

Company Registration No. 02222066

AES ELECTRIC LIMITED

Annual Report and Financial Statements

31 December 2016

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AES ELECTRIC LIMITED

CORPORATE INFORMATION	1
STRATEGIC REPORT	2
DIRECTORS' REPORT	3
DIRECTORS' RESPONSIBILITIES STATEMENT	4
AUDITOR'S REPORT	5
STATEMENT OF COMPREHENSIVE INCOME	7
STATEMENT OF FINANCIAL POSITION	8
STATEMENT OF CHANGES IN EQUITY	9
NOTES TO THE FINANCIAL STATEMENTS	10

AES ELECTRIC LIMITED

COMPANY INFORMATION

DIRECTORS

The following directors were in office during the financial year ended 31 December 2016 and subsequently, except where noted:

Name	Appointed	Resigned
Mark Green	18-Apr-16	
Mark Reynolds		
Carla Tully		12-Sep-17
Julian Marquez		08-Mar-16
Ian Luney	12-Sep-17	

REGISTERED OFFICE

10 Temple Back
Bristol
United Kingdom
BS1 6FL

AUDITORS

Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast
BT2 7TD

AES ELECTRIC LIMITED

STRATEGIC REPORT

The directors present their strategic report and audited financial statements for the year ended 31 December 2016.

Principal activity, trading review and future developments

The company is a wholly owned subsidiary of The AES Corporation and operates within the group's European, Commonwealth of Independent States, and Asia region.

The company's principal activity is the development of new electricity generating facilities across Europe and the provision of certain financial and other services to other AES businesses. Despite the decrease in the volume of activities in the year under review, the company is expected to continue its existing operations in the future. The company continues to indirectly hold an investment in AES Kilroot Power Limited, which operates the Kilroot Power Station in Belfast. The subsidiary undertakings are listed in note 12 to the financial statements. The directors are not expecting a change in the nature of the principal activity of the company in the foreseeable future. However, the majority of the services previously provided to other AES subsidiaries have now been transferred to other AES locations, thus affecting significantly the volume of services and development support to be requested from the company.

Key performance indicators ('KPIs')

The directors manage the company's operations on a divisional basis. For this reason, the company's directors believe that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business of the company. The company's activities are exposed to a number of financial risks which the directors consider to be the company's principal risks. The group which the company belongs to has a risk management programme in place that seeks to limit the adverse effects on the financial performance of the company by monitoring the levels of debt finance and related finance costs. The company does not use derivative financial instruments for speculative purposes.

Until 23rd May 2018, AES Kilroot Power Limited will continue to operate all units of the Kilroot Power Station in the SEM, at which point the market will begin operating as the I-SEM (Integrated Single Electricity Market), and AES Kilroot Power Limited will thereafter operate under this structure. The I-SEM will cover Northern Ireland and the Republic of Ireland (the "All Island Market"), and incorporates three market mechanisms: Capacity Remuneration Mechanism, Energy Market (including day-ahead and intra-day trading, and a balancing mechanism), and DS3 (System Services) Market. Units will require to bid into each of the three mechanisms in order to secure capacity payments, energy payments which are based on the short run marginal cost profile of the individual units, and system service payments.

Principal risks and uncertainties

Currency risk

The company's activities expose it to the financial risks of changes in foreign currency exchange rates. The company manages this risk by regular monitoring of the foreign currency exchange rates.

Credit risk

The company's principal financial assets are bank balances, cash and other receivables. The company's credit risk is primarily attributable to its receivables. The amounts presented in the balance sheet are net of allowances for doubtful debt. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The company has no significant concentration of credit risk, with exposure spread over large number of related parties.

Liquidity risk

The company actively maintains and monitors its cash balances to ensure that there are always sufficient funds available for its operations.

Interest rate cash flow risk

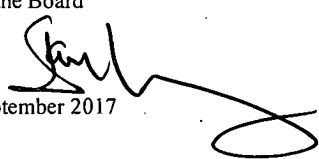
The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets include bank balances and inter-group loans which earn interest at variable rates. The company's interest bearing liabilities are mainly inter-group loans which also bear interest at variable rates. Where appropriate, the company fixes the interest rate on inter-group loans to minimise the interest rate cash flow risk.

By order of the Board

Ian Luney

Director

Date: 14 September 2017



AES ELECTRIC LIMITED

DIRECTORS REPORT

The directors present their report for the year ended 31 December 2016.

Results and dividends

The company's results for the year ended 31 December 2016 showed a loss after taxation of £ 546,000 (2015: profit after taxation of £ 161,000)

The company paid an interim dividend during the year of £ 2,580,000 (2015: £418,000). The directors do not recommend the payment of a final dividend (2015: £nil)

Subsequent events

In February 2017 the Company sold one of its associate undertakings Cloghan Ltd. The sales price exceeded the cost of investment as of 31 December 2016.

Directors

The directors of the company who served throughout the year and to the date of these financial statements (except as noted) are given on page 1.

Directors' indemnity

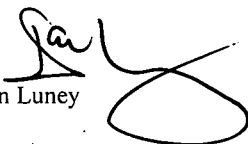
During the year the company maintained liability insurance for its Directors and officers. The Company indemnifies the directors in its Articles of Association to the extent allowed under the Companies Act 2006. The indemnity provision, which is a qualifying third-party indemnity provision as defined by section 236 of the Companies Act 2006, has been in force throughout the year.

Statement of 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, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

In accordance with section 485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.


Ian Luney
Director

Date: 14 September 2017

AES ELECTRIC LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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). 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 the profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

**Independent Auditor's Report to the members of AES Electric Limited
For the year ended 31 December 2016**

We have audited the financial statements of AES Electric Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements 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 material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

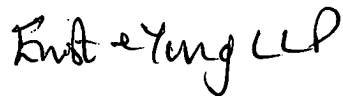
AES ELECTRIC LIMITED

Independent Auditor's Report to the members of AES Electric Limited (Continued)
Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.



Ruth Logan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast

Date: 18th September 2017

AES ELECTRIC LIMITED

Statement of Comprehensive Income
for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Turnover	3	2,615	4,367
Cost of Sales		(3,179)	(4,687)
Gross loss		(564)	(320)
Administrative expenses		(469)	(300)
Other operating income/ (expenses) , net	6	459	(371)
Operating loss	4	(574)	(991)
Income from group undertakings	7	-	542
Interest receivable and similar income	8	142	269
Interest payable and similar charges	9	(34)	(28)
Loss before taxation		(466)	(208)
Tax charge on profit	10	(80)	369
Loss after taxation		(546)	161
Impairment		-	(14,022)
Other comprehensive income		-	-
Total comprehensive income for the year		(546)	(13,861)


AES ELECTRIC LIMITED

Statement of Financial Position

as at 31 December 2016

	Notes	2016 £'000	2015 £'000 (restated)
Non-current assets			
Intangible assets	11	37	81
Investments	12	78,063	78,063
		<u>78,100</u>	<u>78,144</u>
 Debtors			
Amounts due within one year	13	18,673	31,836
Cash at bank and in hand		793	466
Current assets		<u>19,466</u>	<u>32,302</u>
Creditors: Amounts falling due within one year	14	(17,178)	(18,601)
Net current assets		<u>2,288</u>	<u>13,701</u>
Total assets less current liabilities		<u>80,388</u>	<u>91,845</u>
Creditors: Amounts falling due after more than one year	15	(2,988)	(701)
NET ASSETS		<u>77,400</u>	<u>91,144</u>
 CAPITAL AND RESERVES			
Called up share capital	17	10,309	10,309
Revaluation reserve	18	27,174	27,174
Other reserves	18	4,952	4,879
Profit and loss account		34,965	48,782
TOTAL SHAREHOLDERS FUNDS		<u>77,400</u>	<u>91,144</u>

These financial statements were approved by the board of directors on 14 September 2017 and were signed on its behalf by:


Ian Luney

Director
Company Registration No. 02222066

AES ELECTRIC LIMITED

Statement of Changes in Equity
For the year ended 31 December 2016

	Note	Called up share capital £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000	Total shareholders funds £'000
Balance at 1 January 2015		10,309	41,196	4,806	49,039	105,350
Impairment		-	(14,022)	-	-	(14,022)
Profit or loss		-	-	-	161	161
Dividend paid/ declared		-	-	-	(418)	(418)
Employee share scheme		-	-	73	-	73
Balance at 31 December 2015		10,309	27,174	4,879	48,782	91,144
Profit or loss		-	-	-	(546)	(546)
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	(546)	(546)
Employee share scheme		-	-	73	-	73
Deemed distribution	19	-	-	-	(10,691)	(10,691)
Dividends	19	-	-	-	(2,580)	(2,580)
Balance at 31 December 2016		10,309	27,174	4,952	34,965	77,400

AES ELECTRIC LIMITED
Notes to the financial statements
for the year ended 31 December 2016

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements are prepared in accordance with the Companies Act 2006 and Financial Reporting Standard 101 Reduced Disclosure Framework, "The Financial Reporting Standard" applicable in the UK and Republic of Ireland ("FRS 101"). The presentation currency of these financial statements is GBP. All amounts in the financial statements have been rounded to the nearest £1,000. AES Electric Limited is incorporated and domiciled in England and Wales.

The company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes allowed by FRS 101.8(h);
- Comparative period reconciliations for share capital and tangible fixed assets allowed by FRS 101.8(a);
- Disclosures in respect of transactions with wholly owned subsidiaries allowed by FRS 101.8(k);
- Disclosures in respect of capital management allowed by FRS 101.8(g);
- The effects of new but not yet effective IFRSs allowed by FRS 101.8(i);
- Disclosures in respect of the compensation of Key Management Personnel allowed by FRS 101.8(j).

As the consolidated financial statements of The AES Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments allowed by FRS 101.8(a);
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets allowed by FRS 101.8(l);
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations allowed by FRS 101.8(c);
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the company in the current and prior periods including the comparative period reconciliation for goodwill allowed by FRS 101.8(b); and

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 101, the Company has not retrospectively changed its accounting under previous UK GAAP for derecognition of financial assets and liabilities before the date of transition, accounting estimates or discontinued operations.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of The AES Corporation. The results of AES Electric Limited are included in the consolidated financial statements of The AES Corporation which can be obtained from the Securities and Exchange Commission, 450 5th Street NW, Washington DC 20549, USA.

Going concern

The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. The company has support letter from its parents AES UK Holdings Limited.

AES ELECTRIC LIMITED
Notes to the financial statements
for the year ended 31 December 2016

2. Accounting policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, customs duties and sales taxes.

Administrative expenses

Administrative expenses and similar charges are recognised in the Profit and Loss Account as the service is received.

Dividend income

Dividend income from investments is recognised when the shareholders' right to receive the payment is established.

Dividends payable

Final dividends are recorded in the financial statements in the year in which they are approved by the company's shareholders. Interim dividends are recorded in the year in which they are approved and paid.

Interest

Interest is charged against income in the year in which it is incurred.

Intangible assets

Intangible assets comprise of expenditure for computer software. The expected useful life of the asset is reviewed on an annual basis and, if necessary, changes in the useful life are accounted for prospectively.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Employee share schemes

The ultimate parent company issues equity-settled share-based payments to certain employees of the group which must be measured at fair value and recognised as an expense in the profit and loss account with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which these awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the company's estimate of the number of awards which will lapse, either due to employees leaving the company prior to vesting or due to non-market based performance conditions not being met. Where an award has market based performance conditions, the fair value of the award is adjusted at the date of grant for the probability of achieving these via the option pricing model. The total amount recognised in the profit and loss account as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures.

Basic financial instruments

Investments

Fixed asset investments in subsidiaries and other group companies are held at cost. The company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

AES ELECTRIC LIMITED
Notes to the financial statements
for the year ended 31 December 2016

2. Accounting policies(continued)

Trade and other creditors

Trade and other creditors are carried at payment or settlement amounts. If the effect of the time value of money is material, trade and other creditors are determined by discounting the expected future cash flows at a pre-tax rate.

Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP are treated as being those of the Company and are therefore reflected in the company financial statements.

Foreign currency translation

Transactions expressed in foreign currencies are translated into sterling at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the year end. Any resulting gains or losses are taken to the profit and loss account.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred TAX liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3 Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to group companies.

	2016 £'000	2015 £'000
Financial and other services	2,615	4,367
	<u>2,615</u>	<u>4,367</u>

The turnover is realised in Jordan.

4 Operating loss

	2016 £'000	2015 £'000
Stated after charging:		
Depreciation – owned assets (including amortisation of intangibles)	-	44
Write-back of ESOP	-	(13)
	<u>-</u>	<u>31</u>
	2016 £'000	2015 £'000
Auditors remuneration	12	34

5 Staff costs

Directors' remuneration

The directors received total remuneration for the year of £1,435,067 (2015: £2,669,999) all of which was paid by various subsidiaries of The AES Corporation. The directors do not believe that it is practical to apportion this amount between their services as directors of the company and their services as employees of other companies within The AES Corporation.

	2016 £'000	2015 £'000
Staff costs		
Wages and salaries	1,146	1,685
Social security costs	910	1,901
Other pension costs	98	120
	<u>2,154</u>	<u>3,706</u>

*The company maintains a defined contribution pension scheme for all eligible full time employees.

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

5 Staff costs (continued)

Average number of persons employed (including directors)

	2016	2015
	Number	Number
Administration	2	18
Development	6	3
	8	21

6 Other operating income/ (expenses) , net

	2016	2015
	£'000	£'000
Revaluation ESOP	459	(388)
(Write-off)/write-back of amounts owed by group undertakings	-	17
	459	(371)

7 Income from group undertakings

	2016	2015
	£'000	£'000
Dividend income	-	542

8 Interest receivable and similar income

	2016	2015
	£'000	£'000
Foreign exchange gain (net)	141	268
Bank interest receivable	1	1
	142	269

9 Interest payable and similar charges

	2016	2015
	£'000	£'000
Interest payable to group companies	34	28
	34	28

10 Tax

	2016	2015
	£'000	£'000
Foreign tax	(80)	(67)
Adjustments in respect of previous periods	-	436
Current tax (charge)/credit for the period	(80)	369

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

10 Tax (continued)

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax can be reconciled as follows:

	2016 £'000	2015 £'000
Loss before tax	466	208
Tax on profit at standard UK corporation tax rate of 20% (2015: 20.25%)	93	42
Effect of:		
Expenses not deductible for tax purposes	(131)	(153)
Fixed asset timing differences	4	5
Movement in short term timing differences	42	(9)
Losses utilized	(8)	115
Foreign tax	(80)	67
Adjustment in respect of prior years	-	436
Tax (charge)/credit for the period	(80)	369

An analysis of the full potential deferred tax asset, none of which has been provided, is as follows:

	2016 £'000	2015 £'000
Tax effect of timing difference because of:		
Excess capital allowances over depreciation	(16)	(20)
Other short term timing differences	(27)	(58)
Tax losses carried forward	(9,581)	(10,104)
Total deferred tax liability/(asset)	(9,624)	(10,182)

A deferred tax asset has not been recognised in respect of timing difference due to uncertainty regarding its recovery. The amount of the deferred tax asset not recognised is £9,624,127 (2015: £10,182,628) of which £3,735,817 (2015: £3,915,310) arises in respect of trading losses, £5,845,375 (2015: £6,189,221) in respect of capital losses and £42,935 (2015: £78,097) arises in respect of other timing differences. The assets would be recoverable if the company made suitable taxable profits in the future.

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

11 Intangible assets

	Computer software £'000
Cost:	
At 1 January 2016	
and at 31 December 2016	<u>306</u>
Acquisitions:	
Accumulated amortisation:	
At 1 January 2016	225
Charge for the year	44
At 31 December 2016	<u>269</u>
Net book value:	
At 31 December 2016	<u>37</u>
At 31 December 2015	<u>81</u>

12 Investments

	Subsidiary undertakings £'000
Cost	
At 1 January 2016	92,085
Disposals	<u>-</u>
At 31 December 2016	<u>92,085</u>
Amounts provided	
At 1 January 2016	(14,022)
Impairment	<u>-</u>
At 31 December 2016	<u>(14,022)</u>
Net book value:	
At 31 December 2016	<u>78,063</u>
At 31 December 2015	<u>78,063</u>

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

12 Investments (continued)

Details of the investments in which the company held more than 20% of the nominal value of any class of share capital either directly or indirectly as at 31 December 2016 were as follows:

Name of company	Country of incorporation	Type of shares	Proportion of voting rights and shares held	Nature of business	Registered addresses
Subsidiary undertakings:					
AES Horizons Investments Limited	England & Wales	Ordinary	100%	Holdings company	First Floor Templeback, 10 Temple Back, Bristol, United Kingdom, BS1 6FL
Associated undertakings:					
AES (NI) Limited	Northern Ireland	Ordinary	47.787%	Electricity generation	Kilroot Power Station, Larne Road, Carrickfergus, Co Antrim, BT38 7LX
Cloghan Limited	Northern Ireland	Ordinary	50%	Holding company	16 Churchtown Road, Cookstown, BT80 9XD

In February 2017 the Company sold one of its associate undertakings Cloghan Ltd.

13 Debtors

	2016 £'000	2015 £'000 (restated)
Amounts due within one year		
Amounts owed by group companies	17,984	31,182
VAT recoverable	66	43
Other debtors	315	312
Employee income tax receivable	297	293
Prepayments and accrued income	11	6
	18,673	31,836

The amounts owed by group undertakings due after more than one year are repayable on the agreement of both parties, after a period of at least one year. This includes receivable from AES Horizons Investments Limited £8,941,000 (2015: £8,941,000). These amounts do not bear interest. The long term receivable is on demand and the lender does not intend to realise them within 12 months of the date of the balance sheet. The fair value is a reasonable approximation to the carrying value.

14 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed to group undertakings	16,264	17,552
Accruals	785	839
Trade and other creditors	129	209
Amounts owed to parent company	-	1
	17,178	18,601

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

15 Creditors: amounts falling due after more than one year

	2016	2015
	£'000	£'000
Loans provided by parent company	2,921	716
Long term portion of provision for performance units	67	(15)
	2,988	701

Loans repayable, included within creditors, are analysed as follows:

Wholly repayable within five years	2,921	716
Not wholly repayable within five years	-	-

The company has an assigned loan payable with AES UK Holdings Limited on 26 October 2011 for the amount of £14,028,000 which bears interest at 6M LIBOR plus 1% and is repayable in 2014. The loan agreement was extended with maturity date 2020.

On 26 October 2011, AES Global Power Holdings BV assigned its Intercompany Credit Facility Agreement to AES UK Holdings Limited. Under this agreement AES UK Holdings Limited will extend a credit facility of £50,000,000. The carrying value of the loan is a reasonable approximation of the fair value.

16 Financial instruments

	2016	2015
	£'000	£'000
Assets measured at amortised cost		
<i>Debtors falling due within one year:</i>		
Trade debtors	689	654
Amounts owed by fellow subsidiaries	17,984	22,241
Total	18,673	22,895
 Total	 18,673	 22,895
 Liabilities measured at amortised cost		
<i>Creditors falling due within one year:</i>		
Amounts owed to fellow subsidiaries	16,264	17,552
Accruals	914	1,049
Total	17,178	18,601
Net	1,495	4,294

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

17 Called up share capital

	2016	2015
	£'000	£'000
Called up, allotted and fully paid:		
10,309,352 (2015: 10,309,352) Ordinary shares of £1 each	10,309	10,309

18 Revaluation reserves and Other reserves

Revaluation reserve

On transition to FRS 101 the company has elected the option allowed under IFRS 1.D15 for FRS 101 to adopt fair value as deemed cost on the date of transition 1 January 2014 for its investment in AES NI Limited and AES Cloghan Ltd. This resulted in a £27,174,969 revaluation reserve in equity.

Other reserves

Other reserves relate to the Long Term Compensation scheme and are for share based payments to employees through Non-qualified Stock Options and Restricted Stock Units (RSUs) in the ultimate parent company. The total liability at the balance sheet date amounted to £4,952,000 (2015: £4,879,000).

Non-qualified Stock Options

Awards of Stock Options give the employees the right to purchase shares of AES stock at a fixed price at the time the option vests. Options are awarded based on the Black-Scholes value at the time of grant using a rolling twelve month Black-Scholes value. The cost of providing Stock Options is recognised in the profit and loss account evenly over the three year vesting period. No expense recognised for this scheme in respect of employee services received during the year (2015: £ nil).

The weighted average fair value of each option grant has been estimated, as of the grant date, using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2016	2015
Expected volatility	0%	0%
Expected annual dividend yield	0%	0%
Expected option term (years)	0	0
Risk-free interest rate	0%	0%

The company exclusively relies on implied volatility as the expected volatility to determine the fair value using the Black-Scholes option-pricing model. The implied volatility may be exclusively relied upon due to the following factors:

- The company utilises a valuation model that is based on a constant volatility assumption to value its employee share options;
- The implied volatility is derived from options to purchase AES common stock that are actively traded;
- The market prices of both the traded options and the underlying share are measured at a similar point in time to each other and on a date reasonably close to the grant date of the employee share options;
- The traded options have exercise prices that are both near-the-money and close to the exercise price of the employee share options; and
- The remaining maturities of the traded options on which the estimate is based are at least one year.

The company does not discount the grant date fair values determined to estimate post-vesting restrictions. Post-vesting restrictions include black-out periods when the employee is not able to exercise stock options based on their potential knowledge of information prior to the release of that information to the public. The assumptions that the company has made in determining the grant date fair value of its stock options and the estimated forfeiture rates represent its best estimate.

Using the above assumptions, the weighted average fair value of each stock option granted was £7.63 and £8.07 for the years ended 31 December 2016 and 2015 respectively.

A summary of the option activity for the year ended 31 December 2016 follows (number of options in thousands, pounds in millions except per option amounts, term in years):

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

18 Revaluation reserves and Other reserves (continued)

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
	(in thousands)		
Outstanding at December 31, 2015	12	£ 12.36	
Exercised	-	-	
Forfeited and expired	(5)	£ 14.66	
Granted	-	-	
Outstanding at December 31, 2016	7	£ 16.54	0.7
Vested and expected to vest at December 31, 2016	8	£ 16.54	0.7
Eligible for exercise at December 31, 2016	8	£ 16.54	0.7

Restricted Stock Units

Awards of Restricted Stock Units (RSUs) are denominated in units of AES stock, each representing the right to receive one share of AES common stock for each vested unit on the fifth anniversary of the grant date. RSUs are granted at the market value of AES stock at the date of grant and vest one third each year. The cost of providing RSUs is recognised in the profit and account evenly over the three year vesting period. The expense recognised for 2016 was £62,000 (2015: £55,000).

Restricted Stock Units without market conditions

For the years ended 31 December 2016 and 2015, RSUs issued without a market condition had a grant date fair value equal to the closing price of AES stock on the grant date. The company does not discount the grant date fair values to reflect any post-vesting restrictions. RSUs without a market condition, granted to non-executive employees during the year ended 31 December 2016 and 2015 had grant date fair values per RSU of £7.63 and £8.07 respectively.

A summary of the RSU activity for the year ended 31 December 2016 follows (number of RSUs in thousands, pounds in millions except per unit amounts, term in years):

	Restricted stock units (‘000)	Weighted average grant date fair values	Weighted average remaining vesting term (years)
Non vested at 1 January 2016	22	£ 8.52	
Vested during the year	(11)	£ 10.04	
Forfeited and expired	(2)	£ 10.47	
Granted	11	£ 7.63	
Net shares transferred during the year	-	-	
Non vested at 31 December 2016	20	9	2
Vested at 31 December 2016	-	-	
Vested and expected to vest at 31 December 2016	18	£ 8.88	

AES ELECTRIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

19 Dividends and Deemed distribution

Dividends

The company paid an interim dividend during the year of £ 2,580,000 (2015: £418,000).

	2016	2015
	£'000	£'000
Declared and paid during the year:		
Interim paid- November 2016: £0.25per share	2,580	
Interim paid- November 2015: £0.4055 per share		418
	<u>2,580</u>	<u>418</u>

Deemed distribution

In 2016 a deed of release of the intercompany balance of £10,668,000 was signed between AES Electric Limited and AES UK Datacenter Services Limited. The intercompany balance of £10,691,000 was written off, as this is considered to be a shareholder transaction, the amount has been shown in the Statement of Changes in Equity as a deemed distribution.

20 Contingent liabilities

There were no contingent liabilities as at 31 December 2016 in respect of guarantees and indemnities entered into as part of the ordinary course of the company's business.

21 Events since the balance sheet date

In February 2017 the Company sold one of its associate undertakings Cloghan Ltd. The sales price exceeded the cost of investment as of 31 December 2016.

22 Ultimate parent company

The company's immediate parent undertaking is AES UK Holdings Limited, a company incorporated in England and Wales.

The ultimate parent company and controlling entity, and parent of the smallest and largest group for which consolidated financial statements are prepared of which this company is a part, is The AES Corporation, a company incorporated in the State of Delaware, USA. Copies of the parent company's financial statements can be obtained from the Securities and Exchange Commission, 450 5th Street NW, Washington DC 20549, USA.