

**Registered Number: 08340155**

**Mersey Bioenergy Limited**  
**Annual Report and Financial Statements**  
**31 December 2020**

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## Company Information

**Registered Number: 08340155**

**Directors**

Richard Jenkins  
Andrew Richardson  
Karsten Valsted Larson

**Secretary**

None

**Registered Office**

1650 Arlington Business Park  
Theale  
Reading  
RG7 4SA

**Independent Auditor**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

## Strategic Report

The directors of Mersey Bioenergy Limited (the "Company") present their strategic report for the year ended 31 December 2020.

### Review of the business and principal activities

The principal activities of the company are to design, construct, and operate a 20.2MWe, 7.8MWth Combined Heat and Power Plant (CHP) in Widnes, Merseyside.

The results for the company of the year are set out in the profit and loss account. The loss for the financial year of the company is £10,888,000 (2019: £12,018,000), principally driven by interest on debt and depreciation. Profit before interest, tax and depreciation was £5,071,000 (2019: £6,188,000).

### Principal risks and uncertainties

The project is now in its operational phase, operational risks are monitored closely. The operations of the facilities are subcontracted to BWSC. The majority of the company's revenue is generated from the sale of electric output and Renewables Obligation Certificates ("ROCs"), with the credit risk of British Gas. The company also entered into an agreement to supply Heat Energy.

#### *Legislative risk*

The energy industry is particularly susceptible to legislative changes specifically in regard to government incentive and benefit plans for green energy which could have a significant impact on future revenues.

#### *Interest rate risk*

The company's principal financial instruments comprise of shareholder loans and external debt as outlined in note 15 and 16. The senior loan is exposed to interest rate risk.

The company has entered into fixed interest rate swap agreements to avoid volatility in 80% of debt service costs on its floating rate senior loan. It is considered that these agreements constitute cash flow hedges.

The company does not undertake financial instrument transactions which are speculative or unrelated to the company's trading activities.

#### *Insurance risk*

The company is exposed to the conditions prevailing in the insurance market at each renewal date. The directors manage this through close monitoring of the claims record of the project and through employing experienced brokering organisations to obtain competitive insurance terms.

#### *Liquidity risk*

The latest financial forecasts show that revenue received will be sufficient to repay senior debt as they fall due. The company relies on financing and covenant compliance.

#### *Credit risk*

The company will receive its revenue from an established provider and government therefore is not exposed to significant credit risks. The company holds bank accounts and enters into interest rate swap agreements with financial institutions. The effectiveness of these is reviewed on a regular basis.

#### *Price risk*

A significant proportion of the company's forecast income is subject to the price of power and ROCs buyout price.

## Strategic Report (*continued*)

### Going Concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.


Further details regarding the adoption of the going concern basis and the Directors assessment of the impact of Covid-19 can be found in the statement of accounting policies in the financial statements, note 2 'Going concern'.

### Future developments and events after the balance sheet date

The Directors have considered the impact of Covid-19 in note 2 'Going concern'.

There are no significant post balance sheet events which have occurred since the end of the financial year.

Approved by the Board and signed on its behalf by:

DocuSigned by:  
  
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Karsten Valsted Larsen - Director

4 August 2021

## Directors' Report

The Directors of Mersey Bioenergy Limited (the "Company") present their Directors' report for the year ended 31 December 2020.

### Principal activities

The principal activities of the company are to design, construct, and operate a 20.2MWe, 7.8MWth Combined Heat and Power Plant (CHP) in Widnes, Merseyside.

### Dividends

The Directors do not recommend a dividend for the year (2019: £nil).

### Political donations

No political donations have been made in the current year (2019: £nil).

### Future developments and risk management policies

Future developments and risk management policies are outlined in the Strategic Report.

### Directors and their interests

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

Benjamin Whawell (appointed 28 February 2019, resigned 2 June 2020)

Richard Jenkins (appointed 2 June 2020)

Robert Hamish McPherson (resigned 8 June 2020)

Neil Bennett (appointed 8 June 2020, resigned 13 January 2021)

Christian Grundtvig (resigned 13 January 2021)

Andrew Richardson (appointed 13 January 2021)

Karsten Valsted Larson (appointed 13 January 2021)

No Director had an interest in the share capital of the company at the balance sheet date. Certain Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Directors' statement as to disclosure of information to auditor

The Directors who were members of the Board at the time of approving the Directors' report are named on page 3. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:


- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors is unaware, and;
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors 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.

### Independent Auditor

BDO LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

DocuSigned by:  
  
504571740F24481...  
Karsten Valsted Larsen - Director

4 August 2021

## **Directors' responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# **Independent Auditor's report to the members of Mersey Bioenergy Limited**

## **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Mersey Bioenergy Limited ("the Company") for the year ended 31 December 2020 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Material uncertainty related to going concern**

We draw attention to note 2 to the financial statement which indicates that the inter-company debt could be called on for repayment if the parent company is unable to obtain a waiver regarding a loan covenant breach or, as a result, obtain additional financial support from its shareholder. As stated in note 2, these events or conditions, along with other matters as set out in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## **Other information**

The directors are responsible for the other information. The other information comprises the information included in the financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Other Companies Act 2006 reporting**

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

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

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



# **Independent Auditor's report to the member of Mersey Bioenergy Limited (*continued*)**

## **Other Companies Act 2006 reporting (*continued*)**

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

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

## **Responsibilities of Directors**

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Holding discussions with management to understand the laws and regulations relevant to the company. These included elements of financial reporting framework, tax legislation and environmental regulations;
- Holding discussions with management and considering any known or suspected instances of non-compliance with laws and regulations or fraud;
- Testing the appropriateness of journal entries made through the year by applying specific criteria to detect possible irregularities and fraud;
- Performing a detailed review of the year-end adjusting entries and investigating any that appear unusual as to nature or amount;
- For significant and unusual transactions, particularly those occurring at or near year-end, investigating the possibility of related parties and the sources of financial resources supporting the transactions;
- Assessing the judgements made by management when making key accounting estimates and judgements, and challenging management on the appropriateness of these judgements;
- Extending inquiries to individuals outside of management and the accounting department to corroborate management's ability and intent to carry out plans that are relevant to developing the estimate; and
- Reviewing minutes from board meetings of those charges with governance to identify any instances of non-compliance with laws and regulations.

## **Independent Auditor's report to the member of Mersey Bioenergy Limited (*continued*)**

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

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### **Use of our report**

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

DocuSigned by:

*Marc Reinecke*

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Marc Reinecke (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
London

11 August 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

## Profit and Loss Account

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue	4	16,595	16,904
Costs of sales		(16,026)	(16,528)
<b>Operating profit</b>	<b>5</b>	<b>569</b>	<b>376</b>
Interest receivable and similar income	7	4	2
Interest payable and similar charges	8	(13,273)	(12,396)
<b>Loss before tax</b>		<b>(12,700)</b>	<b>(12,018)</b>
Taxation	9	1,812	-
<b>Loss for the Year</b>		<b>(10,888)</b>	<b>(12,018)</b>
<b>Other comprehensive income</b>			
Net change in fair value of cash flow hedges		(783)	(482)
Income tax relating to other comprehensive income		226	67
<b>Other comprehensive income for the year, net of income tax</b>		<b>(557)</b>	<b>(415)</b>
<b>Total comprehensive loss for the year</b>		<b>(11,445)</b>	<b>(12,443)</b>

All activities relate to continuing operations.

The notes on pages 14 to 26 form an integral part of these financial statements.

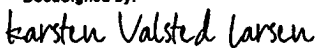
## Balance Sheet

As at 31 December 2020

	Notes	31 December 2020 £'000	31 December 2019 £'000
<b>Fixed assets</b>			
Tangible assets	11	85,487	89,899
<b>Total fixed assets</b>		<u>85,487</u>	<u>89,899</u>
<b>Current assets</b>			
Trade and other receivables	12	10,810	9,841
Cash and bank balances		6,460	4,453
<b>Total current assets</b>		<u>17,270</u>	<u>14,294</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other payables	14	(47,921)	(33,324)
<b>Net current liabilities</b>		<u>(30,651)</u>	<u>(19,030)</u>
<b>Total assets less current liabilities</b>		<u>54,836</u>	<u>70,869</u>
<b>Creditors: amounts falling due after more than one year</b>	14	(95,103)	(99,691)
<b>Net liabilities</b>		<u>(40,267)</u>	<u>(28,822)</u>
<b>Capital and reserves</b>			
Share capital	17	500	500
Cash flow hedging reserve	18	(3,768)	(3,211)
Retained earnings		(36,999)	(26,111)
<b>Shareholders' deficit</b>		<u>(40,267)</u>	<u>(28,822)</u>

The notes on pages 14 to 26 form an integral part of these financial statements.

The financial statements of Mersey Bioenergy Limited (registered number 08340155) were approved by the board of Directors and authorised for issue on 4 August 2021. They were signed on its behalf by:

DocuSigned by:  
  
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Karsten Valsted Larsen - Director

## Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £'000	Retained earnings £'000	Cash Flow hedging reserve £'000	Total £'000
Balance at 1 January 2019	500	(14,093)	(2,796)	(16,389)
Total comprehensive loss	-	(12,018)	(415)	(12,433)
Balance at 31 December 2019	500	(26,111)	(3,211)	(28,822)
Total comprehensive loss	-	(10,888)	(557)	(11,445)
Balance at 31 December 2020	500	(36,999)	(3,768)	(40,267)

The notes on pages 14 to 26 form an integral part of these financial statements.

## Notes to the financial statements

### 1. General information

Mersey Bioenergy Limited (the Company) is a private company limited by shares incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 3. The nature of the Company's operations and its principal activities are set out in the Directors' report on page 6.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. Amounts are rounded to the nearest thousand, unless otherwise stated.

The accounting policies that have been applied consistently throughout the financial year and the proceeding period are set out below.

### 2. Significant accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Related party transactions;
- Key Management Personnel compensation; and
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

Where relevant, equivalent disclosures have been provided in the group accounts of Mersey Bioenergy Holdings Limited, in which the Company is consolidated. Copies of Mersey Bioenergy Holdings Limited accounts can be obtained as detailed at note 19.

The financial statements are prepared on the historical cost basis except for derivative financial instruments which are stated at fair value.

#### Going concern

The company currently has £136,061,000 (2019: £127,031,000) of total debt and made a pre tax loss of £12,700,000 (2019: £12,018,000).

The loan facilities in place from the Company's parent totaling £100,876,000 (2019: £89,907,000) are long-term facilities, with a fixed payment schedule over the life of the loans and for which repayment cannot be demanded prior to those repayment dates. The company's assets are provided as security for the senior loan facility.

At 31 December 2020 £41,877,000 (2019: £27,956,000) is repayable in less than one year. These amounts would only be demanded in the event that early payment of the parent company's debts are demanded following an event of default.

The Company's parent has prepared covenant calculations in respect of its external debt at 31 March 2021 which show a breach of a Mezzanine Debt Service Cover Ratio ("DSCR") covenant. It also indicates a risk of further breaches in future periods. This has been caused principally by significant reductions in power prices in 2020 due to Covid19 as well as higher insurance costs in the sector.

The Company and its parent remain engaged with the Senior and Mezzanine lenders to refinance the loan facilities.

With regards to the parent's breach of the Mezzanine DSCR covenant ratio at March 2021, the Directors will seek a formal waiver of default from the lenders. The Directors have not received any indication that a waiver would not be granted.

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

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

#### Going concern *(continued)*

In the first instance the Parent Company will seek to negotiate with the mezzanine debt holders to defer payment, however, in the event that further financial support is required to cure the cover ratio in line with the facility agreement equity cure option, the Directors will approach the Parent Company's shareholders to obtain such support. The Directors have no reason to believe that this support would not be forthcoming but consider it premature to seek approvals from shareholders until it is possible to quantify the level of support required, if any.

If a waiver is not granted and the lenders request immediate repayment of the outstanding debt from the parent company, then additional shareholder funding would be required to avoid the mezzanine debt holders being able to request immediate repayment of the outstanding debt, failing which the company will be called on to repay the intercompany debt, which indicates that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

The Directors consider it unlikely that repayment of the mezzanine debt would be demanded. Based on these indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

The company has prepared detailed forecasts and projections to December 2022, taking account of reasonably possible changes in trading performance, which show that it is expected to make reasonable trading profit before interest and should be able to operate within the level of its current parent company loan facilities. These forecasts also show that the Company will be able to meet its obligations as they fall due.

As such, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The Directors review and monitor cash flows monthly, along with regular operations reports.

#### Revenue

Revenue represents amounts receivable for goods or services provided to customers in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excluding transactions between Group companies.

Revenues from the sale of electricity are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable.

The company is eligible to earn Renewable Obligation Certificates (ROCs) under the UK Government's Renewables Obligation (RO) regime. The financial benefit of a ROC is recognised in the income statement in revenue at the point the relevant renewable biomass fuel is used and power dispatched.

#### Operating profit

Operating profit is stated after charging administrative expenses but before interest receivable and interest payable.

#### Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

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

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

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

#### ***Deferred tax***

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### ***Current tax and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, being 20 years.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

#### **Stocks**

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.



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

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

#### Financial assets

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

#### Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (after deducting transaction costs) and subsequently held at amortised cost.

#### Hedge accounting

The company has entered into variable to fixed rate interest swaps to manage its exposure to interest rate cash flow risk on its variable rate debt. These derivatives are measured at fair value at each reporting date. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. This amount is reclassified from the cash flow hedge reserve to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss. Any ineffective portions of those movements are recognised in profit or loss for the period.

#### Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value, as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

#### Impairment excluding deferred tax assets

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

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

#### *Non-financial assets (continued)*

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets on a pro rata basis. Impairment losses recognised for the assets is reversed only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange per forward contract. There is no monetary assets and liabilities denominated in foreign currencies at the balance sheet date.

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

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

#### **Recoverability of tangible asset base**

The forecasted output and future economic benefits associated with the tangible asset base is based on various assumptions which relate to technical and economical inputs. These assumptions are considered to be key sources of estimation of uncertainty. The directors review and monitor cash flows to evaluate the internal rate of return expected from the project and the recoverability of the tangible asset base.

### 4. Revenue

An analysis of the Company's revenue is as follows:

	2020 £000s	2019 £000s
Power revenues	16,595	16,904

Turnover from operational services arise from electricity revenue, embedded benefits, Renewable Obligation Certificates ("ROCS") and Renewable Heat Incentive ("RHI").

The turnover and loss on ordinary activities before taxation arise entirely within the United Kingdom.

**Notes to the financial statements (continued)****5. Operating profit**

Operating profit before tax is stated after charging:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation – owned assets	4,502	5,813
Fees payable to the Company's auditor:		
- Audit fees	25	24
- Other non-audit services	-	-
	<u>-</u>	<u>-</u>

**6. Employees and Directors**

The company had no employees during the year (2019: none). Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges. The Directors received no remuneration for their services during the year (2019: £nil). A payment is made for the services of the non-executive directors to their employer.

Total fees paid to related parties in respect of directors' services was £99,000 (2019: £135,000).

**7. Interest receivable and similar income**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest receivable	<u>4</u>	<u>2</u>

**8. Interest payable and similar charges**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Senior loan interest payable	2,303	2,582
Intercompany loan interest payable	10,969	9,810
Other interest payable	1	4
	<u>13,273</u>	<u>12,396</u>

**Notes to the financial statements (continued)****9. Taxation****Analysis of tax charge/(credit) arising in the year**

	Note	2020 £'000	2019 £'000
Current tax		-	-
Deferred tax	13	(1,812)	-
Total tax credit for the year		<u>(1,812)</u>	<u>-</u>

**Factors affecting the current tax charge for the year**

The charge for the year can be reconciled to the loss in the profit and loss account as follows:

	2020 £'000	2019 £'000
Loss before tax	(12,700)	(12,018)
Loss before tax multiplied by the standard rate of tax in the UK of 19% (2019: 19%)	(2,413)	(2,283)
Expenses not deductible for tax purposes	-	1,178
Depreciation in excess of capital allowances	125	323
Change in unrecognised deferred tax assets	1,318	-
Effect of rate change on deferred tax assets	(77)	-
Transfer pricing adjustments	972	-
Current year tax losses for which no deferred tax asset was recognised	-	782
Prior year adjustments	(1,737)	-
Total tax credit	<u>(1,812)</u>	<u>-</u>

**Tax effects relating to effects of other comprehensive income**

	Gross £'000	Tax £'000	Net £'000
<b>2020</b>			
Net change in fair value of cash flow hedges	<u>(783)</u>	<u>226</u>	<u>(557)</u>
<b>2019</b>			
Net change in fair value of cash flow hedges	<u>(482)</u>	<u>67</u>	<u>(415)</u>

**Factors that might affect the future tax charge**

At the balance sheet date, the Company has unused tax losses of £4,384,000 (2019: £6,738,000) available for offset against future profits. Deferred tax has been recognised on these losses to the extent that recovery is probable, see note 13.

**10. Dividends**

No dividends were declared during the year (2019: £nil).

**Notes to the financial statements (continued)****11. Tangible fixed assets**

	<b>Freehold Land £'000</b>	<b>Plant and Machinery £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 January 2020	2,080	100,380	102,460
Additions	-	90	90
At 31 December 2020	2,080	100,470	102,550
<b>Accumulated depreciation</b>			
At 1 January 2020	-	12,561	12,561
Charge for the year	-	4,502	4,502
At 31 December 2020	-	17,063	17,063
<b>Net book value</b>			
At 31 December 2019	2,080	87,819	89,899
At 31 December 2020	2,080	83,407	85,487

**12. Trade and other receivables**

	<b>2020 £'000</b>	<b>2019 £'000</b>
Trade debtors	876	-
Prepayments and accrued income	7,238	9,029
Other tax and social security	-	154
Other debtors	2,696	658
<b>13</b>	<b>10,810</b>	<b>9,841</b>

All debtors are due within one year except for other debtors which relates to deferred tax (see note 13) and is expected to be recoverable in more than one year.

**Notes to the financial statements** *(continued)***13. Deferred tax**

	<b>Cashflow hedges £000s</b>
At 1 January 2019	591
Credit for the year	67
At 31 December 2019	<u>658</u>
Credit for the year	2,038
At 31 December 2020	<u><u>2,696</u></u>

	<b>2020 £'000</b>	<b>2019 £'000</b>
<b>Analysis of deferred tax credit</b>		
Recognised in profit and loss	1,812	-
Recognised in other comprehensive income	226	67
	<u><u>2,038</u></u>	<u><u>67</u></u>

The corporation tax rate in the UK for the year was 19.0% (2019: 19.0%) which has been applied by the Company in calculating its corporation tax charge (see note 9). In 2019 deferred tax assets and liabilities were calculated using a rate of 17% on the basis of an enacted reduction in the UK corporation tax rate that was due to take effect from 1 April 2020. Legislation cancelling the reduction was enacted in March 2020. All deferred tax assets and liabilities as at 31 December 2020 are calculated using a rate of 19%.

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

### 14. Trade and other payables

#### Amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	518	261
Senior loan (see note 15)	2,953	2,522
Amounts owed to group undertakings (see note 15)	41,877	27,956
Derivative liabilities (see note 17)	779	731
Accruals	651	1,854
Other tax and social security	1,143	-
	<u>47,921</u>	<u>33,324</u>

#### Amounts falling due after more than one year

	2020 £'000	2019 £'000
Senior loan (see note 15)	32,232	34,602
Amounts owed to group undertakings (see note 15)	58,999	61,951
Derivative liabilities (see note 16)	3,872	3,138
	<u>95,103</u>	<u>99,691</u>

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

### 15. Loans

This note provides information about the contractual terms of the company's interest-bearing loans and borrowings, which are measured at amortised cost.

#### Creditors falling due within one year

	2020 £'000	2019 £'000
Senior loan	2,953	2,522
Loan from parent company	41,877	27,956
	<u>44,830</u>	<u>30,478</u>

#### Creditors falling due after more than one year

	2020 £'000	2019 £'000
Senior loan	32,232	34,602
Loan from parent company	58,999	61,951
	<u>91,231</u>	<u>96,553</u>

Included within Senior loan is an amount repayable after five years of £23,744,000 (2019: £26,544,000) and included within amounts owing to parent company are amounts repayable after five years of £40,814,000 (2019: £46,355,000) respectively.

#### Terms and debt repayment schedule

	Currency	Nominal Interest	Year of maturity	Repayment schedule
Senior loan	GBP	Libor + 3.5%	2030	Semi-annual
Loan from parent company	GBP	10.2% to 13.5%	2026 to 2032	Semi-annual



**Notes to the financial statements (continued)****16. Derivative liabilities**

	2020 £'000	2019 £'000
<b>Creditors falling due within one year</b>		
Interest rate swap contract	779	731
<b>Creditors falling due after more than one year</b>		
Interest rate swap contract	3,872	3,138

The fair value of interest rate and forward exchange contracts is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

**17. Share capital**

	2020 £'000	2019 £'000
<b>Shares issued and fully paid:</b>		
50,000 Ordinary shares of £10 each	500	500

The holders of 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.

**18. Reserves**

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

**19. Controlling party**

The company's ultimate holding company is Mersey Bioenergy Holdings Limited, a company incorporated in England and Wales, which also heads the largest group in which the results are consolidated. Copies of the group accounts of Mersey Bioenergy Holdings Limited can be obtained from the registered office c/o Bioenergy Infrastructure Limited, Davidson House, Forbury Square, Reading RG1 3EU.

Copies of the group accounts of Mersey Bioenergy Holdings Limited can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

**20. Events after the balance sheet date**

The Company's debt consists of external debt and a loan from its parent company as outlined in note 15. The Company's parent has prepared covenant calculations in respect of its external debt at 31 March 2021 which show a breach of a Mezzanine Debt Service Cover Ratio ("DSCR") covenant. It also indicates a risk of further breaches in future periods. This has been caused principally by significant reductions in power prices in 2020 due to Covid19 as well as higher insurance costs in the sector. The amounts owed to the parent company would only be demanded in the event that early payment of the parent company's debts are demanded following an event of default. See note 1.2 Going concern.