REGISTERED NUMBER 08079075 (England and Wales)

TC Lincs OFTO Limited

Corporate Report and Regulatory Accounts

31 March 2016

TC Lincs OFTO Limited

Contents of the Regulatory Accounts
Year ended 31 March 2016

TC Lincs OFTO Limited

Foreword
Year ended 31 March 2016

TC Lincs OFTO Limited ("Company") is the holder of an Electricity Transmission Licence granted under the Electricity Act 1989. Under Condition E2 of this licence, the Company is required to prepare and publish annual regulatory accounts setting out the financial position and performance of the regulatory business covered by the licence.

Scope of the regulatory accounts
These regulatory accounts report the financial performance and financial position of the transmission business of the Company for the year ended 31 March 2016.

The Company's principal activity is to own, operate and maintain the assets for the transmission of electricity generated by the Lincs offshore wind farm. On 11 November 2014, the company was granted an offshore transmission licence by the Office of Gas and Electricity Market ("Ofgem") with the right to earn availability based income on the transmission assets for a period of 20 years until November 2034.

Relationship of regulatory accounts with statutory accounts
The financial information contained in these regulatory accounts does not constitute statutory accounts within the meaning of section 396 of the Companies Act 2006. Statutory accounts of the Company within the meaning of section 396 of the Companies Act 2006 will be delivered to the Registrar of Companies for the Company for the year ended 31 March 2016.

The auditors have made a report under Section 495 of the Companies Act 2006 on those statutory accounts which was unqualified and did not contain a statement under Section 498(2) or (3) of the Act. The auditor's opinion on the statutory accounts of the Company is addressed to, and for the benefit of, the members of the Company and not for any other person or purpose. The auditors have clarified, in giving their opinion on those statutory accounts, that they have been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. In giving their opinion, they do not accept or assume responsibility for any other purposes or to any other person to whom their audit report on the statutory accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing.

Basis of preparation of regulatory accounts
These regulatory accounts are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards.

These regulatory accounts do not contain any apportionment or allocation of revenues, costs, assets, liabilities reserves or provisions of the Company which are not specifically attributable to the regulatory transmission business.

BUSINESS STRUCTURE AND OBJECTIVES

The ultimate parent of the Company is International Public Partnerships Limited ("INPP"), an infrastructure fund investment company listed on the London Stock Exchange.

In November 2014, the Company purchased the Lincs wind farm transmission assets including an undersea cable, certain onshore transmission cables and equipment, along with the associated contracts and licences following a successful bid in response to an open tender process overseen by Ofgem. The Company was also granted an offshore transmission licence by Ofgem giving it the right to earn availability based income on the transmission assets for a period of 20 years until November 2034.

The Company financed the acquisition of the transmission assets through a combination of equity, external bank loan and subordinated shareholder loan. This is consistent with the requirements of the regulatory framework and the objectives of the INPP group.

The principal legislation forming the regulatory framework for the Company's operations are the Electricity Act 1989, as amended by the Utilities Act 2000 and the Energy Act 2004 and the relevant EU Directives and Regulations. Ofgem is responsible for monitoring compliance with the licence and, where necessary, enforcing them in accordance with the Electricity Act 1989, as amended by the Utilities Act 2000, on behalf of the Gas and Electricity Markets Authority.

The Company's key objectives are to maximise the availability of the transmission system and provide returns to shareholders consistent with its business plan. The Company will achieve these objectives by:

- Managing the asset effectively and controlling costs; and

Outperforming forecast availability targets to earn additional revenues and improve returns to investors.

FINANCIAL REVIEW

Summarised Statement of Comprehensive Income

	Year ended 31 March	
	2016 £'000	2015 £'000
Turnover	3,908	4,916
Operating profit	158	48
Net interest receivable	2,551	489
Profit on ordinary activities before tax	2,709	537
Taxation	(648)	(301)
Profit for the financial year	2,061	236
Other comprehensive income for the year, net of income tax	715	3,653
Total comprehensive income for the year	2,776	3,889

The table below summarises the financial performance of the Company during the year.

Turnover

Turnover represents the element of income attributable to the Company's provision of asset management services.

Other than in relation to movements in the Retail Price Index ("RPI") or for the recovery of certain expenditure, income under the licence is largely fixed for the duration of the revenue generating period providing the transmission assets are available for use. The regulatory regime does not require periodic determinations of maximum allowed revenues/prices (as is the case for other utility businesses such as those following regulatory asset base models for determining prices). Availability income is not affected by changes in the amount of electricity transmitted. Charges for transmission availability are made to the National Electricity Transmission System Operator.

Operating profit

Operating profit was £158,000 for the year (2015: £48,000) reflecting the profitability on the provision of asset management services.

FINANCIAL REVIEW *(Continued)*

Net interest receivable
Net interest receivable is £2,551,000 for the year (2015: £489,000) reflecting senior debt interest and subordinated debt interest net of interest income on cash deposits and interest income on the financial asset. Over the 20 year revenue period changes to interest expense caused by RPI movements are expected to be offset through RPI related changes in revenue.

Taxation
The tax charge for the year is £648,000 (2015: £301,000) and comprises only deferred tax. There was no current tax charge in the year.

A reconciliation of the profit on ordinary activities before tax multiplied by the standard rate of corporation tax to the current tax charge is set out in note 6 of the regulatory accounts.

Profit after tax
The profit for the year amounting to £2,061,000 (2015: £236,000) has been transferred to reserves.

Summarised Balance Sheet

	As at 31 March	
	2016 £'000	2015 £'000
Finance debtor	320,640	325,601
Other current assets *	552	7
Derivative financial instrument	5,326	4,566
Current liabilities *	(2,673)	(1,820)
Net debt	(309,891)	(318,004)
Provisions	(7,289)	(6,452)
Net assets	6,665	3,889

* excludes amounts related to net debt (including intercompany balances)

Finance debtor
The finance debtor has decreased in line with the amortisation profile by £4,961,000 to £320,640,000 due to the allocation of the asset-related element of the unitary charge received in the year. The movement is in line with the Directors' expectations.

Other current assets
Other current assets have increased by £545,000 to £552,000. This was due to the timing of receipt of the business rates invoice for 2016/17.

Current liabilities
Current liabilities have increased by £844,000 to £2,673,000. This was partly due to the timing of the receipt of the business rates invoice for 2016/17 and general increase in trade payables.

Net debt
The table below summarises the movement in net debt during the year.

	Year ended 31 March	
	2016 £'000	2015 £'000
Cash at bank and in hand	20,150	19,510
Bank loan	(160,174)	(165,455)
Amounts owed to group undertakings	(169,867)	(172,059)
Closing net debt at 31 March 2016/2015	(309,891)	(318,004)

Increase in cash
During the year the Company generated £5,419,000 (2015: 2,168,000) of cash from operating activities and net interest received of £1,050,000 (2015: £5,993,000). These amounts offset by capital expenditure of £nil (2015: £322,175,000) and net movement in borrowings of £5,829,000 (2015: increase of £ 333,524 resulted in a net increase in cash of £640,000 (2015: £19,510).

Movement in borrowings
The movement in borrowings consists of the repayment of bank borrowings of £5,390,000 and amounts owed to group undertakings of £439,000. The movement is in line with the Directors' expectations.

Provisions
Provisions increased by £837,000 to £7,289,000. Further information on provisions is provided in note 11 of the regulatory accounts.

FUTURE OUTLOOK

The business has performed in line with the Directors' expectations during the current year and the financial position at the balance sheet date is consistent with the Directors' financial projections.

The Directors have forecast the Company's future profits and cash flows over a range of possible future RPI rates and are confident that the Company will be profitable and cash generative over the course of the licenced revenue period.

GOING CONCERN

The regulatory accounts have been prepared on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future.

The Directors have reviewed forecast future profits and cash flows by reference to a financial model covering accounting periods up to 31 March 2035. The Directors have also examined the current status of the Company's principal contracts and likely developments. Having considered the forecast profits, cash flows, and status of principal contracts, in addition to the available financial facilities, the Directors consider that the Company will be able to meet its liabilities as they fall due for the foreseeable future.

The Directors therefore consider that it is appropriate for the regulatory accounts to be prepared on a going concern basis.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors consider the following risks and uncertainties to be the principal ones that might affect the Company's performance and results; however this may not reflect all of the risks of the Company either because they are currently unknown or assessed to be immaterial based on currently available information or the Company's current risk assessment:

- A decline in revenues as a result of sustained periods of unavailability or unexpected cost increases not covered by insurances or contracted pass-through costs reductions. The Company employs a specialist service provider to ensure availability is within target levels.
- The Company is exposed to changes in RPI as its loans and some of its operational costs are RPI linked. This risk is mitigated as the Company's availability income is also linked to movements in RPI.
- Decommissioning provisions included within long term liabilities represent management's best estimate of costs required to settle decommissioning obligations. Technological or legislative changes may result in variations from current estimates. Management reviews the obligation on an ongoing basis in line with licence requirements and is satisfied with the current level of provision.
- Changes to the regulatory regime including modifications to the licence could negatively impact the Company's financial performance. Ultimately, the licence could be terminated or revoked in certain circumstances of non-compliance or financial distress. Management actively reviews compliance with the licence requirements which acts to mitigate this risk.

The Company also manages its exposure to risk as detailed within the Corporate Governance Report.

KEY PERFORMANCE INDICATORS

The Directors review the performance of the Company on the basis of following key indicators:

- Availability of the transmission assets is a key performance indicator and directly impacts the revenue earned by the Company. The Company has an availability target set by Ofgem and is entitled to additional revenue if availability is in excess of this level or is charged deductions if availability falls below this level. During the current year under review the Company has outperformed availability ratio targets.
- Long and short term financial covenants set by lenders are regularly reviewed by the Directors. Management forecasts sufficient head room on all financial covenants relating to its long term loan facilities throughout the loan arrangement.
- The Directors regularly review the actual costs and revenues of the Company against budgets. The latest reviews indicate performance which is consistent with management's expectations and targets.

The Company's performance is predominantly driven by the extent to which the transmission assets are made available. The Company will manage availability through a combination of scheduling ongoing operational servicing, maintenance and potential replacement of non-performing equipment.

The Company has entered into contractual arrangements with supply chain providers to pass-through, where possible, the financial consequences of asset unavailability and operating cost changes. The Company has also entered into insurance arrangements to cover certain other insurable events which might impact on the Company's ability to keep the transmission assets available.

The Company is also incentivised through increased revenue to minimise, subject to necessary maintenance down-time periods, the amount of time the transmission assets are unavailable. Consequently, the Company's management consider availability of the assets as the key non-financial KPI for the business.

FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Company has funded its acquisition of the underlying transmission assets through a combination of senior and subordinated loans.

The senior bank loan is subject to a fixed interest rate of 3.075% per annum for the remainder of the term. The senior loan is repayable in six-monthly instalments commencing on 31 March 2015 and ending on 11 May 2034. The cash flows relating to the fixed interest and principal repayments are subsequently adjusted for movements in RPI over/under a base rate of 3.057%.

The Company has also received a subordinated loan from its shareholder. The subordinated loan has a fixed rate of 7.10% per annum and is unsecured. The subordinated loan is subject to annual indexation in line with movements in the RPI over/under a base rate of 2.75%. The loan is repayable in full by 31 March 2035.

RISK MANAGEMENT

The Company's principal risks and uncertainties are set out within this Strategic Report. Risk management however also covers other areas of risk that the Company may be exposed to. Management seek to ensure that adequate systems and controls, processes as well as contractual arrangements are in place to mitigate such risks as detailed below. Further details about the Company's internal systems of controls are set out within the Corporate Governance Report.

Financial risk management

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

RISK MANAGEMENT *(Continued)*

Liquidity risk
The Company adopts a prudent approach to liquidity and maintains cash reserves to meet its obligations. The nature of the Lincs offshore transmission concession provides the Company with largely predictable long-term cash flows which reduces the risk of insufficient liquidity.

Cash flow risk
The Company is exposed to RPI risk as its loans and some of its operational costs are RPI-linked. This risk is mitigated as the Company's availability income is also linked to movements in RPI. The Company's borrowings have a fixed rate coupon and accordingly the Company is not exposed to changes in interest rates. These borrowings are also RPI-linked and therefore the underlying RPI-linked income is used to service these loans.

All of the Company's cash flows are denominated in sterling hence there is no exposure to currency exchange risk. The Company's debt is long term and at a fixed interest rate amended for movements in RPI thus limiting exposure to interest rate fluctuations. The Company's projected funding requirements have been fully negotiated and agreed with its shareholder for the full required term. The Company maintains cash reserves to ensure sufficient liquidity to meet obligations.

The long-term contractual nature of the licence and key financing arrangements make cash flow forecasting reasonably predictable. The Company regularly reviews cash flow forecasts and actual results against budgets in order to monitor and control financial risk. The Company does not undertake transactions in financial derivative instruments for speculative purposes.

Credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge its obligation under the contract giving rise to the financial instrument. The Company has entered into long-term arrangements with credit worthy counterparties and monitors the risk of credit deterioration on a regular basis.

This concentration of risk is mitigated as the cash flows are secured under licence with National Grid Electricity Transmission plc ("NGET") in its capacity as National Electricity Transmission System Operator. NGET is a protected energy company for the purposes of the Energy Act 2004.

Operational risk management

Availability of the underlying transmission assets is the key driver of the Company's income. Availability in any given period is managed against a pre-set target agreed with Ofgem for the life of the project. Availability income is adjusted on a period by period basis for under/out performance against target. The Company has contracted with specialist sub-contractors and asset managers that are incentivised to optimise availability levels and manage operating costs.

The Company has entered into a number of insurance arrangements to protect the Company against certain risks such as damage to the assets (including where available, protection against consequential business interruption) and third party liability.

The Company is liable for decommissioning costs required for the removal of the offshore platform and sub-sea cable to the extent they would otherwise be a hazard to other sea users, and certain onshore transmission cables and equipment at the end of the licence revenue term. Management reviews the obligation on an ongoing basis and has put in place a programme of mid-term cash reserving to ensure it meets its contractual obligations.

Regulatory risk management

The Company actively monitors and manages its compliance with the OFTO licence and other regulatory requirements. Ultimately, the Company could have its licence terminated or revoked in certain circumstances.

The Company reviews on a regular basis the effectiveness of controls and processes in place to ensure compliance with such requirements which acts to mitigate this risk. This includes quarterly reviews of compliance by a Compliance Committee, with active input from an independent compliance officer.

EMPLOYEES AND HEALTH AND SAFETY

The Company does not have any direct employees. Services are provided under contract by sub-contractors and managed by a specialist asset manager under a long-term arrangement.

Health and safety ("H&S") is an important priority for the Company. The Company ensures it and its asset manager adopt best practice. The asset manager has adopted the HSG65 approach to its H&S Management System and throughout its policies and procedures in order to comply with legislation, Health and Safety Executive guidance and best-practice for the industry. The H&S Policy is the umbrella policy stating the asset manager's commitment to reducing to as low as reasonably practicable the risk of injury, death or disease to staff, contractors and the public. The Health and Safety Management System (HSMS) goes further to explain the implementation of Plan-Do-Check-Review methods; with detailed reference to HSG65. All further policies and procedures are authorised, approved and reviewed according to the asset manager's Authorisation Procedure and Audit Procedure, and are reviewed by an external Safety Auditor, based on OHSAS 18001 structure. This external safety auditor provides expert and impartial assistance in assessing the asset manager's Safety, Health and Environmental (SHE) procedures.

SOCIAL AND ENVIRONMENTAL MATTERS

The Company is committed to integrating environmental best practice into all its business activities. The Company accepts its environmental responsibilities and recognises its obligation to reduce the impact of business activities on the environment. The Company achieves this through a policy of assessing the environmental impacts of any action taken and oversees the performance of works carried out on site in accordance with industry best practice. The asset manager has also adopted the ISO 14001 approach to the effects of its activities upon the environment. The Environmental Policy acts as the umbrella policy to again enable all environmental procedures to be produced, implemented, and improved upon according to the asset manager's in-house procedures.

The nature of the offshore transmission business means that the extent of community related matters are minimal; however the Company does have in place the necessary procedures and policies to ensure compliance with the licence requirements including a complaints procedure designed to address all complaints incorporating any of a community nature.

On behalf of the board:

M J Gregory – Director

Date: 28 July 2016

The Company is required to include within its regulatory accounts a corporate governance statement which describes how the principles of good corporate governance have been applied.

As a wholly owned subsidiary of INPP, the Company is not subject to the UK Corporate Governance code, but operates within INPP's corporate governance framework.

The Company has its own Board of Directors and separate compliance committee. The ultimate governance of the Company is determined by the governance procedures of INPP. As a listed entity, INPP is required to confirm its compliance with (or explain departures from) the UK Corporate Governance Code (UK code). It is also INPP's policy to comply with best practice on good corporate governance that is applicable to investment companies.

The INPP Board has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code and the UKLA Listing Rules, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The AIC Code provides a "comply or explain" code of corporate governance designed especially for the needs of investment companies. INPP is a member of the AIC. INPP has reviewed its compliance with the AIC Code and includes in this report any instances where it is not in full compliance. The Financial Reporting Council has confirmed that so far as investment companies are concerned it considers that companies who comply with the AIC Code will be treated as meeting their obligations under the UK Code and Listing Rules.

The following statement sets out how this governance framework has been applied to the regulatory transmission business.

BOARD AND ASSET MANAGER

The Company is governed by a Board of three Directors. The Directors bring a combination of financial and operational management experience to the Company. The Directors are appointed by and are employees of Amber Fund Management Limited (the Investment Advisor to INPP) and sister entities within the Amber Infrastructure group. None of the Directors have any significant commitments to entities outside of Amber Infrastructure and INPP groups.

The Company does not have any employees. Services are provided by sub-contractors and managed by Transmission Capital Services Limited ("TCS"), a specialist asset manager.

The Board meets regularly to discuss operational, financial and performance matters relating to the transmission business. There are no independent non-executive directors. The Board does not have an independent Chairman and during the year meetings were normally chaired by either M J Gregory or G J Frost.

Attendance at Board meetings during the year, expressed as number of meetings attended out of number eligible to attend, is set out below.

	Attendance
M J Gregory	4 of 4
G J Frost	4 of 4
S Fennell	4 of 4

Board members are required to attend meetings regularly in order to ensure they are kept up to date with the business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates well in advance. Directors are sent papers for meetings of the Board from the specialist asset manager, Transmission Capital Services Limited ("TCS"). The Board of TCS reviews the operational performance of the Company on a monthly basis. The TCS Board provides a combination of financial, operational, asset management and technical experience to the Company.

The Board also receives quarterly licence compliance reports from the asset manager with input from an independent compliance officer.

BOARD AND ASSET MANAGER
(Continued)

The Management Engagement Committee which is a sub-committee of the INPP Board regularly reviews the performance of the Investment Advisor and INPP's other advisors and major service suppliers to ensure that performance is satisfactory and in accordance with the terms and conditions of the relative appointments.

If performance is not of a satisfactory level the INPP Board is able to exercise its rights under the terms and conditions of the relative appointments to remove the Investment Advisor and other advisors and service suppliers.

COMMITTEES

The Company does not have Nomination, Remuneration or Audit and Risk Committees. These functions are provided by INPP and their roles relevant to the Company are explained below.

Compliance
All compliance matters are considered on a quarterly basis by the Company's Compliance Committee. In addition, the Company has engaged the services of an independent Compliance Officer to review and report on compliance processes, systems and controls in accordance with the transmission licence.

Nomination
The Board of the Company makes appointments in consultation with its shareholder and in accordance with INPP's procedure for the appointment of directors to subsidiary companies. The details of the INPP Board are set out in its annual report and accounts.

Remuneration
The Directors of each INPP subsidiary undertaking are not separately remunerated in that capacity. The remuneration of any Director, who is also a member of the Board of INPP, is determined by the Board of INPP, as set out in its annual report and accounts.

Audit and Risk
Due to the controls and processes performed by the Investment Advisor and the INPP Audit and Risk Committee that apply across the INPP group, the Board do not consider a separate Audit and Risk Committee for the Company being necessary. The INPP Audit and Risk Committee comprise the full INPP Board with the exception of G J Frost.

The INPP Audit and Risk Committee is responsible for the nomination of external auditors. The Committee is responsible for monitoring the objectivity, independence and effectiveness of the audit process, with particular regard to terms under which the auditor is appointed to perform non-audit services.

In respect of the risk management function, the Audit and Risk Committee is also responsible for reviewing INPP's risk management framework and ensuring that the risk management function of the Investment Advisor, administrator and other third party service providers are adequate and to seek assurance of the same.

The direct communication between INPP and its Investment Advisor and the entity level asset manager is regarded as a key element in the effective management of risk (and performance) at the underlying investment level. The Company benefits from a strong alignment of risk and management performance approach at INPP and underlying investment levels through the provision of services from a vertically integrated Investment Advisor and investment level Asset Manager.

The Audit and Risk Committee, having reviewed the performance of the Auditor, has recommended to the INPP Board that the Auditor of the Company be proposed for re-appointment.

Management Engagement
There is no separate Nomination Committee or Remuneration Committee within the Company. Instead, the INPP Board's Management Engagement Committee was established to provide a formal mechanism for the review of the performance of INPP's advisors including its Investment Advisor. It carries out this review through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of the advisors' appointment with the aim of evaluating performance, identifying any weaknesses and ensuring value for money.

RISK MANAGEMENT AND INTERNAL CONTROL

The Directors acknowledge that they are responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatements or loss.

The nature of the offshore transmission business undertaken by the Company is typically low risk being governed by long-term contractual operating and financing arrangements and an availability based income regime. The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company on an ongoing basis. The specialist asset manager is also contractually obliged to consider, monitor and report on regulatory, operational and financial issues to the Board.

Internal Control and Audit Committee
The Board of INPP takes overall responsibility for internal control throughout its group operations and in particular in monitoring its effectiveness within its subsidiary companies. The Board of the Company is responsible for its overall management and governance, and for ensuring that it complies with all relevant laws and regulations, including compliance with its Electricity Transmission Licence.

The Company does not have a separate Audit and Risk Committee as these functions are dealt with by the INPP Audit and Risk Committee. The effectiveness of the system of internal control across the Company is kept under review through the work of the INPP Audit and Risk Committee. The INPP Audit and Risk Committee consider reports from the auditor, the Investment Advisor and administrator. The main responsibilities of the INPP Audit and Risk Committee include reviewing the effectiveness of the internal control systems at INPP and its subsidiaries and making recommendations to the INPP Board regarding the appointment, independence, and remuneration of the auditor.

The INPP Audit and Risk Committee is responsible for the nomination of external auditors on behalf of all wholly owned subsidiaries of INPP. The Audit and Risk Committee is responsible for monitoring the objectivity, independence and effectiveness of the audit process, with particular regard to the appropriateness of the auditors carrying out certain non-audit services; and the level of audit and non-audit fees paid to auditors.

Internal audit
INPP in common with other investment companies does not have an internal audit function. The INPP Board has considered the need for an internal audit function, but because of the internal control systems in place within the Investment Advisor and the independent controls process reviews performed it has decided instead to place reliance on those control and assurance processes.

RELATIONS WITH SHAREHOLDERS

G J Frost is also a Non-Executive Director of INPP. Through his participation at the Boards of both INPP and the Company, the Board is well placed to identify and facilitate understanding of the views of its ultimate shareholder.

TC Lincs OFTO Limited

Statement of Directors' Responsibilities
Year ended 31 March 2016

The Directors present their report with the regulatory accounts of the Company for the year ended 31 March 2016.

Principal activities and business review
A full description of the Company's principal activities, business, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 2 to 7, which are incorporated by reference into this report.

Directors
The Directors who held office during the year and up to the date of signing these regulatory accounts are as follows:

G J Frost
M J Gregory
S Fennell

International Public Partnerships Limited, the Company's ultimate parent continues to hold qualifying third party indemnity provisions for the benefit of the Company's directors which held office during the year and these remain in force at the date of this report.

Directors' Interests in shares
None of the Directors who held office as at 31 March 2016 held any shares directly in the Company.

Directors' Remuneration
During the year ended 31 March 2016 no emoluments were paid to any of the Directors of the Company (2015: £Nil). There is no direct link of the remuneration of the Directors to performance against service standards.

Dividends
The Directors do not recommend the payment of a dividend (2015: £Nil).

Charitable and political donations
During the current year the Company made no charitable or political donations (2015: Nil).

Policy and practice on payment of creditors
A significant proportion of the Company's payment obligations are contractual. The Company's policy is to make payments in accordance with its contractual and legal obligations.

Disclosure of information to auditors
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he is obliged to take as Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Ernest & Young LLP resigned as auditor of the company in the year and the directors appointed KPMG LLP. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KMPG LLP will therefore continue in the office.

On behalf of the board:

....
G J Frost - Director

Date: 28 July 2016

Statement of Directors' Responsibilities
Year ended 31 March 2016

The Directors are obliged by Standard Condition E2 of the Licensee's Transmission Licence to prepare regulatory accounts for each financial year which comply with the requirements set out in Standard Condition E2, as amended by consents received from Ofgem (the 'Requirements').

Under the Requirements, the Directors have responsibility for ensuring that:

- the Company and related undertakings keep accounting records and other records as are necessary so that the revenues, costs, assets, liabilities, reserves, and provisions that are reasonably attributable to the transmission business and are separately identifiable in the accounting records of the Licensee from those of any other business;
- the regulatory accounts are prepared on a consistent basis from such accounting records in respect of each financial year and, so far as reasonably practicable the regulatory accounts and information in respect of a financial year have the same content and format as the most recent statutory accounts of the Licensee;
- the regulatory accounts include for the transmission business and in total, a profit and loss account, a statement of total recognised gains and losses, a balance sheet, a cash flow statement, including notes thereto and statement of accounting policies adopted;
- the regulatory accounts include, for the transmission business, a corporate governance statement, a directors' report and a strategic review; and
- the regulatory accounts show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any other business of INPP (other than the Licensee), or that have been determined by apportionment or allocation, where they relate to goods or services received or supplied for the purposes of the transmission business.

In addition, in preparing the regulatory accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the regulatory accounts; and
- prepare the regulatory accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the regulatory accounts comply with Standard Condition E2 of the Electricity Transmission Licence as applicable. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names are listed in the Directors' report on page 11, confirms that, to the best of their knowledge:

- the regulatory accounts have been prepared in accordance with the Requirements and fairly present the assets, liabilities, financial position of the Company's electricity transmission business.
- the regulatory accounts are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards.

Independent Auditor's report to the Director General, the Gas and Electricity Markets Authority ('the Regulator') and the directors of TC Lincs OFTO Limited

We have audited the Regulatory Accounts of TC Lincs OFTO Limited ('the company') for the year ended 31 March 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes to the Regulatory Accounts. The financial reporting framework that has been applied in their preparation is condition E2 of the Company's Regulatory Licence, and the accounting policies set out in note 1.

This report is made, on terms that have been agreed, solely to the company and the Regulator in order to meet the requirements of the Regulatory Licence. Our audit work has been undertaken so that we might state to the company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Directors and Auditor
As explained more fully in the Directors' Responsibility Statement set out on page x, the directors are responsible for the preparation of the Regulatory Accounts.

Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' section below and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF *Reporting to regulators on regulatory accounts*. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts
An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed and the reasonableness of significant accounting estimates made by the directors. In addition, we read all the financial and non- financial information in the Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by condition E2. Where condition E2 does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on Regulatory Accounts
In our opinion the Regulatory Accounts have been properly prepared in accordance with condition E2 of the Company's Regulatory Licence, and the accounting policies set out in note 1.

Independent Auditor's report to the Director General, the Gas and Electricity Markets Authority ('the Regulator') and the directors of TC Lincs OFTO Limited

Emphasis of matter - basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with condition E2 of the Company's Regulatory Licence, and the accounting policies set out in the statement of accounting policies. The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.* . Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

Other matters

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2016 on which we reported on 28 July 2016, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'Statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

KPMG LLP

KPMG LLP
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Date: 29 July 2016

TC Lincs OFTO Limited

Statement of Comprehensive Income
Year ended 31 March 2016

	Note	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
TURNOVER	2	**3,908**	4,915
Cost of sales		**(1,217)**	(4,036)
GROSS PROFIT		**2,691**	879
Administrative expenses		**(2,533)**	(831)
OPERATING PROFIT	3	**158**	48
Interest receivable and similar income	4	**16,874**	6,523
Interest payable and similar charges	5	**(14,323)**	(6,034)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**2,709**	537
Tax on profit on ordinary activities	6	**(648)**	(301)
PROFIT FOR THE FINANCIAL YEAR		**2,061**	236
Effective portion of changes in fair value of cash flow hedges		**760**	4,566
Income tax on other comprehensive income		**(45)**	(913)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**715**	3,653
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,776**	3,889

CONTINUING OPERATIONS
All items in the above statement derive from continuing operations.

The notes on pages 19 to 32 form an integral part of these regulatory accounts.

TC Lincs OFTO Limited

Balance Sheet
As at 31 March 2016

	Note	31-Mar-16 £'000	31-Mar-15 £'000
CURRENT ASSETS			
Debtors: amounts falling due within one year	7	3,634	4,968
Debtors: amounts falling due after more than one year	7	322,984	325,206
Cash at bank and in hand	8	20,150	19,510
		346,668	349,684
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(13,946)	(11,639)
NET CURRENT ASSETS		332,722	338,045
CREDITORS			
Creditors: amounts falling due after more than one year	10	(318,768)	(327,704)
Provisions for liabilities	11	(7,289)	(6,452)
NET ASSETS		6,665	3,889
CAPITAL AND RESERVES			
Called up share capital	12	-	-
Cash hedging reserve		4,368	3,653
Profit and loss account		2,297	236
SHAREHOLDER'S FUNDS		6,665	3,889

The accounts were approved by the Board of Directors on 28 July 2016 and were signed on its behalf by:

S.L M

S Fennell - Director

Registered number: 08079075

The notes on pages 19 to 32 form an integral part of these regulatory accounts.

TC Lincs OFTO Limited

Statement of Changes in Equity
Year ended 31 March 2016

	Called up share capital £'000	Retained earnings £'000	Cash hedging reserve £'000	Total equity £'000
Balance at 1 January 2014	-	-	-	-
Changes in equity				
Profit and loss account	-	236	-	236
Other comprehensive income	-	-	3,653	3,653
Balance at 31 March 2015	**-**	**236**	**3,653**	**3,889**
Changes in equity				
Profit and loss account	-	2,061	-	2,061
Other comprehensive income	-	-	715	715
Balance at 31 March 2016	**-**	**2,297**	**4,368**	**6,665**

The notes on pages 19 to 32 form an integral part of these regulatory accounts.

TC Lincs OFTO Limited

Cash Flow Statement
Year ended 31 March 2016

	Note	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
Cash flow from operating activities			
Profit for the financial year		**2,061**	236
Tax on profit on ordinary activities		**648**	301
Interest receivable and similar income		**(16,874)**	(6,623)
Interest payable and similar charges		**14,323**	6,034
Opearing profit		**158**	48
Decrease in debtors		**2,439**	291
Increase in creditors		**2,822**	1,829
Net cash from operating activities	15	**5,419**	2,168
Cash flows from investing activities			
Acquisition of transmission asset		**-**	(322,175)
Interest received		**16,873**	7,983
Net cash from investing activities		**16,873**	(314,192)
Cash flows from financing activities			
Net proceeds from bank loan		**-**	167,392
Repayment of bank borrowings		**(5,390)**	(1,979)
Interest paid		**(15,823)**	(1,990)
Movement in amounts owed to group undertakings		**(439)**	168,111
Net cash from financing activities		**(21,652)**	331,534
Net increase in cash and cash equivalents		640	19,510
Cash and cash equivalents at 1 April		**19,510**	-
Cash and cash equivalents at 31 March		20,150	19,510

The notes on pages 19 to 32 form an integral part of these regulatory accounts.

1. ACCOUNTING POLICIES

Basis of preparation

TC Lincs OFTO Limited (the "company") is a company limited by shares and incorporated and domiciled in the UK.

These regulatory accounts were prepared in accordance with Financial Reporting Standard 102 *(The Financial Reporting Standard)* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The presentation currency of these regulatory accounts is sterling. All amounts in the regulatory accounts have been rounded to the nearest £1,000.

The regulatory accounts are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

In the transition to FRS 102 from UK GAAP, the company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the company is provided in note 15.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The regulatory accounts have been prepared on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The Directors have reviewed forecast future profits and cash flows by reference to a financial model covering accounting periods up to 31 March 2035. The Directors have also examined the current status of the Company's principal contracts and likely developments. Having considered the forecast profits, cash flows, and status of principal contracts, in addition to the available financial facilities, the Directors consider that the Company will be able to meet its liabilities as they fall due for the foreseeable future. The Directors therefore consider that it is appropriate for the regulatory accounts to be prepared on a going concern basis.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, VAT and other sales taxes or duty. Revenue is recognised in line with the following policies:

<u>Asset management fees</u>

Revenue from the provision of asset management services is recognised as contract activity progresses at a mark-up on related costs to reflect the value of work performed.

<u>Asset management recharges</u>

Revenue from asset management recharges is recognised at the contractually agreed mark up for each service as it is provided.

1. **ACCOUNTING POLICIES *(Continued)***

Classification of financial instruments issued by the company
In accordance with FRS 102.22, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors
Trade and other debtors are recognised at transaction price less attributable transaction costs. Trade and other creditors are recognised at transaction price plus attributable transaction costs. Any losses arising from impairment are recognised in the Statement of comprehensive income in administrative expenses.

Interest-bearing borrowings classified as basic financial instruments
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.

Interest receivable and interest payable
Interest payable and similar charges includes interest and indexation payable on borrowings, the unwinding of the discount on provisions, and other financial charges.

Bank interest receivable includes interest receivable on cash deposits. Interest income and interest payable are recognised in profit or loss using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

1. **ACCOUNTING POLICIES *(Continued)***

Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)
Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges
The company uses derivative financial instruments in the form of an RPI swap, to hedge its exposure to fluctuations in inflation in order to manage RPI risk on a portion of its RPI linked cash flows.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Service concession accounting

Financial assets
Based on the contractual arrangements the company has classified the project as a service concession arrangement and has accounted for the principal assets of and income streams from the project in accordance with FRS 102, section 34.12 Service Concession Arrangement.

The arrangement is classified as a financial instrument and is carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value.

Impairment
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.

1. **ACCOUNTING POLICIES *(Continued)***

Impairment *(Continued)*
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.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Provisions
Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle that obligation and it can be reliably estimated. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect of the time value of money is material.

Judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amount reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Related party disclosure
The company has taken advantage of the exemption in Section 33.1A Related Party Disclosures not to disclose related party transactions between two or more members of a group provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

2. TURNOVER

An analysis of turnover by class of business is given below

	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
Asset management fees	**3,345**	1,022
Asset management recharges	**563**	3,893
	3,908	4,915

All turnover is derived from operations in the United Kingdom.

3. OPERATING PROFIT

	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
Operating profit is stated after charging:		
Auditor's remuneration for statutory audit services	**18**	19
Auditor's remuneration for other services	**5**	11
Management fees	**1,682**	250

The Directors received no salary, fees or other benefits in the performance of their duties in respect of their services to the Company (2015: £Nil).

The Company has no employees and hence there were no staff costs for the year ended 31 March 2016 (2015: £Nil).

The regulatory accounts do not include any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any other business of INPP, or that have been determined by apportionment or allocation, where they relate to goods or services received or supplied for the purposes of the transmission business.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
Bank interest receivable	**135**	8
Financial asset income	**16,739**	6,515
	16,874	6,523

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
Interest payable on bank loans	5,094	1,989
Loan interest and indexation payable to group undertaking	9,084	3,990
Unwinding of discount on provision	144	54
Other finance charges	1	1
	14,323	6,034

6. TAXATION

Analysis of the tax charge

The tax charge for the year is analysed as follows:

	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
Current tax:		
Deferred tax	648	301
Tax on profit on ordinary activities	648	301

6. TAXATION *(Continued)*

Reconciliation of total tax charge included in profit and loss
The tax assessed for the year is different to that of the standard rate of corporation tax in the UK. The difference is explained below:

	Year Ended 31-Mar-16 £'000	Year Ended 31-Mar-15 £'000
Profit on ordinary activities before tax	**2,709**	537
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	**542**	113
Effects of:		
- Expenses not deductible for tax purposes	**212**	204
- Impact of changes in tax rates	**(106)**	(16)
Current tax charge for the year	**648**	301

Tax recognised in other comprehensive income:

	Year Ended 31-Mar-16 Gross £'000	Tax £'000	Net £'000
Changes in fair value of cash flow hedge	**5,326**	**(958)**	**4,368**

	Period Ended 31-Mar-15 Gross £'000	Tax £'000	Net £'000
Changes in fair value of cash flow hedge	4,566	(913)	3,653

Factors that may affect future tax charges
The UK corporation tax rate reduced to 20% from April 2015. The rate will reduce to 19% from April 2017, and will reduce further to 18% from April 2020. As at the balance sheet date, these future tax reductions had been "substantively enacted" and hence in accordance with accounting standards, this has been reflected in the company's financial statements at 31 March 2016. The rate changes will impact the amount of future tax payments to be made by the company. Deferred tax at 31 March 2016 has been calculated based on the rate of 18% substantively enacted at the balance sheet date.

7. DEBTORS

	31-Mar-16 £'000	31-Mar-15 £'000
Amounts falling due within one year:		
Other financial assets	2,982	4,960
Prepayments and accrued income	552	8
	3,534	4,968
Amounts falling due after more than one year:		
Other financial assets	317,658	320,640
Derivative financial instruments	5,326	4,566
	322,984	325,206

	31-Mar-16 £'000
Balance at 1 January 2015	4,566
Other comprehensive income	760
As at 31 March 2016	**5,326**

The company has entered into an RPI swap to convert a portion of RPI linked interest income to fixed rate income.

Inflation swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves. The inflation swap settles on a bi-annual basis with the difference between the fixed and floating rates paid on a net basis.

The fair value of these financial instruments at 31 March 2016 was an asset of £5,326,000 (2015: asset of £4,566,000). A gain of £760,000 (2015: £4,566,000) was recognised in other comprehensive income. No gains or losses were recognised in the profit or loss account in either the current or previous year.

8. CASH AT BANK AND IN HAND

Cash at bank and in hand include amounts of £12,675,000 (2015: £11,246,000) that the Company can only use for specific purposes and with the consent of the Company's lenders.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31-Mar-16 £'000	31-Mar-15 £'000
Bank loan	5,394	5,281
Trade creditors	540	32
Amounts owed to group undertakings	5,879	4,529
VAT	967	1,473
Accruals	1,166	324
	13,946	11,639

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31-Mar-16 £'000	31-Mar-15 £'000
Bank loan	154,780	160,174
Amounts owed to group undertakings	163,988	167,530
	318,768	327,704

Bank borrowings relate to a loan facility granted by a financial institution on 11 November 2014. The loan facility for a total value of £168.66 million was fully drawdown in the current period.

The bank loan is payable in six-monthly instalments commencing on 31 March 2015 and ending on 11 May 2034. Interest is charged on amounts drawn under the facility based on a fixed rate of 3.075% per annum. The cash flows relating to the fixed interest and principal repayments are subsequently adjusted for movements in RPI over/under a base rate of 3.057%. The bank loan is secured by a fixed and floating charge over all property and assets of the company to the extent permitted by the terms of the Transmission Licence, the Crown Estate Lease, the Onshore Lease Agreement or any applicable law or regulation.

Amounts owed to group undertakings represent loan from the company's immediate parent undertaking TC Lincs Holdco Limited. The loan is subject to annual indexation in line with movements in the RPI over/under a base rate of 2.75% and a fixed interest of 7.10% per annum. Interest that is contingent on movements in RPI over/under a benchmark rate is taken into account in calculating finance costs once they have occurred. Loan from group undertakings is presented net of issue costs which are being amortised at a constant rate on the carrying value of the loan. The loan is repayable in full by 31 March 2035 and it is unsecured.

The maturity profile of the bank loan and amounts owed to group undertakings, included within creditors, is analysed as follows:

	31-Mar-16 £'000	31-Mar-15 £'000
Wholly repayable within five years	38,170	34,364
Wholly repayable after more than five years	291,871	303,150
	330,041	337,514

11. PROVISIONS FOR LIABILITIES

	Decommissioning provision £'000	Deferred tax £'000	Total £'000
At 1 April 2015	5,238	1,214	6,452
Charged to the profit and loss account	-	648	648
Charged to other comprehensive income	-	45	45
Unwinding of discount on provision	144	-	144
At 31 March 2016	**5,382**	**1,907**	**7,289**

11. PROVISIONS FOR LIABILITIES *(Continued)*

Decommissioning

The provision for decommissioning relates to the decommissioning and related management costs for the necessary removal of the transmission cables equipment. The timing of the expenditure will depend upon the life of the wind farm, but it has been assumed that this is expected to occur at the end of the initial licence period in 2034.

The timing and amounts settled in respect of these provisions are uncertain and dependent on various factors that are not always within management's control:

- The timing of decommissioning is contingent upon any re-powering of the offshore wind farm and therefore the potential for the transmission assets to be used beyond the initial licence revenue term. In such circumstances, the costs for decommissioning would be expected to be deferred until such time as would be agreed in any subsequent term. However, the current assumption is that it is too uncertain to assume the wind farm will be repowered and, therefore decommissioning costs have been assumed to be incurred at the earliest most likely date.
- The amount of costs to be incurred at the time of decommissioning has been estimated based upon expected costs of decommissioning. However, given the time frame for the incurring of such costs, the level of provision is reviewed on a periodic basis. The current decommissioning provision represents the present value of expected future cash flows which are estimated to settle the entity's future obligations in relation to decommissioning.

Deferred tax

The deferred tax liability consists of:

	31-Mar-16	31-Mar-15
	£'000	£'000
Accelerated capital allowances	**3,782**	978
Deferred tax on derivative financial instruments	**958**	913
Tax losses	**(2,833)**	(677)
	1,907	1,214

12. CALLED UP SHARE CAPITAL

	31-Mar-16	31-Mar-15
	£'000	£'000
Alloted and fully paid		
1 (2015: 1) ordinary share of £1 each	**-**	-

13. RELATED PARTY DISCLOSURES

During the year, the company incurred £1,682,000 (2015: £250,000) in fees from Transmission Capital Services Limited for the provision of asset management services. Included within accruals at 31 March 2016 are amounts owed to Transmission Capital Services Limited of £999,000 (2015: £144,000.

Transmission Capital Services Limited is ultimately owned by a joint venture in the Amber Infrastructure Group Holdings Limited ("Amber") group. Two of the directors of the company are also shareholders of Amber, hence transactions with Amber are considered to be related party transactions.

During the year, the company incurred advisory fees of £Nil (2015: £4,630,000) from Amber Infrastructure Limited, a company within the Amber group. At 31 March 2016 no amounts were owed to Amber 2015: £Nil).

14. ULTIMATE CONTROLLING PARTY

The directors regard TC Lincs Holdco Limited, a company incorporated in England and Wales as the immediate parent undertaking and controlling party and International Public Partnerships Limited, a company registered in Guernsey, as the ultimate parent undertaking and controlling party. Copies of the consolidated financial statements of International Public Partnerships Limited Partnership (the smallest and the largest group of which the company is a member and for which group financial statements are prepared) can be obtained from the company's registered office, Two London Bridge, London, SE1 9RA.

15. EXPLANATION OF TRANSITION TO FRS 102 FROM OLD UK GAAP

As stated in note 1, these are the company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2016 and the comparative information presented in these financial statements for the period ended 31 March 2015.

In preparing its FRS 102 balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting UK GAAP. An explanation of how the transition from UK GAAP to FRS 102 has affected the company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

A reconciliation of the balance sheet at the start of the prior period is not required as the company did not trade until it commenced trading on 11 November 2014.

15. EXPLANATION OF TRANSITION TO FRS 102 FROM OLD UK GAAP *(Continued)*

Reconciliation of profit for the period ended 31 March 2015

	Note	UK GAAP £'000	Effect of transition to FRS 102 £'000	FRS 102 £'000
TURNOVER	C	4,977	(62)	4,915
Cost of sales		(4,036)	-	(4,036)
GROSS PROFIT		941	(62)	879
Administrative expenses		(831)	-	(831)
OPERATING PROFIT		110	(62)	48
Interest receivable and similar income	C	7,985	(1,462)	6,523
Interest payable and similar charges		(6,034)	-	(6,034)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,061	(1,524)	537
Tax on profit on ordinary activities	C	(606)	305	(301)
PROFIT FOR THE FINANCIAL PERIOD		1,455	(1,219)	236
Effective portion of changes in fair value of cash flow hedges	A	-	4,566	4,566
Income tax on other comprehensive income	B	-	(913)	(913)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX		-	3,653	3,653
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,455	2,434	3,889

15. EXPLANATION OF TRANSITION TO FRS 102 FROM OLD UK GAAP *(Continued)*

Reconciliation of equity for the period ended 31 March 2015

	Note	UK GAAP £'000	Effect of transition to FRS 102 £'000	FRS 102 £'000
CURRENT ASSETS				
Debtors: amounts falling due within one year	A,C	12,466	(7,498)	4,968
Debtors: amounts falling due after more than one year	C	314,666	10,540	325,206
Cash at bank and in hand		19,510	-	19,510
		346,642	**3,042**	**349,684**
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		**(11,639)**	**-**	**(11,639)**
NET CURRENT ASSETS		**335,003**	**-**	**338,045**
CREDITORS				
Creditors: amounts falling due after more than one year		(327,704)	-	(327,704)
Provisions for liabilities	B,C	(5,844)	(608)	(6,452)
NET ASSETS		**1,455**	**2,434**	**3,889**
CAPITAL AND RESERVES				
Called up share capital		-	-	-
Cash hedging reserve	A,B	-	3,653	3,653
Profit and loss account	C	1,455	(1,219)	236
SHAREHOLDER'S FUNDS		**1,455**	**2,434**	**3,889**

15. EXPLANATION OF TRANSITION TO FRS 102 FROM OLD UK GAAP *(Continued)*

A. Recognition of Fair Value of Swap

FRS102 requires the recognition of the fair value of the Interest Rate Swap and RPI swap on the balance sheet. The company has applied hedge accounting such that the effective portion of the change in fair value is recognised in other comprehensive income. The gain or loss recognised in other comprehensive income is reclassified to profit or loss when the hedge item is recognised in profit or loss. Under previous UK Accounting Standards swaps were not re-valued to fair value or shown on the company balance sheet at the year end.

B. Recognition of Deferred Tax following Recognition of Fair Value of Swap

Following recognition of the RPI swap asset explained in Part A above the company has also recognised the deferred tax impact of the derivative asset recognised.

C. Service Concession Arrangements

The company previously adopted the provisions of Financial Reporting Standard 5 (Application Note F) in determining the appropriate treatment of the asset of the company as a finance debtor. The asset-related unitary charge received was allocated between repayment of the finance debtor and finance income at the project specific rate.

Under FRS 102 the company is required to apply the requirements of FRS 102 34.12I – 34.16A to its PFI service concession arrangement (the financial asset). Accordingly the arrangement has been classified as a financial instrument and is carried at amortised cost using the effective interest rate method reflecting adjustments to its carrying value as explained in the accounting policies section.

The effect of the transition to FRS 102 has adjusted the previously reported amounts for turnover, financial asset income, in addition to the associated tax impact.