SUNNICA ENERGY FARM
DCO EXAMINATION

WRITTEN REPRESENTATION

ANNEX I – FUNDING

SAY NO TO SUNNICA ACTION GROUP LTD

11 NOVEMBER 2022

Findlay, Wetherfield, Scott & Co.
Chartered Accountants

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To Whom It May Concern

SC/LS/Sunnica01

31st March, 2022

Dear Sirs,

Re: Sunnica Energy Farm (Planning reference EN 010085)
Proposed Solar Farm Development at Worlington

This firm has been retained by the directors Say No To Sunnica Action Group Ltd (Company Number 13804465) [SNTSAG] in respect of the above development to supply a written report for presentation to the Planning Inspectorate on the Funding Statement by Sunnica Energy Farm as part of the Development Consent Order to the Planning Inspectorate as a Nationally Significant Infrastructure Project.

This report has examined the financial aspects of the applicant company and its associates and SNTSAG members seek to raise serious doubts regarding the Sunnica group having sufficient resources to fund such a major project and compulsory purchase obligation.

We are aware that regulation 5(h) of The Infrastructure Planning (application; Prescribed Forms and Procedure Regulations 2009) specifies that any application for a Development Consent Order which seeks powers to compulsorily acquire land must contain a fully funded Funding Statement setting out how the applicant intends to fund the compulsory acquisition of the appropriate land.

Such Funding Statement must contain sufficient information to enable the Secretary of State to be satisfied that, if it were to grant a Compulsory Acquisition request, the proposed development is likely to be undertaken and not prevented due to difficulties in sourcing and securing the necessary funding.

If the application is accepted for examination, the Examining Authority would test the Funding Statement to ensure it contains sufficient information to satisfy the Secretary of State that the applicant has sufficient funds to acquire the land, should the Secretary of State be minded to grant compulsory acquisition powers.

The application concerned here was accepted by the Planning Inspectorate on the 16th December, 2021.

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Consultant: Keith Hopson, FCA | *Manager:* Colin Finch | *Director:* Simon Cobbin, FCA | *Director:* Natalie Floyd, ACA

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Company No 07190391

ICAEW CHARTERED ACCOUNTANTS

Please notice that there is a full group structure with the holding company, Solaer Holding SL registered in Spain, and operates as such and shows a financial position upon each set of accounts submitted to the authorities. This company owns two United Kingdom subsidiaries, Padero Solaer Limited and Solaer UK Limited which in turn own five other companies, Jigg FM UK Limited, Sunnica Limited and three dormant companies, being Sunnica Farm Limited, Sunnica Energy Farm Limited and Sunnica Energy Limited. It is noted that reserves of the parent company, Solaer Holding SL, registered in Spain, have not met the legally required amount for this application

The three dormant companies prepare accounts annually to 31st October and none of these have traded since their incorporation in October 2018. Their balance sheets show total funds of £1 each and it appears misleading that the application is in the name of Sunnica Energy Farm, and yet none of these companies has ever traded or has any funds available.

Of the other companies, Padero Solaer Limited submitted a most recent balance sheet at 30th April, 2021 showing total assets less liabilities of £1,783,271, of which cash available amounts to some £1,416,984. The company's accounts have been submitted late in two of the last five years, with a further year only being within time due to the Covid extension granted by Companies House, and a further year being submitted on the very last day of the nine month filing window. The company has a net debt to its other group members in excess of £250,000 and has recorded a loss after dividends and corporation tax in the year ended 30th April 2021 of some £131,890. This clearly means its reserves are reducing and weakening its financial position. There is a minority shareholder, Senor I A Alvaro in Spain, who owns in excess of 25% of the shares, meaning it is not a 100% owned subsidiary.

With regard to Solaer UK Limited, the last balance sheet filed again to 30th April, 2021, shows assets less liabilities of some £1,727, 882, of which available cash amounts to £130,455. Again, in the year ended 30th April 2021, the net results after dividends and corporation tax indicate a loss of some £83,849. Again, this company has submitted accounts late to the authorities and also includes Senor Alvaro as a minority shareholder. Monies due by group and other subsidiary companies to Solaer UK amount to in excess of £150,000. The company has one director, no company secretary and he appears to be the only employee. Whilst its trading description at Companies House states "Construction of electricity generation sites", it is unlikely that this company functions on one employee and it may be just a shell company.

Jigg FM UK Limited is a subsidiary of Padero Solaer Limited and in turn is therefore ultimately owned by Solaer Holdings SL registered in Spain. The company has a negative balance sheet which is increasing in negativity and losses are clearly being incurred each year, with a value at 30th April 2021 of deficit £56,984. Cash and monies at bank amount to £19,021 and, whilst the company appears to be trading, it has no trade debtors at this date and owes fellow group companies a net figure of over £65,000. It has two directors and these appear to be shown as the only two employees of the company.

The main company that is believed to be behind the application, Sunnica Limited, was incorporated in 2013, changing its name and ownership in 2018 when being acquired by its ultimate Spanish owners. Whilst the majority of shares (51%) are owned by Jigg FM UK Limited, that company in turn is part of the Spanish group.

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Again, the filing of accounts by Sunnica Limited with the authorities has been late in the most recent year and, whilst the company is shown as "Other professional, scientific and technical activities", it has an undisclosed turnover, meaning it is below the discretionary threshold of £10.2 million and yet appears to hold stocks which have risen by over £2.7million to £4,707,783 at April 2021. It is indebted to its group members by some £4,013,313. This is no evidence at present of funds being available in respect of the total funding required for the whole project.

The remaining three companies with the name similar to the application name, as stated above, are dormant, have never traded and have no available funds.

In looking at the Funding Statement of Sunnica Energy Farm, paragraph 2.3.4 on page 5 indicates that the company "would seek further funding" and yet we are aware that such projects need to be fully funded at the outset prior to submission of information to the authorities seeking approval.

There is no indication as to how these additional funds will be raised and certificated, documented evidence should be made available to prove these funds are in place before such Application is approved.

Given the accounting history of the UK registered companies, losses appear to be incurred and increasing and, in particular, Sunnica Limited is showing deficit on reserves at April 2021 of some £424,269, having lost considerable sums each year since the company was acquired from its previous owners. These accounts indicate the company does not have funds or confirm any indication that funds are available.

If it were that Sunnica Limited is simply seeking permission to sell the approval of the Development Consent Order if obtained, on and profit from such a move, it would appear that they are not genuine in carrying the project through and would be asked as to how anyone they sold this to would then prove to the Authorities that funds are available.

Between the group companies, available funds some eleven months ago, amounted to some £1,567,872, although this figure is not netted off with any overdrafts that may exist at that date. Clearly eleven months further activity has now taken place and it would seem appropriate that draft accounts to 30th April 2022 be made available with confirmed cash reserves as at the April balance sheet date that would imply the project has sufficient funding/resources available to it.

It is also noted that only the Spanish company accounts, for the holding company, Solaer Holding SL, have been submitted with the application when the application itself is in the name of the UK companies, three of which are not and have never traded.

Accordingly, we would comment that the funding statement appears flawed from the outset, as no figure for the Compulsory Purchase has been included and so we fail to see how it can be approved. This is in addition to any issue regarding the project's viability. In summary, we would therefore ask that these comments be taken into account and serious questions raised of the applicant before this matter is taken any further and proved to the public that this is not simply a profit-making exercise and that genuine funds and resources, both documented and certified, are available to the group companies.

Yours faithfully

[redacted]

COBBIN FLOYD LTD

Sunnica Energy Farm
&
The Funding Statement

The applicant for the Sunnica Energy Farm development consent order is Sunnica Ltd (Sunnica). It is this company that has prepared the Funding Statement as part of the application to the Secretary of State for Business.
The applicant, Sunnica, has not submitted its own financial statements accompanying the Funding Statement but has relied upon its ultimate parent company's financial statements, those of Solaer Holdings, S.L. (Solaer). This company is incorporated in Spain and its financials conform to Spanish GAAP.

The purpose of this report is to examine the financial reports of Sunnica's parent, Solaer Holdings, to determine the ability to fund compulsory land purchases and, in addition, to look at claims in the funding statement that they have the ability to fund significant additional costs in the run up to the establishment of the Sunnica Energy Farm.

Executive Summary

This is a Nationally Significant Infrastructure Project and, as such, should demand total transparency throughout. Looking at the Funding Statement, there is no real transparency about how this scheme will be financed. Sunnica has no financial ability, Solaer is operating with a negative operating cashflow which is clearly not sustainable and a declining profitability. In addition, a 2021 declaration to pay a dividend that is 2.3x net profit is questionable. Moreover, the financial statements are from 2020 which, given the global events in 2021, need to be updated. The statement within the Funding Statement that "as can be seen from its consolidated funds, Solaer Holding will be able to fund these costs from its own resources" is very far from the case especially when amounts are unknown.
Although the Solaer Group have several UK projects, none has been as large as the Sunnica Energy Farm. They also have no experience of a battery storage operation which is exactly what this scheme is.
Concerns are many and significant when it comes to the Funding Statement which I view as wholly inadequate for the scale and complexity of this project.

Funding Statement Concerns

1. The Sunnica Funding Statement in item 2.2 talks about costs. At the date of writing (no date on file) this was thought to be in the region of £600m. Although it itemizes what it covers, it does not breakdown these costs into those categories. It states it covers construction, preparation, supervision, land acquisition (including compulsory acquisitions), equipment purchase, installation, commission, power export, inflation and contingencies costs. Solaer notes (2.3.5) that it will be involved for the long term and would retain control of the construction, operation and maintenance stages of the Scheme's lifecycle. Notably, it does not include decommissioning costs which I am led to believe would be significant. To this point, the Longfield Solar Energy Farm,

which is 49% owned by a Solaer Group company, specifically mentions that decommissioning is part of the funding costs.
This is a Nationally Significant Infrastructure Project (NSIP) and as such it needs to be carefully scrutinized. The financing of this project is key and details should be made available to be able to test its financial integrity. It is my opinion that financial forecasts noting assumptions of income, costs, cashflows and sources of finance should be available as an appendix. In addition, assessment is needed about decommissioning and the costs of this needs to be included. Moreover, this project has been subject to meaningful delays suggesting that the £600m cost estimate is now stale and needs to be updated. In the outlook in the 2020 Directors' Report, they note the UK construction will start in 2021 with 20MW, 50MW in 2022 and 100 MW in 2023. Clearly this has not happened and will affect their financial forecasts.

2. Item 2.3.2 notes Solaer had, as at 31st December 2020, assets of over €100m. We are now 20 months past that date. A set of full year 2021 accounts and indeed 2022 interim accounts are deemed to be imperative to accompany this funding statement. As we know, 2021 was a difficult year for corporations and we need to see how this affected Solaer, as it is this company we are relying on (2.3.3 refers)

3. Item 2.3.3 notes Solaer has spent over €7m to date on preparing the application and land acquisitions. We are not aware of any land acquisitions to date so an update here would be extremely useful. This note also says that Solaer will be funding additional *significant* costs taking the application through the examination. It also notes that as can be seen from the 2020 accounts, Solaer will be able to fund these costs from its own resources. As we do not know the amount of the additional *significant* costs, we most certainly cannot see they can be funded internally.

4. If consent is granted, (2.3.4), Solaer would seek further funding, consulting a variety of financial institutions and investors. This would enable the construction, operation and maintenance of the Scheme. 2.3.5 goes further in adding it would operate the Scheme for the investors. I referred to this clause above noting Solaer would be involved in the long term. This statement is unclear-does it mean through to decommissioning which I suggested earlier when requesting decommissioning costs should be included in their estimates? If not, then who will be responsible for decommissioning? This is a critical question in my opinion.

5. Clearly this project and the funding of such is subject to investors' and financial market appetite. Also of note, 2.3.4 says that Solaer has no concerns that it would be unable to obtain finance for the Scheme's construction, operation and maintenance. This is a bold statement especially now as markets contract and rates rise. Moreover, as stated above, we would fully expect the Scheme's estimated costings to have risen from £600m. The type of finance to be used has not yet been determined (2.3.4) and again it is a crucial part of the decision making to know how this will be funded.

6. There is no evidence that has been produced in the Funding Statement as to the viability of the Scheme. There is no doubt that Solaer has experience in solar farms

but they are all small size in the UK at least. Generating capacity of its subsidiaries and affiliates is not noted in the accounts and there seems to be no reference anywhere of seeking expert opinions for large scale farms and BESS in particular.

Solaer Holdings

The Funding Statement guides us towards Solaer's financials as a way to seek some comfort for this scheme. However, there are a number of issues which I believe are pertinent that need to be answered.

1. As noted above, the attached financial are out of date and 2021 numbers need to be made available.
2. 2.3.2 notes Solaer has assets of over €100m as if this would provide comfort. Many companies with assets well in excess of €100m have failed. In stating its case, it fails to note profitability or its ability to produce cash from operations. Profit for the year to December 2020 fell 22.7% to €5.8m and on which Solaer wished to pay a €13.5m dividend. Consolidated cashflow from operations fell in the same year to -€6.2m. Based upon these numbers a reliance upon Solaer to fund additional significant costs needs to be questioned with significant granularity.
3. Bank debt. Their scheduled bank debt repayments are: €2.7m in 2021, €5.4m in 2022, €3.7m in 2023 and €3.2m in 2024. Whilst not onerous, they still need to be funded and current cashflow from operations looks to be inadequate given it has been negative. They do have €10.5m in reverse factoring lines which are not ideal to fund long term needs.
4. Note 17.2 notes JIGG granted a credit line to Sunnica for £2m but €3.1m had been drawn. Mixing £ & € is unhelpful but clearly Sunnica has exceeded its limit. In addition, it must be repaid in full in 5 years or 2023. It is clear Sunnica will not have positive cashflow by then. How will this be repaid? If by extending the line, will the ultimate lender also extend?
5. Statements in the Directors' Report under "Outlook" that "the UK where construction will recommence" and "in the UK….project is currently under development" are, as far as we are aware, very misleading.
6. Reserves of the parent Page 32 13.1 Under the Spanish Limited Liability Companies Law, the company must transfer 10% of net profit for each year to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. Deloitte comment at 2020 year end the balance of this reserve had not reached the legally required minimum.
7. Solaer Holding SL directors should be asked to confirm the figure of £7million stated in Sunnica Energy Farm funding in para 2.3.3. page 5. This figure as at the date of the DCO 16th November 2021 differs widely from the amount quoted in the Accountants' report page 3 where it is stated that at 30th April 2021 Sunnica Ltd was indebted to its group members by some £4,013,313. A breakdown of the £7million is required and the dates transfers were made from Solaer Holding SL and to which companies.

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This report has been prepared by Michael Mills. Michael is now retired but worked in the City for some 40 years mainly as an analyst or credit officer with major international banking institutions and fund managers such as Citibank, Wells Fargo, Bank of Montreal and Putnam Investments.

Date of Report: 13 September 2022