Registered number
07331890

Thanet OFTO Holdco Limited

Annual Report and Financial Statements

For the year ended 31 March 2020

Thanet OFTO Holdco Limited
Annual Report and Financial Statements
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Thanet OFTO Holdco Limited
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Thanet OFTO Holdco Limited
Operating and financial review

Introduction
Thanet OFTO Holdco Limited ("TOHL") is an investment holding Company whose sole business is the holdings of investments in its wholly owned subsidiaries, Thanet OFTO Intermediate Limited and Thanet OFTO Limited, which together form the Thanet OFTO Group ("the Group").

TOHL's subsidiary Thanet OFTO Limited ("the subsidiary" and "the licensee"), is a holder of an Offshore Electricity Transmission Licence ("the licence") granted under the Electricity Act 1989. The licence was awarded to the subsidiary on 17 December 2015 by The Gas and Electricity Markets Authority ("the Authority").

The ultimate controlling parties of the Group are Balfour Beatty Plc and Equitix Fund III LP. The Group Companies are registered in England and Wales, United Kingdom.

This Operating and financial review explains the operations of the Subsidiary and the main trends and factors underlying the development and performance of the Subsidiary during the period ended 31 March 2019, as well as those matters which are likely to affect its future development and performance. This is because the subsidiary's activities and performance are the principal contribution to the Group's activities and performance. The Subsidiary's principal activity is to provide an electricity transmission service to National Grid Electricity Transmission plc ("NGET") - the electricity transmission system operator for Great Britain. The Subsidiary owns and operates a transmission system that electrically connects an offshore wind farm generator to the onshore transmission system operated by NGET.

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

The Subsidiary holds the Licence, awarded by the Authority on 17 December 2014. The asset was purchased by the use of secured loans and subordinated debt. This Licence, amongst other matters, permits and requires the Subsidiary to maintain and operate the Thanet offshore electricity transmission assets with a revenue entitlement period of 20 periods from the date funds were drawn on 17 December 2014. The Subsidiary's offshore electricity transmission system exports the output of the Thanet wind farm owned by Thanet Offshore Winds Limited (TOWL) to NGET's onshore electricity transmission system.

The Electricity and Gas (Internal Markets) Regulations 2011 require all transmission system operators such as the Subsidiary to be certified as complying with the unbundling requirements of European Parliament Directive concerning common rules for the internal market in electricity ("the third package"). On 17 December 2014, the Subsidiary was issued a certificate pursuant to section 10D of the Electricity Act 1989 by the Authority confirming its compliance with the third package requirements. The Subsidiary has ongoing obligations and is required to make certain ongoing declarations to the Authority to ensure compliance with the terms of the certificate which it has met through to the date of this report.

The Subsidiary's offshore electricity transmission system

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

The Thanet offshore wind farm comprises 100 turbines, with a combined capacity of around 300 megawatts ("MW"), and is located approximately seven nautical miles from North Foreland Point on the Kent coast. The power that is generated by the wind farm is transported to shore by the Subsidiary and connects into the NGET system at Richborough, Kent.

The construction of the Thanet transmission assets was completed in April 2010 and the assets were energised in June 2010. The Thanet transmission assets are all within UK territorial waters. Ramsgate is the nearest port. The transmission assets connect to the distribution system at the Richborough 132kV substation near Sandwich. The onshore distribution licensee is UK Power Networks. The transmission assets for the Thanet wind farm were constructed by Thanet Offshore Wind Ltd ("TOWL"), a wholly owned company of Vattenfall AB ("Vattenfall").

The Subsidiary's long term business objectives

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

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

- meeting its revenue targets by operating the transmission system at availability levels equal to, or higher than, the Licence target;

- adopting and maintaining a financing structure that is, as a minimum, as efficient as that contemplated by the business plan; and

- controlling costs and seeking efficiency improvements.

The Subsidiary's operating model

The Subsidiary's operating model is to outsource all operational and maintenance ("O&M") activities including asset management capability. O&M activities are outsourced to Balfour Beatty Utility Solutions Limited ("BBUS"). Balfour Beatty Investments Limited ("BBI") provides certain financial and management services to the Subsidiary through a Professional Services Agreement ("PSA"). As part of its general asset management responsibilities BBI fulfils the role of an 'informed buyer' to ensure that the outsourced O&M services are of the required quality to ensure that the Subsidiary meets its Licence obligations and complies with good industry practice. The Subsidiary has mitigated the performance risk of its outsourced service providers through the O&M and PSA contract.

With effect from 17 December 2014 the costs incurred by BBI have been recharged to the Company in accordance with the PSA.

The Subsidiary's approach to managing the business

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

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

Principal regulatory, industry contracts and industry code matters

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

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

Licence obligations

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

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

Regulated revenue and incentives

The Licence awarded by the Authority to the Subsidiary determines how much the Subsidiary may charge for the OFTO services that it provides to NGET in any relevant charging period in accordance with a regulatory formula. Each charging period is from 1 April to 31 March. The Licence also provides the Subsidiary with an incentive to ensure that the offshore transmission assets are available to transmit electricity by reference to the actual availability of the Subsidiary's transmission system in any given calendar period versus the regulatory target. The regulatory target availability is 98.31% of the total megawatt hour capacity of the Subsidiary's electricity transmission system (as determined by the Subsidiary's System Capability Statement) in any given charging period, or part thereof.

Transmission charges are based on the actual transmission system availability of 100%, and increase on 1 April following any given period by reference to the average rate of increase in the UK retail price index ("RPI") in the period to the previous December. The revenue derived from charges based on this target availability represents the Subsidiary's "base revenue". For the avoidance of doubt, the Subsidiary's transmission charges are not exposed to commodity risk and are not exposed to any generation risk.

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

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

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

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

In respect of net penalties which are outstanding at the end of the charging period then, in principle, the charges in respect of the following financial period are lowered by an amount that would reduce the charges for that financial period by the amount of the net penalty. However, the reduction in charges can never exceed 10% of the base revenue for that period. To the extent that the cumulative net penalty, if applied, to the Subsidiary's charges would result in those charges being reduced by more than 10% of the base revenue for that period, the excess net penalty is carried forward on a cumulative and notional basis and aggregated with additional credits and penalties arising in the subsequent period. The maximum period that penalties relating to a particular charging period can be carried forward is five periods.

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

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

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

As the end of the 20 period Licence period approaches the agreed regulatory formula relating to the Subsidiary's ability to collect credits as explained above changes. There is an acceleration of the Subsidiary's ability to collect such credits in its invoicing and a corresponding acceleration in the Authority's ability to enforce penalties.

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

Transmission system capability (capacity)

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

Under the terms of the TOCA with NGET, the Subsidiary provides a transmission service on the basis of a declared maximum capacity of the transmission system. The declared maximum capacity for the period 1 April 2019 to 31 March 2020 was 300 MW, (2019: 300 MW). The practical significance of the declared maximum capacity is that the maximum declared capacity of the transmission system determines the maximum MWhr availability of the transmission system for the purpose of comparing with the Subsidiary's actual transmission availability during any performance period – which in turn determines the Subsidiary's performance credits or penalties as described under "Regulated revenue and incentives" earlier in this Operating and Financial Review.

The Subsidiary has provided 100% transmission capacity based on the declared maximum capacity of the transmission system during the performance period April 2019 to March 2020, (2019: 100%) – see "Transmission System Availability" below.

The Subsidiary minimises the risk of unexpected outages (and incurring related performance penalties) or incurring unexpected repair costs by carrying out appropriate maintenance in accordance with good industry practice.

Transmission system quality of supply

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

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

Key performance indicators ("KPIs")

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

	Objective	Result
Financial KPI's		
Profit/(loss) before taxation	To increase [1]	Not Achieved: Profit of £3,478k, (2019: £4,997k)
Cash available for debt service: Net cash inflow from operating activities plus net cash inflow from investing activities	To increase [2]	2020: £14,905k,(2019: £16,392k)
Non- Financial KPI's		
Maximise transmission availability: Making the transmission system available to transmit electricity over the performance period April 2018 to March 2019	To exceed the Licence target availability 98.31%.	Achieved: 2020: 100% (2019: 100%)
Ensure that the quality of electricity at the export connection point is compliant with SQSS and the STC	To meet the standards set by the SQSS and the STC in relation to voltage control, reactive power and harmonic distortion.	Achieved: 2020: Compliant throughout the period. (2019: Achieved)
Health & Safety 1) Zero lost time accidents ("LTIs") for contractors; 2) Zero reportable environmental incidents; 3) Compliance with transferred obligations under GGOWL's Marine Management Organisation ("MMO") Licence.	To have zero health and safety accidents.	Achieved: 2020 no health and safety accidents and fully compliance with MMO licence. (2019: Achieved)

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

2 After adjustment for the initial acquisition cost of the OFTO assets.

The Subsidiary's operational performance

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

In February 2014 the International Standards Organisation (ISO) published the Asset Management standard ISO 55000, this international standard has effectively overtaken and replaced PAS 55. Asset management standardisation is voluntary and although compliance with PAS 55 / ISO 55000 is seen as good practice it has not been universally adopted by leading asset owners.

Transmission system availability

		Performance Period	
		Apr 2019 to Mar 2020	**Apr 2018 to Mar 2019**
	Note		
Maximum system availability (MWhrs)	(a)	2,628,000	2,628,000
Actual system availability (MWhrs)		2,628,000	2,628,000
Actual system availability (%)		100.00%	100.00%
Regulatory target system availability		**98.31%**	**98.31%**
Availability credits/(penalties)			
Opening availability credits / (penalties)		-	-
Net availability (penalties) /credits for the performance period		-	-
Net availability (penalties) / credits at 31 March 2020 (31 March 2019)		**-**	**-**

a) The maximum system availability of the Subsidiary's transmission system as declared to NGET during the performance period..

Quality of supply

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

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

Health, safety, and environmental performance

The Board recognises that the nature of its business requires an exceptional focus on health, safety, and the environment. Safety is critical both to business performance and to the culture of the Subsidiary. The operation of the Subsidiary's assets gives rise to the potential risk that they could injure people and/or damage property if these risks are not properly controlled. Our objective is to eliminate or minimise those risks to achieve zero injuries or harm, and to safeguard members of the general public. The Board is pleased to report that there has been no reportable H&S incidents in this reporting year.

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

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

Stakeholder relationships

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

Principal risks and uncertainties

The principal risks and uncertainties faced by the Subsidiary have been discussed and referenced in the Strategic Report.

Thanet OFTO Holdco Limited
Operating and financial review

The Group's financial performance

Summary:
The financial performance of the Group for the period ended 31 March 2020, and its financial position as at 31 March 2020, was satisfactory and is summarised below. In this report all numbers have been rounded to the nearest £1,000 where each £1,000 is represented by the symbol £k.

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

	2020 £'000s	2019 £'000s
Operating Profit/(loss)	296	2,047
Net finance income	3,182	2,950
Profit/(loss) before taxation	**3,478**	**4,997**
Taxation	(1,222)	(1,070)
Profit/(loss) after taxation	**2,256**	**3,927**

	2020 £'000s	2019 £'000s
Net cash inflow from operating activities and other investing activities	14,905	16,390
Net cash flows used in financing activities	(13,969)	(18,951)
Net cash flows	**936**	**(2,561)**

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

Finance income for the period amounted to £11,759k (2019: £11,970k) and effectively represents the finance income that would have been generated from an efficient stand-alone "transmission owner". The finance income has been recorded in accordance with the principal accounting policies adopted by the Group. A discussion of the critical accounting policies adopted by the Group is shown in the accounting policies section of the financial statements commencing on page 40.

Revenue for the period amounted to £4,620k (2019: £3,541k), and primarily represents the operating income that would be generated by an efficient provider of operating services to NGET, our principal customer. Such services include those activities that result in the efficient and safe operation of the transmission assets, and are reflective of the costs incurred in providing those services, including the cost of insuring those assets on behalf of a stand-alone transmission owner. Revenue has been recorded in accordance with the principal accounting policies adopted by the Group.

Operating costs
Operating costs for the period amounted to £4,324k (2019 : £3,994k).

Operating profit / (loss)
Operating profit being the residual of operating income and operating costs amounted to £296k (2019 : £2,047k profit).

Other finance income
Other finance income of £56k (2019: £53k), relates solely to interest earned on bank deposits.

Finance costs

Finance costs amounted to £8,633k, (2019: £9,073k). Funding was required to acquire the transmission system (Transmission owner asset) from TOWL and the acquisition of the Transmission owner asset took place on 17 December 2014.

The vast majority of the finance costs relates to the interest cost of servicing senior debt holders £6,274k, (2019: £6,458k) and holders of subordinated debt £2,359, (2019: £2,618k). Interest expense and other financial costs arise from the cost of debt used to finance the acquisition of the Transmission owner asset.

Taxation

The net taxation on profit/(loss) before taxation for the period is £1,222k, (2019: £1,070k) and relates solely to deferred taxation. There was no current taxation arising in the period (2019: £nil) as the Group incurred taxable losses.

A taxation credit of £777k, (2019: charge of £660k) has been recognised in other comprehensive income relating to pre-taxation losses arising on marking the Group's cash flow hedges to market at 31 March 2020.

The taxation credit relates solely to deferred taxation as the Group incurred taxable losses during the period. This taxation credit has been computed at 19% (2019: 17%).

Profit/(loss) after taxation

Profit for the period after taxation amounted to £2,256k, (2019:£3,927k).

Cash flows

Net cash flows generated by / (used in) operations amounted to £14,849k (2019 : £16,337k) primarily reflecting the amounts invoiced to and received from NGET in relation to the provision of transmission services from 1 April 2019 through to 31 March 2020 (2019: 1 April 2018 to 31 March 2019) net of cash outflows relating to operating activities incurred during the period of operation from 1 April 2019 through to 31 March 2020.

Net cash flows generated from investing activities amounted to £56k (2019 : £53k).

Cash available for debt servicing defined as net cash flows from operations less (or add) net cash flows used in (or generated from) investing activities (after adjustment for the exclusion of the cost of acquiring the Transmission owner asset) and includes interest income received of £56k (2019 : £53k) amounted to £14,905k (2019 : £16,390k). Net cash used in financing activities amounted to £13,969k (2019 : £18,951k).

Principal payments to senior debt holders during the year amounted to £5,774k (2019 : £4,978k).

Interest payments to senior debt holders during the year amounted to £6,057k (2019 : £6,204k).

Interest payments to subordinated debt holders during the year amounted to £2,140k (2019 : £3,668k).

No corporation tax was paid in the period, due to they carry forward of tax losses.

A dividend of £Nil (2019: £4,101k) was paid in the period.

Statement of Financial Position and consideration of financial management

Going concern

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

Statement of Financial Position

The Group's Statement of Financial Position at 31 March 2020 is summarised below:

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	Assets	Liabilities	Net assets / (liabilities)
	£'000s	**£'000s**	**£'000s**
Non-current Transmission owner asset	159,745	-	159,745
Non-current deferred taxation	979	-	979
Current assets and liabilities less borrowings	20,837	(9,989)	10,848
Total before non-current liabilities	181,561	(9,989)	171,572
Non-current liabilities	-	(184,832)	(184,832)
Totals at 31 March 2020	**181,561**	**(194,821)**	**(13,260)**
Totals at 31 March 2019	**183,937**	**(198,389)**	**(14,452)**

Transmission owner asset and decommissioning

The Transmission owner asset is a financial asset and is carried at the costs incurred, and directly attributable to the acquisition of the Thanet offshore transmission system at the date of acquisition, plus finance income less receipts attributable to the carrying value of that asset. The net result being that the carrying value of the Transmission owner asset reflects the application of the effective interest rate method, and is determined in accordance with the principal accounting policies adopted by the Subsidiary. A discussion of the critical accounting policies adopted by the Group that give rise to this balance is shown in the accounting policies section of the financial statements commencing on page 40.

The Transmission owner asset was acquired on 17 December 2014 from Thanet Offshore Wind Limited. The total costs of acquisition of this asset amounted to £178,954k. The latest estimate of the costs of decommissioning the Transmission owner asset at the end of its economic useful life in 2033 amount to £6,163k. These costs will be incurred from 2033 onwards.

Deferred taxation

The Group has recognised a deferred taxation liability of £3,434k (2019 : £2,215k). which reflects the recognition, in full, of the deferred taxation impact of all temporary differences arising in the period, including taxable losses. This is netted off against a deferred tax asset of £4,413k (2019 : £3,636k) relating to pre-taxation losses arising on marking the Subsidiary's cash flow hedges to market at 31 March 2020.

Net debt

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

At 31 March 2020 net debt stood at £182,620k (2019 : £187,051k).

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

Current funding structure

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

Senior debt is comprised of Senior Term Loan borrowed in equal amounts from five different lenders (Sumitomo Mitsui Banking Corporation (SMBC), Unicredit Bank AG, The Bank Of Tokyo-Mitsubishi UFJ Ltd., Norddeutsche Landesbank Girozentrale and Credit Agricole Corporate and Investment Bank) and bear interest at a margin over LIBOR. All senior debt is serviced on a six monthly basis, the Senior Term Loan is expected to amortise over the life of the project through to December 2033. The total carrying value of the Loans outstanding at 31 March 2020 amounted to £147,991k (2019: £153,547k).

The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the Subsidiary and have certain covenants attached.

The subordinated loan ranks behind the senior debt and is held by Thanet OFTO Intermediate Limited. The subordinated loan was issued on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2020 the total principal carrying value of the subordinated loan outstanding amounted £20,625k (2019: £20,625k).

Ordinary equity share capital amounted to £1,000 at 31 March 2020 (2019: £1,000).

Going concern, liquidity, and treasury management

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

The expected cash in-flows that are likely to accrue to the Subsidiary over the foreseeable future from its electricity transmission operations are highly predictable, and will not fall below a certain level as explained above under “Regulated revenue and incentives”. In addition, NGET, as a condition of its regulatory ring-fence is required to use its reasonable endeavours to maintain an investment grade credit rating and, therefore, the likelihood of payment default by NGET considered to be very low. As at 31 March 2020 there were no sums outstanding from NGET and from 31 March to the date of this report all amounts due from NGET had been received on time.

The Subsidiary enjoys certain protections afforded under the Licence granted to the Subsidiary In particular, provided that the Subsidiary can demonstrate that it has applied good industry practice in the management of the Company and its assets, then in the event that an unforeseeable incident results in the Subsidiary (in so far as it relates to its activities under the Licence) it can apply to the Authority and seek to recover the lost amount.

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

Having incurred two cable breaks during operations in previous years, one offshore and one onshore, the Group is determined they will remain a going concern into the foreseeable future for the following reasons:
a) The Group is able to meet all debt repayments
b) There is a 10% revenue cap meaning the company will continue to receive a revenue stream
c) Insurance recovery and income adjusting claims are in progress
d) There are sufficient cash reserves to meet contractual requirements.

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

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

The hedging arrangements are explained in more detail below under “Hedging arrangements”. In summary the RPI swaps have the impact of effectively converting a proportion of the RPI variable cash flows arising from the Subsidiary’s transmission services activities into a known series of cash flows over the life of the project and the Interest Rate swaps are minimising the risk of changing LIBOR in connection with Senior debt interest payments.

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

The Subsidiary also has access to a liquidity facility of £3,300k (2019: £3,300k) that the Subsidiary can access in the event that it has an insurable or income adjusting event.

Credit rating

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

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

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

On-going funding requirements

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

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

Surplus funds

The Group invests surplus funds in term deposits with banks that have a short term senior debt rating of at least A-1 or better issued by Standard & Poor's, or P-1 or better issued by Moody's. At 31 March 2020, the Group had £nil (2019: £nil) on deposit of which £nil (2019: £nil) was held in bank accounts that restrict the use of the monies contained in those accounts for specific purposes. Cash and cash equivalents include amounts of £9,711k (2019 :£9,845k) that the Group can only use for special purposes and with the consent of the Group lenders. The Common Terms Agreement ("CTA") defines the requirements to transfer in and withdraw funds from these accounts. If the request is not defined in the CTA the consent of the Group's lenders is required prior to use, but is held for general corporate purposes. A description of the restrictions applied to certain deposits and other matters are referred to below under "Lending covenants and other restrictions".

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

Hedging arrangements

General

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

Interest Rate swaps

The Subsidiary has entered into five arrangements with third parties for the purpose of minimising the risk of changing LIBOR regarding the Senior Term Loan interest payments with the final payment date expected on 16 December 2033. This arrangement meets the definition of a derivative financial instrument. The period covered by these arrangements closely matches the period over which the Subsidiary enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the majority of cash flows from the project are expected to be generated.

RPI swaps

The Subsidiary has entered into four arrangements with third parties for the purpose of exchanging the majority (approximately 63.5%) of variable cash inflows arising from the electricity transmission service it provides to NGET in exchange for a pre-determined stream of cash inflows with the final payment date expected on 16 December 2033. This arrangement meets the definition of a derivative financial instrument. The period covered by these arrangements closely matches the period over which the Subsidiary enjoys exclusive rights to operate the offshore transmission system under the Licence, and closely reflects the period over which the majority of cash flows from the project are expected to be generated.

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

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

The carrying value of the RPI swaps liability at 31 March 2020 was £2,961k (2019: £7,343k) and the Interest Rate swaps liability at 31 March 2020 was £20,266k (2019: £14,043k). A corresponding entry has been recorded in the Statement of other comprehensive income.

Lending covenants and other restrictions

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

1) The Subsidiary is required to operate on the basis of a financial plan while the lending agreements are in place (20 periods) which the Security Trustee has approved and subject to certain allowances; any deviation from that plan requires the approval of the Security Trustee. The financial plan is refreshed on a six monthly basis and revised on an annual basis as required;

2) The Subsidiary is required to deliver financial and other information at specified intervals (typically six monthly) to the Security Trustee;

3) The lending agreements specify the bank accounts that the Subsidiary is permitted to operate and in addition, restrict the way in which those accounts should be operated – this includes, in respect of certain accounts, requiring those accounts to be funded for specific purposes and only allowing access to those accounts for that specified purpose. With the exception of one bank account, all withdrawals from bank accounts require the consent of the Security Trustee;

4) The Subsidiary is required to maintain certain financial ratios (both historical and forward looking) in respect of debt service cover; loan life cover; and in respect of incremental investments it cannot exceed a specified gearing ratio;

5)The Subsidiary is restricted under the lending agreements as to its ability to invest its surplus funds such that it is only permitted to invest those surplus funds in investments with maturities that are allowed under the terms of those agreements. Typically this results in the Group investing in term deposits with maturities not exceeding six months;

6)The Subsidiary is required to maintain adequate insurances at all times;

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

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

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

Accounting policies

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

Presentation of financial statements

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

In the Income Statement the Subsidiary presents a sub-total of operating profit, being the total of operating income and operating costs.

Financial Instruments

The Group has elected to apply hedge accounting to its derivative financial instruments, where it is allowable under the relevant standards.

Critical accounting policies

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

A discussion of critical accounting policies is contained within the accounting policies section of the financial statements together with a discussion of those policies that require particularly complex or subjective decisions or assessments. The accounting policies section of the financial statements commences on page 40.

Thanet OFTO Holdco Limited
Registered number: 07331890
Strategic Report

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

Principal activities and business review

A full description of the Group’s principal activities, business, and principal risks, and uncertainties is contained in the Operating and Financial Review on pages 2 to 18, which are incorporated by reference into this report.

No change in the Group’s activities is anticipated.

Long Term Strategy

As per the Operating and Financial Review the Group’s long-term non-financial objectives are to ensure compliance with the Licence, industry codes and legislation and to operate and maintain the transmission system in accordance with good industry practice. The long-term financial objective is to provide returns to shareholders consistent with, or in excess of, the business plan that supported the tender offer for the Thanet offshore transmission system.

Material interests in shares

Thanet OFTO Holdco Limited is a an Investment holding company whose sole business is the holdings of investments in its wholly owned subsidiaries, Thanet OFTO intermediate Limited and Thanet OFTO Limited, which together form the Thanet OFTO Group ("the Group").

Review of the business

The results for the year are set out on page 30. The result for the period after taxation amounted to £2,256k (2019 : £3,927k). The Directors expect the Group to continue its opertations for the foreseeable future.

The net liabilities position of the Group as at 31 March 2020 is £13,260k (2019 : £14,452k). The financial position of the Group as at the year end is in-line with the Directors' expectations and as per the Statement of Financial Position on page 32.

Key Performance Indicators

The Group has set specific business objectives, which are monitored using key performance indicators (“KPIs”). The relevant KPIs for this report are detailed below and in the Operating and Financial Review report on page 7.

	2020	**2019**
	£'000	**£'000**
Profit/(Loss) before taxation	3,478	4,997
Cash available for debt service	14,905	16,392

Profit before tax has decreased in 2020 compared to 2019 due to the recognition of a £2,500k recovery from the Developer (Vattenfall) during 2019 related to the 2015 cable fault. This was subsequent to a £2,053k of cable repair cost under recovery from insurers within Operating Costs in 2018.

Cash available for debt service is defined as net cash inflow from operating activities plus net cash inflow from investing activities. There was an decrease in cash available for debt service in 2020 due to the timing of cash receipts/payments in respect of the insurance transactions noted above.

Key Performance Indicators (continued)

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

Principal risks and uncertainties

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

Financial risks

Credit and cash flow risks to the Group arise from its client, NGET. The credit and cash flow risks are not considered significant as the client as a quasi governmental organisation.

Contractual relationships

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

Liquidity risk

The Group adopts a prudent approach to liquidity management by maintaining sufficient liquid resources to meet its obligations. Due to the nature of the project, cash flows are reasonably predictable and so this is not a major risk area for the Group.

Interest rate risk

The financial risk management objective of the Group is to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2015 and 2048 for notional principal amounts equating to the full value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

Brexit

The Directors have considered the potential consequences to the Group of the United Kingdom leaving the European Union and, as at the date of signing this report, do not anticipate that this will have a significant impact on the Group. This is primarily because the Group's contractual agreements, including those which cover its financing, are unlikely to be affected.

COVID-19

The Directors have considered the potential impacts on the Group of the COVID-19 emergency and, as at the date of signing the report, do not anticipate that this will have a significant impact on the Group’s ability to continue as a going concern.

The Directors expect that NGET will continue to make payments in accordance with the Licence, and, as a result, the cash flows of Thanet OFTO Limited, and therefore of the Group, are unlikely to be affected. Additionally, the Directors have considered the contingency plans that the Group’s supply chain has in place and considers that, taking account of reasonably possible counterparty performance, this will enable services to be maintained.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Financial Position

The financial position at year-end is in line with the Directors' expectations and can be found on page 32.

Climat Change

Management has assessed the potential impact of climate change on the business and, in particular, on the ability of the Group to safely maintain asset availability in future years, and has determined that there is unlikely to be a material impact.

Future Developments

There has been no indication of any significant future developments in the business.

This report was approved by the board on 29th July 2020 and signed by its order.

Nathan John Wakefield
Director

Directors' Report

The Directors present their Report together with the audited financial statements for the year ended 31 March 2020.

The following information has been disclosed in the Group strategic report:

- Principal activities and business review
- Indication of likely future developments in the business
- Key performance indicators
- Principal risks and uncertainties
- The use of financial instruments

Returns and dividends

The Group recorded a profit for the year after taxation of £2,256k (2019 : £3,927k).

No dividend was paid during the year (2019 : £4,101k).

Share Capital

The issued share capital of the Company at 31 March 2020 was £1,000 consisting of 1,000 ordinary shares of £1 each.

Directors

The Directors serving throughout the year and subsequently (unless otherwise indicated) were:

Rebecca Collins (resigned 1 May 2020)
Brian Roland Walker
John Sinclair
Nathan John Wakefield
Paul Ellis Gill (appointed 1 May 2020)

No Director has any interest in the issued share capital of the Group or the Group's parent undertaking.

Donations and research and development

No charitable or political donations were made during the year (2019 : £nil) and expenditure on research and development activities was £nil (2019 : £nil).

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 16 to 18 in the Operating and financial review.

Going concern

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

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

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

Employee involvement

The Group does not have any employees, and does not expect to engage any employees in the foreseeable future – see "The Subsidiary's Operating Model" in the Operating and financial review on page 3.

Supplier payment policy
The Groups's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of and abide by the terms of the payment. Trade creditors of the Group at 31 March 2020 were equivalent to 13 (2019 : 18) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Company Information
Thanet OFTO Holdco Limited is incorporated in Great Britain, registered in England and Wales and domiciled in the United Kingdom.

Company Secretary and Registered Office
The Company Secretary is Saiema Ibrahim. The registered address is 6th Floor, 350 Euston Road, Regent's Place, London, NW1 3AX.

Provision of Information to the Auditor
Each of the persons who is a Director at the date of approval of this report confirms that:

(i) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(ii) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board on 29th July 2020 and signed by its order.

Nathan John Wakefield
Director

Corporate governance statement

The Group is required by its Licence obligations to include within its financial statements a corporate governance statement which describes how the principles of good corporate governance have been applied and which has the same content as the statement a listed Group is required to prepare.

Appointments to the Board of Directors of TOHL and its subsidiary undertakings are governed by a shareholders' agreement ("the Agreement") between the two shareholders of TOHL that jointly control this Group through a common class of ordinary shares, Balfour Beatty OFTO Holdco Limited and Equitix Transmission 3 Limited. The Agreement requires that all Boards within the Group must comprise four Directors, with two Directors appointed by each shareholder. Consequent upon these arrangements between the shareholders, no Group Company has a nomination committee and the performance of the Boards is not evaluated.

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

TOHL

Meetings of the Board of TOHL

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

Audit committee

The Company does not have an internal audit function or Audit Committee as the Directors have concluded that the cost of such a functions would be disproportionate to the benefits. Duties normally fulfilled by an Audit Committee are fulfilled by the board and include the following.

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

b) reviewing the economy, efficiency and effectiveness of the Company's operations and internal controls, the reliability and integrity of information and accounting systems, and the implementation of established policies and procedures;

c) reviewing and approving the internal control and risk management policies applicable to the Company;

d) maintaining an appropriate relationship with the external auditor; and

e) ensuring that audit objectivity and independence is maintained.

The Group

Board and management meetings

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

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

Directors and their attendance at Company Board meetings

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

Rebecca Collins	2 of 4
Brian Roland Walker	3 of 4
Nathan John Wakefield	4 of 4
John Sinclair	4 of 4

Compliance committee

The Group has a Compliance Committee. The Compliance Committee is a permanent internal body having an informative and consultative role to fulfil the compliance requirements of the Licence, without executive functions, with powers of information, assessment, and presentations to the Board. Following consultation with the Gas and Electricity Markets Authority, on 17 December 2015 the Board appointed Henderson Loggie as Compliance Officer. Henderson Loggie is not engaged in the management or operation of the Company's Licensed transmission business system, or the activities of any associated business. The Compliance Officer is required to report to the Compliance Committee and the Boards of the Group at least once annually.

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

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

Rebecca Collins	2 of 2
John Sinclair	2 of 2

The compliance committee met in July 2019 to receive the compliance report for the year ended 31 March 2020 from the compliance officer and in turn produced a report approved by the Board.

Compliance statement

The Subsidiary has published a compliance statement and code of conduct "Separation and Independence of the Transmission Business Compliance Statement" (copy available from http://thanetofto.co.uk) at addresses how the Group has addressed its Licence obligations.

Health, Safety and Environment

The Board recognises that the nature of the Group's business requires an exceptional focus on health, safety and the environment (HSE). The OFTO General Manager provides the Board with a monthly report that shows HSE performance through the month and year to date. In addition, the monitoring of HSE issues relating to the OFTO has been kept under routine review as part of the monthly Economic Infrastructure Support Services meetings, chaired by Brian Walker, the OFTO's HSE Director.

The OFTO is also part of an HSE forum with some other OFTOs to provide a mechanism for sharing and learning. The HSE Forum meets quarterly.

This report was approved by the board on 29th July 2020 and signed by its order.

Nathan John Wakefield
Director

Statement of Directors' responsibility in respect of the Strategic report, the Directors report and the Financial Statements

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

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

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

•select suitable accounting policies and then apply them consistently;

•make judgements and estimates that are reasonable, relevant and reliable and prudent;

•state whether they have been prepared in accordance with IFRSs as adopted by the EU;

•assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

•use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

Independent auditors' report
to the members of Thanet OFTO Holdco Limited

We have audited the financial statements of Thanet OFTO Holdco Limited ("the company") for the year ended 31 March 2020 which comprise the Group Income statement, the Statement of Financial Position, the Group Statement of Comprehensive Income, the Statement of Changes in Equity, the Consolidated Statement of Cash flows, and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

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

Going Concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Other information
The directors are responsible for the other information, which comprises the strategic report, the directors' report and operational and financial review. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

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

Matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept 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.

We have nothing to report in these respects.

Independent auditors' report
to the members of Thanet OFTO Holdco Limited

Directors' responsibilities
As explained more fully in their statement set out on page 27, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and 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 they 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
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

29/07/2020

Thanet OFTO Holdco Limited
Registered number: 07331890
Group Income Statement
for the year ended 31 March 2020

	Notes	2020 £'000s	2019 £'000s
Revenue	3	4,620	3,541
Other operating income	4	-	2,500
Other operating expenses	4	(4,324)	(3,994)
Operating profit		**296**	**2,047**
Financial Income	5	11,815	12,023
Financial expenses	5	(8,633)	(9,073)
Profit before taxation		**3,478**	**4,997**
Taxation	6	(1,222)	(1,070)
Profit for the year		**2,256**	**3,927**

The notes on pages 35 to 57 form part of these financial statements.

The results reported above relate to continuing operations.

Thanet OFTO Holdco Limited
Registered number: 07331890
Group Statement of comprehensive income
for the year ended 31 March 2020

	Notes	2020 £'000s	2019 £'000s
Profit for the financial year		2,256	3,927
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in FV of cash flow hedges	13	(1,841)	(3,883)
Deferred taxation arising on cash flow hedges	6	777	660
Total other comprehensive loss		**(1,064)**	**(3,223)**
Total comprehensive profit for the year		**1,192**	**704**

Thanet OFTO Holdco Limited
Registered number: 07331890
Statement of Financial Position
as at 31 March 2020

				COMPANY	
	Notes	**2020 £'000s**	**2019 £'000s**	**2020 £'000s**	**2019 £'000s**
Non-current assets					
Investment	7	-	-	1	1
Transmission owner asset	8	159,745	168,966	-	-
Deferred taxation asset	9	979	1,421	-	-
Total non-current assets		**160,724**	**170,387**	**1**	**1**
Current assets					
Trade and other receivables		456	343	-	-
Transmission owner asset	8	9,600	3,362	-	-
Cash and cash equivalents	10	10,781	9,845	-	-
Total Current Assets		**20,837**	**13,550**	**-**	**-**
Total Assets		**181,561**	**183,937**	**1**	**1**
Current Liabilities					
Borrowings	11	(8,569)	(7,113)	-	-
Trade and other payables	12	(1,420)	(1,493)	-	-
Total current liabilities		**(9,989)**	**(8,606)**	**-**	**-**
Non-current liabilities					
Borrowings	11	(161,605)	(168,397)	-	-
Derivative financial liabilities	13	(23,227)	(21,386)	-	-
Total non-current liabilities		**(184,832)**	**(189,783)**	**-**	**-**
Total Liabilities		**(194,821)**	**(198,389)**	**-**	**-**
Net Liabilities		**(13,260)**	**(14,452)**	**1**	**1**
Equity					
Called up share capital	14	1	1	1	1
Cash flow hedge reserve		(18,813)	(17,749)	-	-
Retained earnings		5,552	3,296	-	-
Total equity		**(13,260)**	**(14,452)**	**1**	**1**

These financial statements, comprising the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash flow Statement, accounting policies, and notes to the financial statements, on pages 35 to 57 were approved by the Board of Directors on 29th July 2020 and were signed on its behalf by:

Nathan John Wakefield
Director
Approved by the board on 29th July 2020

Thanet OFTO Holdco Limited
Registered number: 07331890
Statement of Changes in Equity
for the year ended 31 March 2020

	Note	Share capital £000's	Cash flow Hedge Reserve £'000s	Retained Earnings £'000s	Total Equity £'000s
At 1 April 2018		**1**	**(14,526)**	**3,470**	**(11,055)**
Profit or loss		-	-	3,927	3,927
Cash flow hedge movements in the year		-	(3,883)	-	(3,883)
Deferred taxation on cashflow hedge movements in the year			660	-	660
Total comprehensive income (loss)		**-**	**(3,223)**	**3,927**	**704**
Dividends		-	-	(4,101)	(4,101)
At 31 March 2019		**1**	**(17,749)**	**3,296**	**(14,452)**
At 1 April 2019		**1**	**(17,749)**	**3,296**	**(14,452)**
Profit or loss		-	-	2,256	2,256
Cash flow hedge movements in the year		-	(1,841)	-	(1,841)
Deferred taxation on cashflow hedge movements in the year			777	-	777
Total comprehensive income (loss)		**-**	**(1,064)**	**2,256**	**1,192**
Dividends	14	-	-	-	-
At 31 March 2020		**1**	**(18,813)**	**5,552**	**(13,260)**

COMPANY	Note	Share capital 000's	Cash flow Hedge Reserve £'000s	Retained Earnings £'000s	Total Equity £'000s
At 1 April 2018		1	-	-	1
Profit for the year		-	-	4,101	4,101
Dividends		-	-	(4,101)	(4,101)
At 31 March 2019		**1**	**-**	**-**	**1**
At 1 April 2019		1	-	-	1
Profit for the year		-	-	4,101	4,101
Dividends	14	-	-	(4,101)	(4,101)
At 31 March 2020		**1**	**-**	**-**	**1**

Thanet OFTO Holdco Limited

Consolidated Statement of Cash Flows
for the year ended 31 March 2020

	Notes	GROUP 2020 £'000s	GROUP 2019 £'000s	COMPANY 2020 £'000s	COMPANY 2019 £'000s
Cash flows from operating activities					
Profit for the year		2,256	3,927	-	4,101
Adjustments for:					
Taxation	6	1,222	1,070	-	-
Investment Income	14	-	-	-	(4,101)
Financial income	5	(11,815)	(12,023)	-	-
Financial expense	5	8,633	9,073	-	-
		296	2,047	-	-
Income recognised in respect of financial asset	7	14,741	15,344		
Decrease/(increase) in trade and other receivables		(114)	388	-	-
(Decrease)/increase in trade and other payables		(74)	(1,442)	-	-
		14,553	14,290	-	-
Net cash flows generated from operating activities		**14,849**	**16,337**	**-**	**-**
Cash flows from investing activities					
Dividends from investment undertakings	14	-	-	-	4,101
Interest received	5	56	53	-	-
Net cash flow generated from investing activities		**56**	**53**	**-**	**4,101**
Cash flows from financing activities					
Equity dividends paid	14	-	(4,101)	-	(4,101)
Interest Paid		(13,969)	(9,872)		
Repayment of senior debt		-	(4,978)	-	-
Net cash used in financing activities		**(13,969)**	**(18,951)**	**-**	**(4,101)**
Net increase/(decrease) in cash flow		**936**	**(2,561)**	**-**	**-**
Cash as at 1 April	9	9,845	12,406	-	-
Cash as at 31 March	9	**10,781**	**9,845**	**-**	**-**

1 Summary of significant accounting policies

Thanet OFTO Holdco Limited (company registration number: 07331890) is a company incorporated, domiciled and registered in the UK. Registered office: 6th Floor Balfour Beatty Investments Limited, 350 Euston Road, Regents Place, London, United Kingdom, NW1 3AX.

A Basis of preparation

These financial statements have been prepared in accordance with standard condition E2 of the licence and IFRS as issued by the IASB and as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for the year ended 31 March 2020, and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments. The financial statements are presented in pounds sterling, which is the functional currency of the Company and are rounded to the nearest £1,000.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates, as referred in section K, Critical accounting judgements, key assumptions and sources of estimation uncertainty on page 40 - 41.

The Group financial statements consolidate the financial statements of Thanet OFTO Holdco Limited and its subsidiaries Thanet OFTO Intermediate Limited and Thanet OFTO Plc drawn up to 31 March 2020. All inter-Company balances, transactions and profits are eliminated on consolidation. No profit and loss account is presented for the parent Company, as permitted by section 408 of the Companies Act 2006. The parent Company recorded a profit for the year after taxation of £Nil (2019: £4,101).

B Going Concern

The Group's business activities, together with the factors likely to affect its future developments and position, are set out in the Operating and Financial Review, Strategic Report and the Directors' Report.

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Company has net liabilities of £13,260k as at 31 March 2020, which are due to the cash flow hedge accounting of the interest rate and RPI swaps, which will unwind over the term of the bank loan and concession with no intention to close them out early. The directors have reviewed the Company's forecasts and projections, taking into account future cash requirements and forecast receipts, which show that the Company can continue to meet its debts as they fall due.

The current economic conditions create some general uncertainty. The Directors have reviewed the Group's supply chain and do not believe that any specific risk has been identified. The Directors have also considered the ability of the Authorities to continue to pay unitary fees due under the concession contract to the Company's Subsidiary and do not consider this to be a material risk. The Group's forecasts and projections, taking account of reasonably possible counterparty performance, show the Group expects to be able to continue to operate for the full term of the concession. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

B Going Concern (continued)

The Directors have prepared cash flow forecasts covering a period of 14 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Licence.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

The Company's operating cash inflows are largely dependent on transmission service receipts from National Grid Electricity Transmission plc ("NGET") in its capacity as National Electricity Transmission System Operator ("NETSO"). NETSO is a statutory role granted by the Secretary of State. The regulatory regime concerning the insolvency of the NETSO/NGET and the strength of the underlying covenant is governed by the Energy Act 2004. NGET's transmission Licence which contains certain conditions. These include:

- Prohibiting NGET from carrying on activities other than those permitted by its licence;
- Requiring that the business of NGET has sufficient managerial and financial resources available to it to conduct licenced activities;
- Requiring NGET to maintain an investment grade issuer credit rating;
- Prohibiting the creation of 'cross-default' obligations; and
- Prohibiting NGET from giving or receiving any cross-subsidy from any other group business.

The Directors expect transmission revenues to be received even in reasonably possible downside scenarios.

Throughout the COVID-19 pandemic NGET has continued to pay for the transmission services in full and in a timely manner.

The Group continues to provide the asset in accordance with the Licence and has achieved availability levels in line with expectations. As a result, the Directors do not believe there is any likelihood of a material impact to its revenue stream.

The Directors have assessed the viability of its main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Group, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Group or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, the Group has its own business continuity plans to ensure that service provision will continue.

The Directors believe the Group has sufficient funding in place and expects the Group to be in compliance with its debt covenants even in downside scenarios.

Consequently, the Directors are confident that the Group and the Company will have sufficient funds to continue to meet its liabilities as they fall due for 14 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The Group is in a net liabilities position as at 31 March 2020 due to the fair value of the interest rate swaps. The directors have reviewed the Group's forecasts and projections, taking into account future cash requirements and forecast receipts, which show that the Group can continue to meet its debts as they fall due.

C Transmission availability arrangements

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

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

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

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

A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12. The Transmission owner asset includes: the cost of acquiring the Transmission network asset from the constructor of the network; and those costs incurred that are directly attributable to the acquisition of the transmission network. Decommissioning costs will be a service provided at the end of the contract under the terms of the contract and were factored into the pricing of the contract, as such they have been treated as a revenue generating activity under IFRIC 12 and costs will therefore be recognised as incurred, as opposed to being under the scope of IAS 37. The Transmission Owner asset has been classified as a financial asset and is accounted for as described below – see D – Financial Instruments.

In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways:
• as an adjustment to the carrying value of the Transmission owner asset – see D. Financial Instruments below;
• as finance income - see H. Operating and finance income below;
• as operating income - see H. Operating and finance income below.

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

D Financial instruments

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Senior secured loans are initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Secured subordinated debt is initially stated at the amount of the net proceeds after deduction of related issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in that period.

Cash and cash equivalents comprise cash balances and call deposits.

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

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

Borrowings, which include fixed interest-bearing debt, are recorded at their carrying value which reflects the proceeds received, net of direct issue costs. Derivative financial instruments are recorded at fair value, and where the fair value of a derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. Gains and losses arising from the changes in fair value are included in other comprehensive income in the period they arise.

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

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

E Hedge Accounting

Cash Flow Hedges

The Group has entered into an arrangement with third parties that is designed to hedge future cash receipts arising from its activities as a provider of transmission availability services (RPI swaps) and to minimise the risk of changing LIBOR in connection with the Senior Term loan interest payments (Interest Rate swaps). The Group has designated that this arrangement is a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility on the Group's net cash flows.

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

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

F Impairment of assets

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

G Income taxation

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

Taxation

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

Deferred Taxation

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

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

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

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

H Operating and finance income

General

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

Operating income

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

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

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

J Investments
Investments as detailed in note 7 are stated at cost less impairment (if any).

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

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

Judgements
i) Transmission availability arrangements – income and related asset recognition
The Directors after due enquiry have identified that the characteristics of the regulatory, legal and contractual arrangements that give rise to transmission availability charges are consistent with the principles contained within IFRIC 12. Consequently, the accounting for charges made by the Group for transmission network availability is consistent with that interpretation.

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

a. A Transmission owner asset has been recognised at cost in accordance with the principles of IFRIC 12; and

b. In accordance with IFRIC 12, transmission availability charges are recognised in the financial statements in three ways: as finance income, as operating income and as an adjustment to the carrying value of the Transmission owner asset.

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

The Subsidiary has determined that the Transmission owner asset will be recovered over a period of 20 years from the date of Licence grant (17 December 2014) – being the principal period over which the Subsidiary is permitted to levy charges for transmission availability. This assumption has the effect of determining the amount of finance income and carrying value of the Transmission owner asset that is recognised in any one year over the life of the project.

K Critical accounting judgements, key assumptions and sources of estimation uncertainty (continued)

Estimates

ii) Operating and finance income

Operating income

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

Finance income

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

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

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

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

The Group’s derivative financial instruments currently meet the stringent hedge accounting criteria under IFRS and all movements in fair value of these instruments have been recognised in other comprehensive income. If these hedging criteria had not have been met these movements would have been recognised in the Income Statement. As referred to above, the Group carries its derivative financial instruments in its Statement of Financial Position at fair value. No market prices are available for these instruments and consequently the fair values are derived using financial models developed by a third party that is independent of the Group, but use observable market data in respect of RPI and interest rates as an input to valuing those derivative financial instruments.

L Accounting developments

i) Accounting standards as applied to these financial statements

The Company has adopted the following IFRSs in these financial statements, with no significant impact on the financial statements as a result:

• IFRS 16 Leases (effective date 1 April 2019).

· IFRS 16 'Leases'

From 1 April 2019 the Company has adopted IFRS 16 Leases which replaces IAS 17 Leases and eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single lessee accounting model. The Company has assessed the impact of adopting this new standard and no amounts on the Balance Sheet need to be restated as a result.

2 Operating segment

The Board of Directors is the Group's chief operating decision-making body. The Board of Directors has determined that there is only one operating segment - electricity transmission. The Board of Directors evaluates the performance of this segment on the basis of profit before and after taxation, and cash available for debt service (net cash inflows from operating activities less net cash flow used in investing activities). The Company and segmental results, Statement of Financial Position and relevant cash flows can be seen in the Income Statement, the Statement of Financial Position and cash flow statement on pages 30, 32 and 34 respectively. Additional notes relating to the Company and segment are shown in the notes to the financial statements on pages 35 to 57.

The electricity transmission operation of the Company comprises the transmission of electricity from a wind farm located approximately seven nautical miles from North Foreland Point on the Kent coast and then connecting directly into the national grid at the Richborough 132kV substation near Sandwich.

All of the Group's sales and operations take place in the UK and its territorial waters.

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

3 Revenue

Revenue of £4,620k, (2019 : £3,541k) relates primarily to the Subsidiary's activity as a provider of electricity transmission services to the Company's principal customer - NGET. The vast majority of the Subsidiary's income is derived from NGET.

4 Other operating income and expenses

Other operating income	**2020**	**2019**
	£'000s	**£'000s**
Cable repair settlement	-	2,500
Total	**-**	**2,500**

Other operating income of £2,500k in 2019 related to the final settlement received from the windfarm developer (Thanet Offshore Wind Limited “TOWL”) in relation to the £3m insurance deductible that was incurred by the OFTO in repairing this cable fault in 2018.

Other operating expenses	**2020**	**2019**
	£'000s	**£'000s**
Total	**4,324**	**3,994**

Other operating expenses includes auditor remuneration, which comprises:		
Auditor remuneration (1)	21	18
Audit-related assurance services (2)	15	15
Total	36	33

1. These represent fees in respect of the statutory audit.

2. These represent fees payable for services by the auditor as per the Licence.

Fees payable for the audit of these Financial Statements were £21k to KPMG LLP (2019 : £18k payable to KPMG LLP). Fees payable to the Company's auditor in respect of services in relation to engagements performed as per the License were £15k to KPMG LLP (2019 : £15k).

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

5 Finance Income

Net interest income and expense is as tabulated below:

	2020 £'000s	2019 £'000s
Interest income		
Interest on bank accounts and deposits	56	53
Financial income	11,759	11,970
	11,815	**12,023**
Interest expense and other financial costs		
Interest on senior debt	(6,274)	(6,458)
Interest on subordinated debt	(2,359)	(2,618)
Other financial costs	-	3
	(8,633)	**(9,073)**
	3,182	**2,950**

6 Taxation

a) Taxation on items included in the Income Statement

The net taxation for the year is £1,222k (2019 : £1,070k), and the composition of that credit is shown in the table below.

The taxation credit on current year profits arising in the year represents deferred taxation, and has been computed at 19% (2019 : 17%). There is no current taxation included in the Income Statement (2019 : £nil).

The taxation credit for the year differs from the standard rate of corporation tax in the UK of 19% (2019 : 19%) for the reasons outlined below:

	2020 £'000s	2019 £'000s
Profit before taxation	3,478	4,997
Taxation at 19% (2019 : 19%) on profit/(loss) before taxation	661	949
Effects of:		
partial exemption of financial asset revenue	(65)	(65)
adjustments in respect of prior periods	(1)	(1)
non qualifying amortisation	255	288
effect of deferred tax rates	372 -	(101)
Total tax charge	**1,222**	**1,070**

b) Taxation on items included in other comprehensive income

The net taxation credit on items included in other comprehensive income for the year is £777k credit (2019 : £660k credit) and comprises a credit on items arising in the current year of £349k computed at 19% (2019 : 17%) on losses of £1,841k (2019 : £3,883k loss) and a charge relating to the effect of rate change of £428k. The taxation credit on items arising in the current year represents deferred taxation. There is no current taxation included in other comprehensive income (2019 : £nil).

		2020	2019
7	**Investments**	**£'000s**	**£'000s**
	Opening balance	1	1
	Additions	-	
	Closing balance	**1**	**1**

TOHL has 100% investments in the following Company undertakings:

	Activity	Country of Operation	Shareholding of ordinary shares
Thanet OFTO Limited	Concession Company	England	100%
Thanet OFTO Intermediate Limited	Financing Company	England	100%

Both Thanet OFTO Limited and Thanet OFTO Intermediate Limited were incorporated in the United Kingdom and registered in England and Wales. The registered address of the subsidiaries is 6th Floor, 350 Euston Road, London, NW13AX.

8 Transmission owner asset

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

	2020	2019
	£'000s	**£'000s**
Opening Balance	172,328	175,702
Additions	-	-
Income recognised in the income statement:		
Interest income	11,759	11,970
Other Movements		
Cash expenditure	4,059	3,051
Cash received	(18,801)	(18,395)
Closing Balance	**169,345**	**172,328**
Comprising:		
Amounts falling due within one year	9,600	3,362
Amounts falling due after more than one year	159,745	168,966
	169,345	**172,328**

The Transmission owner asset is carried at amortised cost. The estimated fair value of the Transmission owner asset at 31 March 2020 was £239,318k (2019 : £233,445k). The basis for estimating the fair value of the Transmission owner asset was to estimate the net cash flows arising over the estimated economic life of the project, and to discount those expected net cash flows at a discount rate of 2.66% per year, (2019 : 3.44% per year).

9 Deferred taxation asset

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

	Fair value losses on derivatives £'000s	Accelerated capital allowances £'000s	Tax losses £'000s	Total £'000s
At 31 March 2019	3,636	(3,386)	1,171	1,421
Additions/(Utilisations)	349	(858)	-	(509)
Effect of change in tax rate	428	(499)	138	67
Prior year adjustment	-			-
At 31 March 2020	**4,413**	**(4,743)**	**1,309**	**979**

The deferred tax asset is expected to be recoverable over the asset's life and utilised on future taxable profits.

The fair value losses on derivatives are recognised in the statement of comprehensive income. Accelerated capital allowances and tax losses are recognised in the income statement.

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. At the 2020 Budget, the government announed that the tax rate will instead be maintained at 19% for the years commencing 1 April 2020 and 1 April 2021. The deferred tax assets and liabilities at 31 March 2020 have been calculated based on these rates.

10 Cash and cash equivalents

Cash and cash equivalents include amounts of £9,711k (2019 : £9,131k) that the Group can only use for specific purposes. The remaining cash and cash equivalents of £1,069k (2019 : £714k) are held for general corporate purposes.

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

11 Borrowings

The following table analyses borrowings:

	2020 £'000s	2019 £'000s
Current		
Loans	7,011	5,791
Loan interest	-	(16)
Subordinated debt interest	1,558	1,338
	8,569	**7,113**
Non-current		
Loans	140,980	147,772
Subordinated debt loans	20,625	20,625
	161,605	**168,397**
Total borrowings	**170,174**	**175,510**

11 Borrowings (continued)

The following table reconciles the movement of borrowings for the period ending 31 March 2020.

	£'000s
At 31 March 2019	**175,510**
Drawdowns	-
Repayments	(5,774)
Interest accrued	8,634
Interest paid	(8,196)
At 31 March 2020	**170,174**

Loans comprise the Senior Term Loan which bear an interest at a margin over LIBOR. The secured subordinated loan stock has been subscribed by the equity holders. The loan stock bears interest at a fix rate of 8.5% plus the greater of 1% or ((RPId/RPId-d)-1)x 100) per cent where RPId is the value of RPIx published or determined for the March which is the last month prior to the beginning of the financial year and RPId-1 is the value of RPIx for the March which is the last month prior to the beginning of the previous financial year. For the current financial year 11.87% (2019 : 11.87%) was used to accrue interest. The loan stock is repayable in instalments between 2015 and 2034.

All borrowings are carried at amortised cost. Fair value information in relation to borrowings is shown in note 17.

There have been no instances of default or other breaches of the terms of the financing agreements during the year in respect of all borrowings outstanding at 31 March 2020.

12 Trade and other payables

Trade and other payables are as tabulated below.

	2020 £'000s	2019 £'000s
Trade payables	152	75
VAT creditor	664	507
Accrued expenses	604	911
	1,420	**1,493**

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

13 Derivative financial instruments

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

RPI swaps

The Subsidiary has entered into arrangements with third parties for the purpose of exchanging the majority (approximately 63.5%) of variable cash inflows arising from the operation of the Subsidiary's transmission assets in exchange for a pre-determined stream of cash inflows from these third parties. These arrangements meet the definition to be classified as derivative financial instruments. The Company entered into these derivative arrangements on 17 December 2014 with a forward start date for the calculation of the relevant rates commencing on 17 December 2014 and ending on 16 December 2033.

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

13 Derivative financial instruments (continued)

Interest Rate swaps

The Group has entered into arrangements with third parties for the purpose of exchanging the interest rate cash flows, based on the notional amount of the Senior Term Loan from a fixed rate of 2.287% to a floating rate of 6M LIBOR for the period from 17 December 2014 to 16 December 2033. The Directors believe that the use of these swaps is consistent with the Group's risk management objective and strategy for undertaking these hedges. The vast majority of the Group's cash outflows relate to borrowings that carry a fixed coupon so that both the principal repayments, and coupon payments are predetermined. The purpose of these hedges is to generate highly certain cash inflows so that the Group can meet its obligations under the terms of its borrowing arrangements.

The Directors believe that these hedging relationship are highly effective and that the forecast cash inflows are highly probable and as a consequence have concluded that the RPI swap and Interest Rate Swap derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments

All of the Group's derivative financial instruments are carried at market value. The carrying value of all derivative financial liabilities at 31 March 2020 was £23,227k (2019 : £21,386k). All of the movement in the fair value of these derivative instruments has been recorded in the cash flow hedge reserve amounting to a debit of £1,841k (2019 : debit of £3,883k).

Ineffective portion of cash flow hedge recognised in the income statement was £nil (2019 : £nil).

Further details regarding financial instruments and their related risks are given in note 17.

14 Called-up share capital

Share capital is as analysed below.

	2020	2019
GROUP	**No. 000's**	**No. 000's**
Authorised, allotted, called-up and fully paid		
Opening balance	1	1
Shares issued	-	-
Closing balance	**1**	**1**

	2020	2019
COMPANY	**£ 000's**	**£ 000's**
Authorised, allotted, called-up and fully paid		
Opening balance	1	1
Shares issued	-	-
Closing balance	**1**	**1**

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

Dividends (GROUP)

	2020 £ 000's	2019 £ 000's
Dividends paid	**-**	**4,101**

	No. of Shares	2020 £	2019 £
Dividends per share	1000	**-**	**4,101**

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

15 Cash flow statement

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

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

	2020 £'000s	2019 £'000s
Movement in cash and cash equivalents	936	(2,561)
Net increase in borrowings	13,968	14,850
Change in net debt resulting from cash flows	**14,904**	**12,289**
Non-cash net interest expense included in net debt	(8,632)	(9,073)
Change in fair values of derivatives	(1,841)	(3,883)
Movement in net debt in the year	**4,431**	**(667)**
Net debt at start of year	(187,051)	(186,384)
Net debt at end of year	**(182,620)**	**(187,051)**

	Cash and cash equivalents £'000s	Borrowings £'000s	Derivatives £'000s	Total £'000s
At 1 April 2018	12,406	(181,287)	(17,503)	(186,384)
Cash flow	(2,561)	14,850	-	12,289
Change in fair values	-	-	(3,883)	(3,883)
Non-cash net interest	-	(9,073)	-	(9,073)
At 31 March 2019	**9,845**	**(175,510)**	**(21,386)**	**(187,051)**
Cash flow	936	13,968	-	14,904
Change in fair values	-	-	(1,841)	(1,841)
Non-cash net interest	-	(8,632)	-	(8,632)
At 31 March 2020	**10,781**	**(170,174)**	**(23,227)**	**(182,620)**

16 Related party transactions

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

	Total	
	2020	**2019**
	£'000s	**£'000s**
Expenditure		
Thanet OFTO Intermediate Limited - Interest	2,359	2,618
Balfour Beatty Investments Limited - Management Services	366	329
Equitix Infrastructure 3 Limited - Managed Services	391	307
Balfour Beatty Utility Solutions - O & M Services	2,727	2,467
	5,843	**5,721**

	Total	
	2020	**2019**
	£'000s	**£'000s**
Outstanding balances at 31 March:		
Borrowings payable - Thanet OFTO Intermediate Limited	20,625	20,625
Interest accrual - Thanet OFTO Intermediate Limited	1,558	1,338
Balfour Beatty Investments Limited - Management Services	27	29
Equitix Infrastructure 3 Limited - Managed Services	77	77
Balfour Beatty Utility Solutions - O & M Services	154	200
	22,441	**22,269**

A summary of funding transactions with equity holders is shown below:

	2020	**2019**
	£'000s	**£'000s**
Borrowings from equity holders		
Opening balance	21,963	23,013
Interest payments	(2,140)	(3,668)
Non-cash interest	2,359	2,618
Closing balance	**22,182**	**21,963**

Borrowings from equity holders were negotiated on normal commercial terms and are repayable in accordance with the terms of the secured 8.50% loan notes 2034 ("the notes"). Repayments of interest were made during the year. Absent any non-compulsory repayment of the notes, the notes are contractually repayable on 30 September 2034.

Balfour Beatty Investments Limited (BBI) was a related party of the Group during the year ended 31 March 2020 by virtue of it being a related party in Balfour Beatty Ofto Holdings Limited (BBOHL) through to 31 March 2020. The services provided to the Company by BBI were under normal commercial terms and related to professional management and financial services as described in the PSA.

Equitix Infrastructure 3 Limited (Equitix) was a related party of the Company during the year ended 31 March 2020 by virtue of it being a related party of a Company that held 80% of the equity shareholding in Thanet OFTO Holdco Limited through to 31 March 2020. The services provided to the Group by Equitix were under normal commercial terms and related to professional management and financial services.

Balfour Beatty Utility Solutions Limited (BBUS) was a related party of the Group during the year ended 31 March 2020 by virtue of it being a related party in BBOHL through to 31 March 2020. The services provided to the Group by BBUS were under normal commercial terms and related to operator services as detailed in the Operating and Maintenance Agreement.

No amounts have been provided at 31 March 2020 (2019 : £nil), and no expense was recognised during the year (2019 : £nil) in respect of bad or doubtful debts for any related party transactions.

17 Information relating to financial instruments and the management of risk

The Group has the following financial instruments:

	Note	2020 £'000s	2019 £'000s
Financial assets that are debt instruments measured at amortised cost:			
Trade and other receivables		456	343
Financial Asset	8	169,345	172,328
Cash and cash equivalents	10	10,781	9,845
		180,582	**182,516**
Financial liabilities at fair value through profit or loss:			
Derivative financial instruments	13	23,227	21,386
Financial liabilities measured at amortised cost:			
Senior secured loan	11	147,991	153,547
Subordinated loan	11	22,183	21,963
Trade and other payables	12	1,420	1,493
		194,821	**198,389**

a) Fair value disclosures

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

- Cash and cash equivalents – approximates to the carrying value because of the short maturity of these instruments;
- Transmission owner asset – based on the net present value of net discounted cash flows, using a discount rate of 2.66%; (2019: 3.44%)
- Current borrowings – approximates to the carrying value because of the short maturity of these instruments;
- Non-current borrowings – based on the net present value of net discounted cash flows, using a discount rate of 2.66%; (2019 3.44%)
- Derivative financial instruments – based on the net present value of discounted cash flows;

The discount rates above are derived by taking the expected yield from UK gilt treasury bonds with a similar maturity to the OFTO licence as at the year end date, with additional risk factor applied.

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

a) Fair value disclosures (continued)

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

	Valuation Method	Carrying value 2020 £'000s	Carrying value 2019 £'000s
Assets			
Non-current			
Transmission owner asset		169,345	172,328
		169,345	**172,328**
Liabilities			
Senior secured loan		140,980	147,772
Loan notes 2035		20,625	20,625
Derivative financial instruments		23,227	21,386
		184,832	**189,783**

	Valuation Method	Fair value 2020 £'000s	Fair value 2019 £'000s
Assets			
Non-current			
Transmission owner asset	Level 3	239,318	233,445
		239,318	**233,445**
Liabilities			
Senior secured loan	Level 3	166,415	165,423
Loan notes 2035	Level 3	45,444	43,356
Derivative financial instruments	Level 2	23,227	21,386
		235,086	**230,165**

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

With the exception of the Transmission owner asset and borrowings, all of the other fair values have been valued using Level 2 valuation techniques as identified in the preceding table which means that in respect of the Group's financial instruments these have been valued using models where all significant inputs are based directly or indirectly on observable market data. Fair value of interest rate swaps has been calculated using the RBS toolkit taking into consideration loan repayment profiles. RPI swaps have been valued by management by discounting future cashflows from the Group's financial model, with reference to bank valuations from four banks; Sumitomo Mitsui Banking Corporation (SMBC), Unicredit Bank AG, The Bank Of Tokyo-Mitsubishi UFJ Ltd., and Credit Agricole Corporate and Investment Bank. Management have benchmarked the individual bank valuations against each other to verify the valuations.

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

The Transmission asset has been valued using a discount rate of 2.66%. At a discount rate of 2.16% the fair value of the asset is £247,456k and at a discount rate of 3.16% the fair value of the asset is £231,583k.

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

a) Fair value disclosures (continued)

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

Cash flow hedges: Interest Rate Swaps

	2020 Average contract fixed interest rate	2020 Notional principal value	2020 Fair value
	%	£'000s	£'000s
Less than 1 year	2.29%	7,011	2,629
1 to 2 years	2.29%	7,497	(2,759)
2 to 5 years	2.29%	25,900	(2,936)
More than 5 years	2.29%	109,727	(17,200)
		150,135	**(20,266)**

b) Management of risk

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

The Group's activities expose it to a variety of financial risks, which arise in the normal course of business: market risk, credit risk, and liquidity risk. The overall risk management programme seeks to minimise the net impact of these risks on the operations of the Group by using financial instruments, including the use of derivative financial instruments – being the RPI swaps and Interest rate swaps described in note 13 that are appropriate to the circumstances and economic environment within which the Group operates. The objectives and policies for holding, or issuing, financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

i) Market risk

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

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

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

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

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

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

The cash flows arising from the Transmission owner financial asset fluctuate with positive changes in RPI. The Group has entered into a series of RPI swaps to significantly reduce this cash flow risk. Further details and an explanation of the rationale for entering into these arrangements are explained in note 13.

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

b) Management of risk (continued)

For the reasons outlined in note 13, the Directors have designated the RPI swaps as cash flow hedging derivatives and these are carried at fair value in the Statement of Financial Position. The RPI swaps are considered to be effective cash flow hedges.

ii) Credit risk

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

Credit risk primarily arises from the Group's normal commercial operations that actually, or potentially, arises from the Group's exposure to: a) NGET in respect of invoices submitted by the Group for transmission services; b) the counterparties to the RPI swaps and Interest rate swaps described in note 13; and c) short term deposits. There are no other significant credit exposures to which the Group is exposed. The maximum exposure to credit risk at 31 March 2020 is the fair value of all financial assets held by the Group. Information relating to the fair value of all financial assets is given above – note 17 (a). None of the Group's financial assets are past due or impaired.

NGET is the Group's principal customer and income derived from NGET represents the vast majority of the Group's income. NGET operates a low risk monopoly business within the UK, and the regulatory regime under which they operate results in a highly predictable, and stable, revenue stream. The regulatory regime is managed by The Authority and is considered by the Directors to have a well-defined regulatory framework, which is classified as a predictable and a supportive regime by the major rating agencies. NGET has an obligation to maintain an investment grade credit rating, which it has currently maintained. It is also subject to a regulatory financial 'ring fence' that restricts NGET's ability to undertake transactions with other National Grid subsidiaries, which includes the paying of dividends, lending or the levying of charges. Even in the very unlikely circumstance of NGET's insolvency, it is probable that any amounts outstanding would still be recovered. This arises because NGET is also a 'protected energy Company' under the terms of the Energy Act 2004, which allows the Secretary of State to apply for an energy administration order which would give priority to the rescue of NGET as a going concern.

Having considered the credit risks arising in respect of the exposures to NGET, as detailed above, the Directors consider that those risks are extremely low. At 31 March 2020 amounts due from NGET amounted to £nil (2019 : £nil).

In respect of the counterparties to the cash flow derivative hedges (RPI swaps and Interest Rate swaps) these arrangements have been entered into with banks. At 31 March 2020, the fair values attributable to these positions were liabilities amounting to £23,227k (2019 : £21,386k), and as a consequence there is no credit risk to the Group at this date.

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

iii) Liquidity risk and Going Concern

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

As a result of the regulatory environment under which the Group operates; the credit worthiness of the Group's principal customer (NGET); and the RPI swaps that has been put in place, the cash inflows generated by the Group are highly predictable and stable. In addition, all of the Group's senior debt carries a fixed coupon, and based on the forecasts prepared by the Group, all of these debt service costs are expected to be met from the cash inflows the Group is expected to generate over the whole period of the project. During the year ending 31 March 2020, senior debt service costs amounted to £11,830k (2019: £11,184k).

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

b) Management of risk (continued)

There is no contractual obligation for the Group to service the secured loan notes until March 2031 although it is the Group's intention to service this borrowing when cash flows are sufficient, and it is prudent to do so. Cash outflows in respect of the secured loan notes amounted to £2,140k (2019:£3,668k).

In accordance with the conditions of the various lending agreements, the Group is required to transfer funds to certain specified bank accounts and/or hold certain amounts on deposit for specified purposes. Access to these bank accounts by the Group is subject to the agreement of the lenders and, in particular, access to amounts held on deposit held for specified purposes is restricted under the lending agreements. Such specific purposes include the holding of sufficient funds in restrictive bank accounts to meet senior debt servicing requirements for a period of six months in the future. The Group's use of these funds is restricted either to the specific purpose contemplated by the lending agreements, or until certain conditions are met or exceeded. Where these conditions are met or exceeded then the use of any net cash generated in excess of the minimum necessary to meet the restrictive conditions is unfettered.

At 31 March 2020, cash and cash equivalents included £9,711k (2019: £9,131k) that are held for specific purposes in the manner described above and additional amounts of cash and cash deposits amounting to £1,069k (2019: £7144k) which are available for general corporate purposes.

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

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

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

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

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

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

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

17 Information relating to financial instruments and the management of risk (continued)
b) Management of risk (continued)

	2020 0-1 years £'000s	2020 1-2 years £'000s	2020 2-5 years £'000s	2020 > 5 years £'000s
Liquidity risk				
Non-derivative financial assets				
Transmission owner asset	16,335	16,931	53,466	201,166
Prepayments	456	-	-	-
Cash and cash equivalents	10,781	-	-	-
	27,572	16,931	53,466	201,166
Non-derivative financial liabilities				
Senior Loan	(12,778)	(12,988)	(40,513)	(130,497)
Subordinated debt	(2,783)	(2,379)	(7,122)	(45,914)
Trade and other non-interest bearing liabilities	(1,420)	-	-	-
	(16,981)	(15,367)	(47,635)	(176,411)
Derivative financial liabilities				
RPI and Interest Rate Swaps	619	700	2,556	11,888
Net total	**11,210**	**2,264**	**8,387**	**36,643**

	2019 0-1 years £'000s	2019 1-2 years £'000s	2019 2-5 years £'000s	2019 > 5 years £'000s
Liquidity risk				
Non-derivative financial assets				
Transmission owner asset	15,095	15,942	52,021	217,998
Prepayments	343	-	-	-
Cash and cash equivalents	9,845	-	-	-
	25,283	15,942	52,021	217,998
Non-derivative financial liabilities				
Senior Loan	(11,830)	(12,778)	(39,834)	(144,164)
Subordinated debt	(2,188)	(2,614)	(7,367)	(48,443)
Trade and other non-interest bearing liabilities	(1,493)	-	-	-
	(15,511)	(15,392)	(47,201)	(192,607)
Derivative financial liabilities				
RPI and Interest Rate Swaps	461	481	1,612	8,343
Net total	**10,233**	**1,031**	**6,432**	**33,734**

17 Information relating to financial instruments and the management of risk (continued)
b) Management of risk (continued)

	Contractual Cash flows 2020 Total £'000s	2019 Total £'000s
Liquidity risk		
Non-derivative financial assets		
Transmission owner asset	287,898	301,056
Prepayments	456	343
Cash and cash equivalents	10,781	9,845
	299,135	311,244
Non-derivative financial liabilities		
Senior Loan	(196,776)	(208,606)
Subordinated debt	(58,198)	(60,612)
Trade and other non-interest bearing liabilities	(1,420)	(1,493)
	(256,394)	(270,711)
Derivative financial liabilities		
RPI and Interest Rate Swaps	15,763	10,897
Net total	**58,504**	**51,430**

iv) Sensitivities

Changes in RPI and LIBOR affect the carrying value of those financial instruments that are recorded in the Statement of Financial Position at fair value. Two financial instruments that are carried in the Statement of Financial Position at fair value are the stand-alone derivative financial instruments - RPI and Interest Rate swaps as described in note 13 above. As explained in note 13, the Directors believe that these derivative financial instruments have a highly effective hedging relationship with the underlying cash flow positions they are hedging, and they expect this relationship to continue into the foreseeable future. Any movement in the fair value of these derivatives would be expected to be recorded in the cash flow hedge reserve, and would not affect the Income Statement. Changes in the fair value of RPI and Interest Rate swaps are expected to be substantially matched by changes in the fair values of the positions they are hedging, due to the highly effective hedging relationships. However, the underlying positions being hedged - in the case of RPI swaps a substantial proportion of the cash flows emanating from the Transmission owner asset are carried at amortised cost. Consequently, any change in the fair value of the underlying hedged positions would not be recorded in the financial statements. The Directors are of the opinion that the net impact of potential changes in the fair value of the derivative financial instruments held by the Group has no substantive economic impact on the Group because of the corresponding economic impact on the underlying derivative financial instruments it is hedging.

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

Swap liability fair value sensitivity

	SWAPS 2020 £'000s	SWAPS 2019 £'000s
At fair value	20,266	14,043
Interest Rate + 0.05%	19,007	12,708
Interest Rate - 0.05%	21,537	15,381

Swap liability fair value sensitivity analysis only impacts equity and not profit and loss, on the assumption that the hedging relationship remains 100% effective, as per the latest financial model forecasts.

17 Information relating to financial instruments and the management of risk (continued)
b) Management of risk (continued)

RPI asset fair value sensitivity

	RPI 2020 £'000s	RPI 2019 £'000s
At fair value	(2,961)	(7,343)
RPI + 0.05%	(3,566)	(8,003)
RPI - 0.05%	(2,055)	(5,860)

RPI fair value sensitivity analysis only impacts equity and not profit and loss, on the assumption that the hedging relationship remains 100% effective, as per the latest financial model forecasts.

v) Capital management

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

Senior debt is comprised of a Senior Term Loan borrowed in equal amounts from five different lenders (Sumitomo Mitsui Banking Corporation (SMBC), Unicredit Bank AG, The Bank Of Tokyo-Mitsubishi UFJ Ltd., Norddeutsche Landesbank Girozentrale and Credit Agricole Corporate and Investment Bank) at a LIBOR+1.6% rate. All senior debt is serviced on a six monthly basis. The Senior Term Loan is expected to amortise over the life of the project through to December 2033. The total carrying value of the Loans outstanding at 31 March 2020 amounted to £147,991k (2019 : £153,547k). Cover ratios are managed by way of calculating any impact shareholder distributions may have on ratios prior to any distribution taking place.

The subordinated loan ranks behind the senior debt and is issued by the equity holders. The subordinated loan was issued on a commercially priced basis, and carries a fixed rate coupon. At 31 March 2020 the total principal carrying value of the subordinated loan outstanding amounted to £22,183k (2019 : £21,963k).

Ordinary equity share capital issued during the year amounted to £1,000 (2019 : £1,000).

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

18 Ultimate parent companies and controlling parties

Thanet OFTO Holdco Limited is the largest Group in which the results of the Company are consolidated. Copies of the parent financial statements are available from its registered address; 3rd Floor, 350 Euston Road, London, NW1 3AX.

The Group's ultimate parent companies and controlling parties are Balfour Beatty plc and Equitix Fund III LP which are incorporated in The United Kingdom and registered in England and Wales. Copies of the financial statements for Balfour Beatty Plc are available from the registered address; 5 Churchill Place, Canary Wharf, London, United Kingdom, E14 5HU. Copies of the financial statements for Equitix Fund III LP are available from the registered address; 3rd Floor (South), 200 Aldersgate Street, London, United Kingdom, EC1A 4HD.

19 Change in significant accounting policies

IFRS 16 'Leases'
From 1 April 2019 the Company has adopted IFRS 16 Leases which replaces IAS 17 Leases and eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single lessee accounting model. The Company has assessed the impact of adopting this new standard and no amounts on the Balance Sheet need to be restated as a result.