

REGISTERED NUMBER: 08163554 (England and Wales)

Report of the Directors and
Financial Statements
for the Year Ended 31st December 2017
for
TIDAL LAGOON POWER LIMITED



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for the Year Ended 31st December 2017

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TIDAL LAGOON POWER LIMITED

Company Information
for the Year Ended 31st December 2017

DIRECTORS:

M C Shorrock
P J Carter

SECRETARY:

P J Carter

REGISTERED OFFICE:

Pillar & Lucy House
Merchants Road
Gloucester
Gloucestershire
GL2 5RG

REGISTERED NUMBER:

08163554 (England and Wales)

AUDITORS:

Baldwins Audit Services
Statutory Auditors
Pillar House
113/115 Bath Road
Cheltenham
Gloucestershire
GL53 7LS

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

**Report of the Directors
for the Year Ended 31st December 2017**

The directors present their report with the financial statements of the company for the year ended 31st December 2017.

REVIEW OF BUSINESS

Introduction

Tidal lagoons offer the potential to develop a highly sustainable and low carbon solution to the UK's energy demands by generating indigenous electricity at scale from the natural movement of the tides.

Tidal Lagoon Power Limited, a 100 % subsidiary of its parent company, Tidal Lagoon Plc, was established in 2012 as a specialist provider of mixed disciplinary professional services for tidal lagoon development, initially to the pathfinder Swansea Bay tidal lagoon project and more recently to a proposed fleet of future UK and overseas lagoons.

An independent strategic review on tidal lagoons chaired by Charles Hendry (the "Hendry Review") was published in January 2017 and strongly endorsed the view that power from tidal lagoons could make a strong contribution to the UK energy security as an indigenous, cost effective and completely predictable form of electricity generation.

In early 2018, the Welsh Government, who were proactively looking at how they might facilitate securing the long term benefits created by lagoons, engaged directly with the UK Government to look at means by which the pathfinder project at Swansea Bay might be funded with a significant capital contribution from them on the basis that the UK Government would confirm that it was prepared to offer the Swansea Bay project a Contract for Difference ("CfD"), thereby kick-starting a UK tidal lagoon industry from which the Company would be well placed to benefit.

However, and notwithstanding the supportive Hendry Review recommendations, Welsh Government intervention and strong cross-party support for the Swansea Bay project, on 25 June 2018 Greg Clark, Secretary of State for the Department of Business, Energy and Industrial Strategy, announced that the UK Government, whilst supportive of the concept of tidal lagoons, were not minded to progress a CfD for Swansea Bay Tidal Lagoon. Both the Company and its parent company, Tidal Lagoon Plc, strongly dispute the decision not to offer a CfD and the published grounds upon which the UK Government came to its conclusions.

Following discussions with key stakeholders, management believe that there is both the will and means to try and realise a tidal lagoon vision, notwithstanding Westminster's position, as evidenced by an independent Wales-based taskforce established to look at the potential options for tidal lagoon delivery independent to central government support.

However, the failure of UK Government to back the pathfinder project at Swansea Bay is a major set-back and, following the announcement, both the Company and its parent have had no alternative but to enter into Company Voluntary Arrangements ("CVA") with their creditors and scale back their ongoing operations. CVA's were agreed on 4th September 2018 and this is expected to give time for an alternative plan to bring forwards tidal lagoons (the "LaunchCo Plan") to be realised and thereby preserve shareholder value and provide a route to settle historic creditor balances in full.

Results for the year

The Company made an operating loss for the year of £3.0m (2016: £4.0m) which reflects the progressive reduction in activity levels and consequently lower cost base whilst the Company awaited the UK Government's response to the Hendry Review and its commitment to a UK tidal lagoon industry. The Company has made substantive cost reductions in the subsequent period to the date of this report as it has sought to minimise its activities whilst preserving value.

LaunchCo Plan

Notwithstanding the UK Government decision, management understands that there remains significant support for the Swansea Bay Tidal Lagoon project and the delivery of a cost competitive future UK lagoon programme once a pathfinder has demonstrated the concept. The relatively small size of the pathfinder compared to the larger lagoons, its strategic importance to the Welsh economy, and its wider amenity benefits over and above power generation, mean management believe that there may, subject to continuing support from key stakeholders, be a different way of financing the Swansea Bay project's delivery which is not dependent on a CfD from UK Government.

The LaunchCo Plan, as set out in the CVA proposal, aims to combine the Swansea Bay Tidal Lagoon project and the fleet of future lagoon projects under a new umbrella company, Tidal Power Plc to create a combined vehicle to finance, construct, build and operate the pathfinder project with the means to fund the development of the future lagoon programme, effectively creating a longer term tidal range utility company.

Report of the Directors
for the Year Ended 31st December 2017

The proposed plan requires the securing, to the extent that they exist, of pre-existing construction funding commitments to the Swansea Bay Tidal Lagoon as cornerstone investment, and the delivery of additional funding and revenue generation initiatives. A financial model has been developed and the assumptions are currently being refined with input from stakeholders.

The Board of Tidal Lagoon (Swansea Bay) Plc has agreed in principle to grant the necessary development and Intellectual Property rights in the Swansea Bay project for an initial period of two years to enable Tidal Power Plc to take forward this plan. The Board of the parent company have made a similar, in principle, arrangement for Tidal Power Plc to exploit the Company's intellectual property rights for the purposes of delivering the LaunchCo Plan on the basis that, if successful, Tidal Power Plc will settle certain of the Company and parent company CVA creditors and commit further development funding to enable the future lagoon plan to be taken forwards.

PRINCIPAL RISKS AND UNCERTAINTIES

Short-Term Financial Risk

Development funding to the date of the CVA was provided to the Company by its parent, who financed this by means of public share and debt offerings, together with loans provided to it by Shire Oak Energy Limited (the Ultimate Parent Company), the directors and the Welsh Government. Subsequent to the CVAs, the Company's costs have been met by Tidal Power Plc and further director and related company loans. The Company has scaled back its operations to a minimal level of activity to reduce costs, having also made residual employees of the Company redundant post year end.

The Company and its parent remain wholly reliant upon the continuing support of related parties and the Welsh Government, together with the success or otherwise of the LaunchCo Plan to ensure that they are able to discharge its longer term obligations to historic creditors in accordance with the CVAs terms.

The Directors have prepared projected cash flow information for the next twelve months taking account of projected expenditure which show that the Company has sufficient cash to meet its anticipated post CVA obligations as they fall due. However, the Company has limited ability to absorb any unanticipated costs and in those circumstances would be reliant upon funding being made available to the Group by another related party company.

Whilst the Directors believe the going concern basis is appropriate at the date of this report, the inherent uncertainties around the deliverability of the LaunchCo Plan have a major impact on this assessment such that if the LaunchCo Plan is not delivered (or becomes non-deliverable) within the two year option window then the CVAs are likely to fail, which may lead to the Company ceasing to trade.

Political Landscape

Whilst the UK Government have expressed that they remain open in principle to cost competitive tidal lagoons as part of the strategic energy mix, there is no guarantee that any future lagoon would be offered a CfD by the UK Government. There are also a number of forward looking points raised by the Hendry Review which would benefit from further clarification by the relevant authorities.

RESEARCH AND DEVELOPMENT

A significant part of the Company's activities are directed towards research and development.

Research and development, in its widest sense, encompasses the use of scientific or technological knowledge in order to produce new or substantially improved materials, devices, products or services to install new processes and systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

Whether it be engineering, project design, environmental impact assessment or other related projects, the Directors consider that these activities fall squarely within this definition. What the Company is seeking to achieve is in every way pushing forward the boundaries of science and engineering, and seeking to achieve a major technological advance.

The results of our activities will create intellectual property, rights, permits, contracts and know-how that are required in order to design, build and operate unique power plants and develop an Ecosystems Enhancement Programme ("EEP"). We are confident that our activities will make an appreciable advance in the overall knowledge and capability within this field and we are, and will continue to be, a leader in the advance of knowledge and capability in the field of renewable energy using tidal technology.

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

Report of the Directors
for the Year Ended 31st December 2017

FUTURE DEVELOPMENTS

Given the Company's pre-eminent role in the delivery of the pathfinder tidal lagoon at Swansea Bay, and the progress made to date towards delivering the first full scale tidal lagoon to be situated in Cardiff Bay, the Directors believe that the Company and its parent are well placed to take advantage of the opportunities that a future lagoon programme may open up, provided that the LaunchCo Plan proves successful.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS

The directors shown below have held office during the whole of the period from 1st January 2017 to the date of this report.

M C Shorrocks
P J Carter

AUDITOR

Davies Mayers Barnett LLP resigned as auditors on 30th October 2017 and were replaced by Baldwins Audit Services, a trading name of Group Audit Services Limited.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and 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 accounting estimates that are reasonable and prudent;

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 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

Report of the Directors
for the Year Ended 31st December 2017

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:

A handwritten signature in black ink, appearing to read 'P J Carter', written in a cursive style.

P J Carter - Director

12th March 2019

Report of the Independent Auditors to the Members of
Tidal Lagoon Power Limited

Opinion

We have audited the financial statements of Tidal Lagoon Power Limited (the 'company') for the year ended 31st December 2017, which comprise the Statement of Income and Retained Earnings, Balance Sheet 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).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2017 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.

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 Auditors' 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 your attention to Note 3 in the financial statements that indicates that the UK Government Announcement on 25th June 2018 not to offer a CfD to the Swansea Bay pathfinder project has significantly hampered the ability of the Company and its parent company, Tidal Lagoon Plc, to raise the funding required to take the business plan forward. Company Voluntary Arrangements were agreed on 4th September 2018 by the Company and its parent in order to restructure existing debt and included an alternative proposal for the delivery of the pathfinder project, referred to as "the LaunchCo Plan". As stated in Note 3, these events or conditions, along with other matters set out in Note 3, 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 in the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

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

**Report of the Independent Auditors to the Members of
Tidal Lagoon Power Limited**

Matters on which we are required to report by exception

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 Report of the Directors.

We have nothing to report in respect of the following matters where 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Report of the Directors.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page four, 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 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.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

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 a Report of the Auditors 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.



Nicola Smith (Senior Statutory Auditor)
for and on behalf of Baldwins Audit Services
Statutory Auditors
Pillar House
113/115 Bath Road
Cheltenham
Gloucestershire
GL53 7LS

Date:12.3.19.....

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

Statement of Income and Retained Earnings
for the Year Ended 31st December 2017

	Notes	Year Ended 31.12.17 £'000	Period 1.10.15 to 31.12.16 £'000
TURNOVER		2,469	6,358
Cost of sales		<u>(1,103)</u>	<u>(2,548)</u>
GROSS PROFIT		1,366	3,810
Administrative expenses		<u>(4,346)</u>	<u>(7,811)</u>
OPERATING LOSS		(2,980)	(4,001)
Exceptional items	5	<u>-</u>	<u>491</u>
		(2,980)	(3,510)
Interest receivable and similar income		<u>1</u>	<u>2</u>
		(2,979)	(3,508)
Interest payable and similar expenses		<u>(14)</u>	<u>(43)</u>
LOSS BEFORE TAXATION		(2,993)	(3,551)
Tax on loss		<u>401</u>	<u>512</u>
LOSS FOR THE FINANCIAL YEAR		(2,592)	(3,039)
Retained earnings at beginning of year		<u>(3,355)</u>	<u>(316)</u>
		(5,947)	(3,355)
RETAINED EARNINGS AT END OF YEAR		(5,947)	(3,355)

The notes form part of these financial statements

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

Balance Sheet
31st December 2017

	Notes	2017 £'000	2016 £'000
FIXED ASSETS			
Tangible assets	6	-	26
CURRENT ASSETS			
Debtors	7	524	1,282
Cash at bank and in hand		<u>34</u>	<u>129</u>
		558	1,411
CREDITORS			
Amounts falling due within one year	8	<u>(6,505)</u>	<u>(4,792)</u>
NET CURRENT LIABILITIES		<u>(5,947)</u>	<u>(3,381)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(5,947)</u>	<u>(3,355)</u>
CAPITAL AND RESERVES			
Called up share capital		-	-
Retained earnings		<u>(5,947)</u>	<u>(3,355)</u>
SHAREHOLDERS' FUNDS		<u>(5,947)</u>	<u>(3,355)</u>

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

The financial statements were approved by the Board of Directors on 12th March 2019 and were signed on its behalf by:



P J Carter - Director

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

Notes to the Financial Statements
for the Year Ended 31st December 2017

1. STATUTORY INFORMATION

Tidal Lagoon Power Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006.

3. ACCOUNTING POLICIES

Basis of preparing the financial statements

The financial statements have been prepared on a going concern basis and on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified below. They are presented in Pounds Sterling, rounded to the nearest thousand pounds.

Going concern

The Company's business activities, together with factors likely to affect its future development, performance and position, are set out in the Report of the Directors on pages 2 to 5. The Principal Risks and Uncertainties section on page 3 provides further details of the principal risks affecting the Company and its parent.

The Company has to date met its day-to-day working capital requirements through loans provided by its parent company and directors, and extended credit from its core suppliers. The parent company has financed these loans from cash balances generated from a series of ongoing equity and debt fund raises and through loans from directors, related companies and the Welsh Government. The announcement from the UK Government not to offer a CfD to the Swansea Bay project has significantly hampered the ability of the Company and its parent company to raise the funding required to take the business plan forward.

As reported in the Review of Business, the Company's overheads have been significantly reduced over the period to the date of this report. The post CVA forward working capital requirements of the Company and its parent have been funded by the related company, Tidal Power Plc, and by further director and related party loans.

However, the potentially binary implications of the success of the LaunchCo Plan as detailed in the Report of the Directors on both the short term and subsequent discharge of the CVA are fundamental risks. Notwithstanding progressive cost reduction actions that have been taken, the Company and its parent have very limited resources available should the LaunchCo Plan prove not to be successful, or should the Welsh Government call in secured loans provided to the parent company post year end.

The Directors have prepared projected cash flow information for the next twelve months from the date of approval of the financial statements on the basis that the LaunchCo Plan continues to progress and is ultimately successful; and the Welsh Government do not call in their loan to the parent company. These take account of cash available to the business, projected expenditure based on the Company's forward commitments and actions the Board may take in response to reasonable cash flow sensitivities including availability of funds from a related group company.

After consideration of the forecasts and making appropriate enquiries, the Directors believe that the Company has sufficient cash resources to meet its post CVA liabilities as they fall due and there is a reasonable prospect of a positive CVA outcome; and therefore that the going concern basis is appropriate at the date of signing the accounts.

However, the lack of UK Government support for tidal lagoons and the limited ability to raise further funds at the current time gives rise to significant uncertainties over the availability of alternative finance should this be required.

Notes to the Financial Statements - continued
for the Year Ended 31st December 2017

3. **ACCOUNTING POLICIES - continued**

Furthermore, were the LaunchCo Plan to be unsuccessful for any reason, it is very likely that the CVA would fail and the Company cease to trade. In these or similar circumstances, adjustments would need to be made to reduce the value of the assets to their recoverable amount, to provide for any further liabilities that might arise and to reclassify long term liabilities as current liabilities. Available funding will be insufficient to cover current liabilities at that point.

Turnover

Turnover represents the value of work carried out to date, including the provision of professional services on a consultant by consultant basis in respect of current projects. In addition, turnover includes work performed in the Company's capacity as provider of technical and managerial support services to other group and related companies.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when it is incurred.

Expenditure on development activities, which can be separately distinguished from the research phase of a project, is capitalised if the product or process can be demonstrated as technically and commercially feasible, will generate probable future economic benefits and that the Company has adequate technical, financial and other resources available to complete the development. Other development expenditure is recognised in profit or loss as incurred.

Employee benefits

The Company provides a range of benefits to employees, including defined contribution pension plans and share-based payments.

Defined contribution pension plans

The Company operates a defined contribution pension scheme. Contributions payable to the Company's pension scheme are charged to profit or loss in the period to which they relate.

Leasing commitments

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Exceptional items

Exceptional items are those which are separately identified by virtue of their size or nature to allow a full understanding of the underlying performance of the Company.

Taxation

The taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Notes to the Financial Statements - continued
for the Year Ended 31st December 2017

3. **ACCOUNTING POLICIES - continued**

Taxation - continued

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Land and buildings	- over the period of the lease
Plant and machinery, etc	- 33% on cost

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost is defined as purchase cost or valuation, including costs directly attributable to making the asset capable of operating as intended, less any residual value.

Depreciation is charged from the month of acquisition at the above rates.

Financial instruments

Financial instruments are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Classification of financial liabilities

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

Notes to the Financial Statements - continued
for the Year Ended 31st December 2017

3. ACCOUNTING POLICIES - continued

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Impairment

Assets not measured at fair value are reviewed for any indication that the asset may be impaired at each balance sheet date. If such indication exists, the recoverable amount of the asset, or the asset's cash generating unit, is estimated and compared to the carrying amount. Where the carrying amount exceeds its recoverable amount, an impairment loss is recognised in profit or loss unless the asset is carried at a revalued amount where the impairment loss is a revaluation decrease.

Provisions

Provisions are recognised when the Company has an obligation at the balance sheet date as a result of a past event, it is probable that an outflow of economic benefits will be required in settlement and the amount can be reliably estimated.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

4. EMPLOYEES AND DIRECTORS

The average number of employees during the year was 63 (2016 - 74).

5. EXCEPTIONAL ITEMS

Exceptional items of £491,000 in the prior period related to amounts waived in respect of balances owed to the ultimate parent company.

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

**Notes to the Financial Statements - continued
for the Year Ended 31st December 2017**

6. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Plant and machinery etc £'000	Totals £'000
COST			
At 1st January 2017 and 31st December 2017	<u>63</u>	<u>67</u>	<u>130</u>
DEPRECIATION			
At 1st January 2017	44	60	104
Charge for year	<u>19</u>	<u>7</u>	<u>26</u>
At 31st December 2017	<u>63</u>	<u>67</u>	<u>130</u>
NET BOOK VALUE			
At 31st December 2017	<u>-</u>	<u>-</u>	<u>-</u>
At 31st December 2016	<u>19</u>	<u>7</u>	<u>26</u>

7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Trade debtors	148	695
Amounts owed by group undertakings	-	1
Other debtors	<u>376</u>	<u>586</u>
	<u>524</u>	<u>1,282</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Trade creditors	843	745
Amounts owed to group undertakings	5,294	2,561
Taxation and social security	130	141
Other creditors	<u>238</u>	<u>1,345</u>
	<u>6,505</u>	<u>4,792</u>

9. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2017 £'000	2016 £'000
Within one year	240	234
Between one and five years	<u>124</u>	<u>142</u>
	<u>364</u>	<u>376</u>

TIDAL LAGOON POWER LIMITED (REGISTERED NUMBER: 08163554)

Notes to the Financial Statements - continued
for the Year Ended 31st December 2017

10. OTHER FINANCIAL COMMITMENTS

The Company has a contingent liability payable in the event that the Swansea Bay Tidal Lagoon reaches financial close. This is matched by a contingent asset of the same value with Tidal Lagoon (Swansea Bay) Plc.

In August 2018, an ex-employee filed a legal claim against the Company for breach of contract which is disputed by the Company. The claim, if successful, would form part of payments to be made under the CVA arrangements.

As at 31st December 2017, the Company had other total guarantees, contingencies and commitments of £298,000 (2016: £Nil).

11. CONTINGENT ASSETS

At the balance sheet date, the Company had a contingent asset amounting to £549,000 (2016: £474,000).

12. RELATED PARTY DISCLOSURES

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

The smallest group in which these financial statements are included within consolidated financial statements is the parent company, Tidal Lagoon Plc. The parent company's consolidated financial statements can be obtained from its registered office, Pillar & Lucy House, Merchants Road, Gloucester, Gloucestershire, GL2 5RG.

Owners holding a participating interest in the Company

During the prior period, amounts owed to the ultimate parent company were waived totalling £491,000.

13. POST BALANCE SHEET EVENTS

On 25 June 2018 and subsequent to the year end, Greg Clark, Secretary of State for the Department of Business, Energy and Industrial Strategy, announced that the UK Government, whilst supportive of the concept of tidal lagoons, were not minded to progress a Contract for Difference for Swansea Bay Tidal Lagoon. This has had a fundamental impact on the Company's business plan and ability to raise funds as detailed in the Report of the Directors.

As a consequence and subsequent to the year end, the Company entered into a CVA with its creditors on 4 September 2018.