

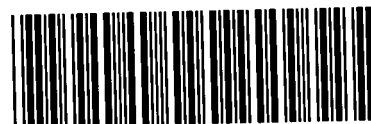
Registration number: 06494525

# DONG Energy West of Duddon Sands (UK) Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

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# **DONG Energy West of Duddon Sands (UK) Limited**

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## **DONG Energy West of Duddon Sands (UK) Limited**

### **Company Information**

<b>Directors</b>	Benjamin Sykes Gavin Rooke Robert Helms
<b>Registered office</b>	5 Howick Place London England SW1P 1WG
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London United Kingdom WC2N 6RH

# **DONG Energy West of Duddon Sands (UK) Limited**

## **Strategic Report for the Year Ended 31 December 2016**

The directors present their strategic report for the year ended 31 December 2016.

### **Strategy**

The principal activity of the Company is the generation of electricity in the UK through the use of offshore wind technology.

The Company's strategy is to maximise the lifetime value of the wind farm through active condition monitoring and maintenance to maintain high levels of availability and production. The Company has a long-term offtake agreement which provides secure revenues from power sales.

### **Objectives**

The Company's strategic objectives are:

- Achieving zero accidents and breaches of environmental standards;
- Maximising energy production through high levels of availability;
- Maintaining long term asset condition and reliability;
- Optimising costs.

### **Principal risks and uncertainties**

The principal risk of the business relates to the ability of the company to run its operations in a financially efficient manner, which is mitigated through meeting its business objectives.

Non-compliance with statutory Health, Safety, and Environment (HSE) obligations is also a principal risk. The Company operates a comprehensive HSE management system, and actively monitors its performance in order to identify and implement improvements.

### **Key Performance Indicators and review of the business**

The Company measures its performance in line with its strategic objectives. Key performance indicators (KPIs) are used to measure progress against agreed targets for safe, responsible and sustainable operations.

The company's key financial and other performance indicators during the year were as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Revenue	94,259,174	220,216,875
Profit on ordinary activities before taxation	35,625,769	16,843,785
Company's net asset position (2015 as restated)	242,538,646	209,256,908

The company's key non-financial performance indicator is wind farm availability. The level of availability is achieved by the company monitoring the effectiveness and efficiency of the wind farm on a regular basis. For the current and prior year the availability was broadly in-line with management's expectation.

**DONG Energy West of Duddon Sands (UK) Limited**

**Strategic Report for the Year Ended 31 December 2016**

**Future outlook**

Commercial generation is expected to continue until the end of the expected economic life of the wind farm, when the assets will be decommissioned.

Approved by the Board on ..... <sup>9/5-17</sup> and signed on its behalf by:



.....  
Benjamin Sykes  
Director

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Directors' Report for the Year Ended 31 December 2016**

The directors present their report and the audited financial statements of DONG Energy West of Duddon Sands (UK) Limited for the year ended 31 December 2016.

#### **Directors of the company**

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

Benjamin Sykes

Gavin Rooke (resigned 6 March 2017)

Robert Helms

The following director was appointed after the year end:

Christopher Cunningham (appointed 6 March 2017)

#### **Principal activity**

The principal activity of the company is the operation of an offshore Wind Farm.

#### **Dividends**

During the year a dividend of £ nil was paid (2015: £ nil). The directors do not recommend a payment of a final dividend (2015: £ nil).

#### **Financial risk**

#### ***Objectives and policies***

The company's operations expose it to a variety of financial risks that include the effects of price risk, liquidity risk, credit risk, cash flow risk and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

Given the size of the company and being part of a larger group with group wide policies and risk management procedures, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Directors' Report for the Year Ended 31 December 2016**

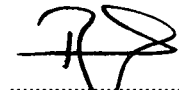
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Reappointment of auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Approved by the Board on .....<sup>9/5-17</sup> and signed on its behalf by:



.....  
Benjamin Sykes  
Director

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Directors' Report for the Year Ended 31 December 2016**

#### ***Price risk, credit risk, liquidity risk and cash flow risk***

##### **Price risk**

The company enters into contractual arrangements, which guarantee fixed revenue for the output of the wind farm. In addition to this, price risk is mitigated through contractual arrangements, by fixing a large part of the company's costs.

##### **Credit risk**

The company's policy seeks to mitigate its credit risks by systematically credit rating counterparties, by using Standard & Poor's and Moody's ratings, financial standard contracts and by requiring collateral. Management have continuously monitored allocated credit lines.

##### **Liquidity risk**

The company utilises appropriately termed finance, which is designed to ensure the company has sufficient funding available for operations.

##### **Cash flow risk**

The company has no long-term debt. The company does however have overdraft balances which carry interest at floating rates. The directors will continue to monitor the appropriateness of this arrangement.

#### **Directors' liabilities**

The Company has in effect directors' indemnity insurance. This is a qualifying third party indemnity provision and was in force during the financial year and at the date of the approval of the financial statements.

#### **Disclosure of information to the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

#### **Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.



## **DONG Energy West of Duddon Sands (UK) Limited**

### **Independent Auditors' Report to the members of DONG Energy West of Duddon Sands (UK) Limited**

#### **Report on the financial statements**

##### **Our opinion**

In our opinion, DONG Energy West of Duddon Sands (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### **What we have audited**

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

##### **Opinion on other matter prescribed by the Companies Act 2006**

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

##### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Independent Auditors' Report to the members of DONG Energy West of Duddon Sands (UK) Limited**

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Statement of directors' responsibilities set out on page 5 and 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

##### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

**DONG Energy West of Duddon Sands (UK) Limited**

**Independent Auditors' Report to the members of DONG Energy West of Duddon Sands  
(UK) Limited**

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Peter Acloque (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

Date: 9 May 2017

## DONG Energy West of Duddon Sands (UK) Limited

### Statement of Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 £	2015 £
Revenue	4	94,259,174	220,216,875
Cost of sales		<u>(35,633,750)</u>	<u>(179,194,491)</u>
Gross profit		58,625,424	41,022,384
Administrative expenses		<u>(12,431,291)</u>	<u>(12,614,257)</u>
Operating profit		<u>46,194,133</u>	<u>28,408,127</u>
Finance income	7	228,675	516,042
Finance expenses	8	<u>(10,797,039)</u>	<u>(12,080,384)</u>
		<u>(10,568,364)</u>	<u>(11,564,342)</u>
Profit on ordinary activities before tax		35,625,769	16,843,785
Tax on profit on ordinary activities	9	<u>185,970</u>	<u>(4,662,788)</u>
Profit for the year		<u>35,811,739</u>	<u>12,180,997</u>
Total comprehensive income for the year		<u>35,811,739</u>	<u>12,180,997</u>

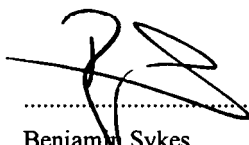
The above results were derived from continuing operations.

**DONG Energy West of Duddon Sands (UK) Limited**  
**(Registration number: 06494525)**  
**Statement of Financial Position as at 31 December 2016**

	Note	2016 £	As restated 2015 £
<b>Fixed assets</b>			
Property, plant and equipment	10	510,550,989	542,455,527
Investments	11	3	3
Deferred tax assets	9	4,426,182	1,044,623
		<u>514,977,174</u>	<u>543,500,153</u>
<b>Current assets</b>			
Trade and other receivables	12	58,097,007	108,771,595
Cash		6,794,880	3,405,202
		<u>64,891,887</u>	<u>112,176,797</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	18	(11,154,593)	(36,169,913)
Other current financial liabilities		(2,442,323)	-
Deferred income	19	(2,532,977)	(6,600,000)
Creditors: Amounts falling due within one year		<u>(16,129,893)</u>	<u>(42,769,913)</u>
Net current assets		<u>48,761,994</u>	<u>69,406,884</u>
Total assets less current liabilities		563,739,168	612,907,037
<b>Creditors: Amounts falling due after more than one year</b>			
Loans and borrowings	15	(300,000,000)	(375,000,000)
Provisions for liabilities	17	(21,200,522)	(28,650,129)
Net assets		<u>242,538,646</u>	<u>209,256,908</u>
<b>Equity</b>			
Share capital	13	8,969,784	8,969,784
Share premium		199,999,800	199,999,800
Other reserves	14	7,670,000	10,200,000
Retained earnings		25,899,062	(9,912,676)
Total shareholders' funds		<u>242,538,646</u>	<u>209,256,908</u>

Refer to note 2 for details of the restatement.

Approved by the Board on 9/5-17 and signed on its behalf by:

  
.....  
Benjamin Sykes  
Director

**DONG Energy West of Duddon Sands (UK) Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2016**

	<b>Called up share capital £</b>	<b>Share premium £</b>	<b>Other reserves £</b>	<b>Retained earnings £</b>	<b>Total £</b>
At 1 January 2016 (As restated - note 2)	8,969,784	199,999,800	10,200,000	(9,912,677)	209,256,907
Profit for the year	-	-	-	35,811,739	35,811,739
Total comprehensive income	-	-	-	35,811,739	35,811,739
Other capital redemption reserve movements	-	-	(2,530,000)	-	(2,530,000)
At 31 December 2016	8,969,784	199,999,800	7,670,000	25,899,062	242,538,646

	<b>Called up share capital £</b>	<b>Share premium £</b>	<b>Other reserves £</b>	<b>Retained earnings £</b>	<b>Total £</b>
At 1 January 2015 (As restated - note 2)	8,969,784	199,999,800	15,800,000	(22,093,673)	202,675,911
Profit for the year	-	-	-	12,180,997	12,180,997
Total comprehensive income	-	-	-	12,180,997	12,180,997
Other capital redemption reserve movements	-	-	(5,600,000)	-	(5,600,000)
At 31 December 2015 (As restated - note 2)	8,969,784	199,999,800	10,200,000	(9,912,676)	209,256,908

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **1 General information**

The company is a private company limited by share capital incorporated and domiciled in United Kingdom.

The address of its registered office is:

5 Howick Place

London

England

SW1P 1WG

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

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

##### **Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006.

The company is a subsidiary of DONG Energy Power (UK) Limited and it is included in the consolidated financial statements of DONG Energy A/S, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **2 Accounting policies (continued)**

##### **Summary of disclosure exemptions**

The company has applied FRS 101 Reduced Disclosure Framework, as it meets the requirements of FRS 101.

The company has taken advantage of the following disclosure exemptions under FRS 101 :

- No disclosure requirements for Financial Instruments (IFRS 7).
- No disclosure requirements for Fair value measurement (IFRS 13 paragraph 91 to 99).
- No requirement to present an opening statement of financial position for qualifying entities adopting FRS101 for the first time (IAS 1); general exemption applied by the company.
- No disclosures have to be made in respect of standards in issue not yet effective (IAS 1); general exemption applied by the company.
- There is no requirement to present capital management disclosures (IAS 1); company is not a financial institution thus has applied the exemption.
- No requirement to prepare a cash flow statement (IAS 7); exemption applied; the company has no minority shareholders.
- No need to present comparative reconciliations for share capital or property, plant and equipment or intangible assets (IAS 1; IAS 16 paragraph 73(e); IAS 38 paragraph 118(e)); exemption applied by the company.
- No disclosure is required of related party transactions with and between wholly owned subsidiaries (IAS 24); company has no minority shareholders.
- No disclosure required of key management personnel compensation, although the directors' remuneration disclosures required by law must be given (IAS 24 paragraph 17). The company has applied this reduced disclosure exemption as the company has no employees (see Note 6 staff costs for details).

##### **Going concern**

The financial statements have been prepared on a going concern basis. In assessing whether the going concern assumption is appropriate, management has taken into account all available information about the future, which is at least 12 months from the date the financial statements were signed.

##### **Restatement**

There have been two adjustments to correct prior period misstatements. The company capitalised £15,800,000 in respect of wake effect. This was erroneously excluded from capitalisation in the cost of the main wind park asset in the company. An adjustment has been posted to increase Property, plant and equipment as at 1 January 2015 by £15,800,000, with a corresponding credit to retained earnings.

Separately, expenses paid in 2013 were incorrectly accrued in subsequent years. As such an adjustment has been posted in the 1 January 2015 balance sheet to reduce accruals by £1,880,000, with a corresponding credit to retained earnings.



## **DONG Energy West of Duddon Sands (UK) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **2 Accounting policies (continued)**

##### **Revenue recognition**

Revenue is recognised in profit (loss) for the year when delivery and transfer of risk to the buyer have taken place and to the extent that the income can be measured reliably and is expected to be received. Revenue is measured at the fair value of the agreed consideration excluding VAT and other indirect taxes collected on behalf of third parties. All forms of discounts granted are recognised as revenue.

Revenue comprises sale of electricity at market prices and regulated prices (fixed tariffs and guaranteed minimum prices for green certificates), which is recognised at the production date.

Revenue generated from the sale of the OFTO asset is recognised on the sale date of the asset at selling price less cost of sale and any other future costs tied to the sale.

##### **Foreign currency transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is recognised in line with the gain or loss of the item that gave rise to the translation difference.

##### **Tax**

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred tax is measured using the balance sheet liability method, providing for all temporary differences between the carrying amounts and the tax base of assets and liabilities.

Deferred tax is measured on the basis of management's planned use of the asset or settlement of the liability respectively. Deferred tax assets are recognised at the value at which they are expected to be utilised either by elimination against tax on future earnings or by offsetting against deferred tax liabilities.

Deferred tax is measured in accordance with the tax rules and tax rates that will apply under the legislation enacted at the balance sheet date when the deferred tax is expected to crystallise in the form of current tax. Changes in deferred tax as a result of changes in tax rates are recognised in profit (loss) for the year.

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **2 Accounting policies (continued)**

##### **Property, plant and equipment**

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of self constructed assets comprises direct and indirect costs of materials, components, sub suppliers and labour. Cost is increased by the present value of the estimated obligations for decommissioning and restoration to the extent that they are recognised as a provision.

Subsequent costs, for example in connection with replacement of parts of an item of property, plant and equipment, are recognised in the carrying amount of the asset in question when it is probable that future economic benefits will flow to the company from the expenses incurred. Replaced parts are derecognised from the balance sheet, and their carrying amount is recognised in profit (loss) for the year. All other repair and maintenance expenses are recognised in profit (loss) for the year as incurred.

##### **Depreciation**

In the case of property, plant and equipment, cost is depreciated on a straight-line basis over the estimated future useful lives, which are:

<b>Asset class</b>	<b>Depreciation method and rate</b>
Wind fram	Straight line method over 20 years
Decommissioning assets	Straight line method over 20 years

##### **Investments**

Investments are stated at historical cost less provision for any diminution in value.

Investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

##### **Receivables' group undertakings relating to cash pooling**

The company is a participant in the group cash pooling arrangement of which DONG Energy A/S is pool master and legal bank account holder. The company has its own sub-accounts from which all transactions are executed. Balances held by the company under this revised arrangement are disclosed within amounts owed by/to group undertakings, representing amounts owed by/to the parent cash pool holder, DONG Energy A/S.

##### **Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **2 Accounting policies (continued)**

##### **Other receivables**

Other receivables are amounts due from various business partners for non-trade transactions during the ordinary course of business. If the receivables collection is expected in one year or less, they are classified as current assets, otherwise they are presented as non-current assets.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise of company bank account facilities.

##### **Trade payables**

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

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Provisions**

###### **General**

Provisions are recognised when, as a result of an event occurring before or at the balance sheet date, the company has a legal or constructive obligation, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits. A provision for onerous contracts is recognised when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

###### **Decommissioning provision**

Decommissioning obligations are measured at the present value of the future liability in respect of decommissioning and restoration as expected at the balance sheet date. The value of the provision is recognised in property, plant and equipment and depreciated together with the associated asset. The increase in time of the present value of the provision is recognised in profit (loss) for the year as financial expenses.

###### **Leases**

Lease payments under operating leases are recognised at cost in profit (loss) for the year over the term of the lease if the agreement concerns operating expenses.

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

##### **Deferred tax**

Deferred tax assets, including the tax base of tax loss carry-forwards, are reassessed annually and recognised to the extent that it is probable that they will be utilised in the foreseeable future. Management's reassessment is based on future outlook of the investment plan and expected revenue generation.

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **3 Critical accounting judgements and key sources of estimation uncertainty (continued)**

##### **Decommissioning Provisions**

Estimates of decommissioning obligations are based on management's expectations concerning timing and scope, future cost level, and adopted laws and regulations on decommissioning. The timing of decommissioning obligations depends on the useful lives of the assets. In determining the discounting of decommissioning obligations at 31 December 2016, a discount rate of 4.5% is applied, the same discount rate that the Company applied at 31 December 2015. The applied discount rate of 4.5% is still expected to be applied over a prolonged period. The rate has been estimated on the basis of expectations concerning the future, long-term interest rate level, based on the historical interest rate level. The extent to which decommissioning and restoration will be required is estimated based on current legislation and standards in this area. Expectations concerning the future cost level are based on variables such as expectations concerning the general price trend, demand conditions and the development in existing technologies.

##### **Useful lives of production assets**

The expected useful lives of production assets are determined based on historical experience and expectations concerning the future use of these assets. The expected future applications may subsequently prove not to be realisable, which may require useful lives to be reassessed.

#### **4 Revenue**

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

All the revenue is generated from one geographical location.

The analysis of the company's revenue for the year from continuing operations is as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Sale of electricity	89,649,693	92,191,615
OFTO revenue	<u>4,609,481</u>	<u>128,025,260</u>
	<u><u>94,259,174</u></u>	<u><u>220,216,875</u></u>

In 2015 the company's self constructed OFTO asset was sold to a third party company.

#### **5 Auditors' remuneration**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Audit of the financial statements	<u><u>13,147</u></u>	<u><u>13,151</u></u>

## DONG Energy West of Duddon Sands (UK) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016

#### 6 Staff costs

There were no (2015: nil) employees during the year. The directors received no (2015: £nil) emoluments during the year, in respect of their services to the company.

The directors were remunerated by other companies within the DONG Energy A/S group for their services to the group as a whole. It is not possible to allocate their remuneration between their services as directors of different group companies.

#### 7 Finance income

	2016 £	2015 £
Bank interest income	11,052	12,455
Interest income on group undertakings	-	885
Forex gains	217,623	502,702
	<u>228,675</u>	<u>516,042</u>

#### 8 Finance expense

	2016 £	2015 £
Interest on bank overdrafts and borrowings	33	3,102
Interest expense on group undertakings	9,704,442	11,139,391
Foreign exchange losses	248,213	-
Unwinding of discount on decommissioning provision	844,351	937,891
	<u>10,797,039</u>	<u>12,080,384</u>

# DONG Energy West of Duddon Sands (UK) Limited

## Notes to the Financial Statements for the Year Ended 31 December 2016

### 9 Income tax

Tax expense/(credited) in the income statement

	2016 £	2015 £
<b>Current taxation</b>		
UK corporation tax adjustment to prior years	3,195,589	2,915,806
<b>Deferred taxation</b>		
Origination and reversal of timing differences	6,096,589	3,659,800
Arising from changes in tax rates and laws	618,987	-
Adjustment in respect of prior years	<u>(10,097,135)</u>	<u>(1,912,818)</u>
Total deferred taxation	<u>(3,381,559)</u>	<u>1,746,982</u>
Tax (receipt)/expense in the income statement	<u><u>(185,970)</u></u>	<u><u>4,662,788</u></u>

The tax expense for the year is lower than the standard rate of corporation tax in the UK (2015 - lower than the standard rate of corporation tax in the UK) of 20% (2015 - 20.25%).

The differences are reconciled below:

	2016 £	2015 £
Profit before tax	<u>35,625,769</u>	<u>16,843,785</u>
Corporation tax at standard rate	7,125,154	3,410,866
Expenses not deductible for tax purposes	47,304	177,161
Remeasurement of deferred tax - change in UK tax rate	(456,882)	71,773
Adjustments to tax charge in respect of prior years	<u>(6,901,546)</u>	<u>1,002,988</u>
Total tax (credit)/expense	<u><u>(185,970)</u></u>	<u><u>4,662,788</u></u>

Factors that might affect future tax charges:

With effect from 1 April 2015, the UK main corporation tax rate changed from 21% to 20%. It has been further announced that the main rate will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. These changes have all been substantively enacted at the reporting date and the deferred tax balance at 31 December 2016 has been recognised at the 17% rate.

# **DONG Energy West of Duddon Sands (UK) Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2016**

### **9 Income tax (continued)**

#### **Deferred tax Asset**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Deferred tax assets	<u>4,426,182</u>	<u>1,044,623</u>

Deferred tax movement during the year:

	<b>At 1 January 2016 £</b>	<b>Recognised in income £</b>	<b>At 31 December 2016 £</b>
Accelerated tax depreciation	(24,552,309)	22,530,983	(2,021,326)
Other items	701,281	249,631	950,912
Tax losses carry-forwards	<u>24,895,651</u>	<u>(19,399,055)</u>	<u>5,496,596</u>
Net tax assets/(liabilities)	<u>1,044,623</u>	<u>3,381,559</u>	<u>4,426,182</u>

Deferred tax movement during the prior year:

	<b>At 1 January 2015 £</b>	<b>Recognised in income £</b>	<b>At 31 December 2015 £</b>
Accelerated tax depreciation	(20,168,341)	(4,383,968)	(24,552,309)
Other items	395,571	305,710	701,281
Tax losses carry-forwards	<u>22,564,374</u>	<u>2,331,277</u>	<u>24,895,651</u>
Net tax assets/(liabilities)	<u>2,791,604</u>	<u>(1,746,981)</u>	<u>1,044,623</u>

## DONG Energy West of Duddon Sands (UK) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016

#### 10 Property, plant and equipment

	Decommissioning Asset £	Wind Farm £	Total £
<b>Cost or valuation</b>			
At 1 January 2016 (As restated)	14,936,245	582,629,063	597,565,308
Decrease in decommissioning estimate	3,456,035	-	3,456,035
Additions	-	9,373,729	9,373,729
Disposals	-	(15,742,438)	(15,742,438)
At 31 December 2016	<u>18,392,280</u>	<u>576,260,354</u>	<u>594,652,634</u>
<b>Accumulated depreciation</b>			
At 1 January 2016	1,932,113	53,177,668	55,109,781
Charge for the year	<u>853,242</u>	<u>28,138,622</u>	<u>28,991,864</u>
At 31 December 2016	<u>2,785,355</u>	<u>81,316,290</u>	<u>84,101,645</u>
<b>Carrying amount</b>			
At 31 December 2015 (As restated)	<u>13,004,132</u>	<u>529,451,395</u>	<u>542,455,527</u>
At 31 December 2016	<u>15,606,925</u>	<u>494,944,064</u>	<u>510,550,989</u>

The depreciation charge for the year of £ 28,991,864 (2015: £29,097,307) is included in cost of sales.

As outlined in note 2, an adjustment was posted to increase wind farm assets by £15,880,000 following understatement of this balance in the 1 January 2015 balance sheet.

#### 11 Investments

	2016 £	2015 £
Investments in subsidiaries	<u>3</u>	<u>3</u>

The directors believe that the carrying value of the investment is supported by the underlying net assets.



## DONG Energy West of Duddon Sands (UK) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016

#### 11 Investments (continued)

<b>Subsidiaries</b>	<b>£</b>
<b>Cost</b>	
At 31 December 2015	3
At 31 December 2016	<u>3</u>
<b>Carrying amount</b>	
At 31 December 2016	<u>3</u>
At 31 December 2015	<u>3</u>

Details of the subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2016	2015
Morecambe Wind Limited	Production and transmission of electricity	England and Wales	50%	50%

#### 12 Trade and other receivables

	2016 £	2015 £
Trade receivables	780,025	3,557,524
Amounts owed by group undertakings	51,590,353	88,624,971
Prepayments	2,706,368	10,159,018
Other receivables	<u>3,020,261</u>	<u>6,430,082</u>
Total current trade and other receivables	<u>58,097,007</u>	<u>108,771,595</u>

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

# DONG Energy West of Duddon Sands (UK) Limited

## Notes to the Financial Statements for the Year Ended 31 December 2016

### 13 Share capital

#### Allotted, called up and fully paid shares

	2016		2015	
	No.	£	No.	£
Ordinary share capital of £1 each	<u>8,969,784</u>	<u>8,969,784</u>	<u>8,969,784</u>	<u>8,969,784</u>

### 14 Other reserves

Other reserves relates to a capital contribution from the company's immediate parent undertaking in the form of settlement of a liability of the company in relation to wake effect. Wake effect relates to compensation the company has to pay another wind farm due to the wake effect caused by the construction of the company's own wind farm.

The reduction in reserves during the year is due to a reduction in the amount of compensation in the final settlement.

### 15 Loans and borrowings

	2016 £	2015 £
<b>Non-current loans and borrowings</b>		
Other borrowings	<u>300,000,000</u>	<u>375,000,000</u>

Included in loans and borrowings is an unsecured loan of £300,000,000 (2015: £375,000,000) which carries interest at LIBOR plus 1.55% (2015: LIBOR plus 1.55%) and is wholly repayable on 16 December 2020.

### 16 Obligations under leases and hire purchase contracts

#### Operating leases

The total future value of minimum lease payments is as follows:

	2016 £	2015 £
Within one year	1,074,500	1,700,000
In two to five years	3,190,000	3,827,000
In over five years	<u>10,367,500</u>	<u>12,166,000</u>
	<u>14,632,000</u>	<u>17,693,000</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £2,037,000 (2015 - £2,127,500). Non-cancellable operating leases relate to the leasing of the seabed and land from which the company operates from and other leases for equipment which the company uses to operate the wind farm.

## DONG Energy West of Duddon Sands (UK) Limited

### Notes to the Financial Statements for the Year Ended 31 December 2016

#### 17 Provisions for liabilities

	<b>Onerous contracts £</b>	<b>Decommissioning £</b>	<b>Total £</b>
At 1 January 2016	11,749,993	16,900,136	28,650,129
Charged to the income statement	-	844,351	844,351
Change in estimates	-	3,456,035	3,456,035
Provisions used	(9,145,415)	-	(9,145,415)
Unused provision released	(2,604,578)	-	(2,604,578)
At 31 December 2016	<u>-</u>	<u>21,200,522</u>	<u>21,200,522</u>

	<b>Onerous contracts £</b>	<b>Decommissioning £</b>	<b>Total £</b>
At 1 January 2015	15,929,813	22,046,000	37,975,813
Charged to the income statement	-	937,891	937,891
Change in estimate	-	(6,083,755)	(6,083,755)
Provision used	(4,179,820)	-	(4,179,820)
At 31 December 2015	<u>11,749,993</u>	<u>16,900,136</u>	<u>28,650,129</u>

The Decommissioning provision has been made under IAS37 for estimated decommissioning costs which are calculated as the present value of estimated decommissioning costs using a discount rate of 4.50% (2015 : 4.50%). Included within fixed assets is an amount of £15,606,925 (2015: £13,004,132) which reflects the company's expectation to recover future decommissioning costs from sales of electricity during 2017 and future years. The decommissioning asset is being depreciated over the expected life of the wind farm.

The onerous contracts provision represents the onerous lease obligation in respect of an agreement with DONG Energy Power (UK) Limited. The obligation was transferred to another company within the group therefore the provision that was not used at the date of transfer is released.

# **DONG Energy West of Duddon Sands (UK) Limited**

## **Notes to the Financial Statements for the Year Ended 31 December 2016**

### **18 Trade and other payables**

	<b>2016</b>	<b>(As restated)</b>
	<b>£</b>	<b>2015</b>
		<b>£</b>
Trade payables	1,316	48,087
Accrued expenses	4,106,861	3,055,269
Amounts owed to group undertakings	4,737,038	32,373,337
Social security and other taxes	113,702	-
Other payables	2,195,676	693,220
	<u>11,154,593</u>	<u>36,169,913</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

As outlined in note 2 an adjustment has been posted to reduce accruals by £1,880,000 following an overstatement of this balance in the 1 January 2015 balance sheet.

### **19 Deferred income**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Deferred income	<u>2,532,977</u>	<u>6,600,000</u>

Deferred income is in respect of the sale of the OFTO asset on 25th August 2015 to WODS Transmission PLC. Agreements between the seller (Participants of the Joint Venture West of Duddon Sands) and the OFTO purchaser were signed committing the Participants to analyse and undertake necessary cable work for which payment was received as part of the OFTO sale consideration. Deferred revenue is recognised at the best estimated costs.

## **DONG Energy West of Duddon Sands (UK) Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2016**

#### **20 Parent and ultimate parent undertaking**

The immediate parent of the company is DONG Energy Power (UK) Limited, a company incorporated in England & Wales, which owns 100 % of the ordinary share capital.

The ultimate parent company is DONG Energy A/S, incorporated in Denmark. The Danish State currently holds 50% of the share capital of DONG Energy A/S (2015: 59%) and therefore the company considers the Danish Ministry of Finance the ultimate controlling party.

The smallest and largest group in which the results of the company are consolidated are those headed by DONG Energy A/S.

The consolidated financial statements of this company are available to the public from:

DONG Energy A/S  
Kraftværksvej 53  
Skærbæk  
7000 Fredericia  
Denmark

#### **21 Related undertaking**

The company's related undertakings as at 31 December 2016 are as follows:

Name	Place of incorporation	Place of operation	Nature of business	Type of holding	Ownership
					interest held by the Company
Morecambe Wind Limited	England & Wales	England & Wales	Production and transmission of electricity	Direct	50%