group | |
|---------------------------|----------------|----------------|
| | 31/12/18 | 31/12/17 |
| | £ | £ |
| Other provisions | | |
| Decommissioning provision | <u>172,924</u> | <u>170,000</u> |
| Aggregate amounts | <u>172,924</u> | <u>170,000</u> |

Tranche 2 Holdings Limited

Notes to the Consolidated Financial Statements - continued For The Year Ended 31 December 2018

11. Provisions for liabilities - continued

Group

| | Deferred tax £ | Decommissioning provision £ |
|--|----------------------|-----------------------------------|
| Balance at 1 January 2018 | (604,575) | 170,000 |
| Unwinding of discounted amount | - | 2,924 |
| Charge to Income Statement during year | 244,457 | - |
| Balance at 31 December 2018 | <u>(360,118)</u> | <u>172,924</u> |

12. Off-balance sheet arrangements

The Group enters into operating lease arrangements for the land on which the wind farms are located. The Group's lease rental expense is disclosed in note 5 and the Group commitments under these arrangements are disclosed in note 12. There are no other material off-balance sheet arrangements.

13. Related party disclosures

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

Transactions between group entities which have been eliminated on consolidation are not disclosed within the financial statements.

14. Ultimate controlling party

The ultimate parent undertaking and controlling party in this group is considered to be Renewable Income UK, a sub-fund of Blackrock Infrastructure Funds Public Limited Company, an investment company registered in Ireland which accounts for investments at fair value and does not prepare consolidated financial statements.

The immediate parent company as at 31 December 2018 is RI Income UK Holdings Limited, an investment company registered in England & Wales which accounts for investments at fair value and does not prepare consolidated financial statements. The accounts are available from the registered office at 12 Throgmorton Avenue, London, EC2N 2DL.