

Company Registration No. 02222066

AES ELECTRIC LIMITED

Annual Report and Financial Statements

31 December 2017



REPORT AND FINANCIAL STATEMENTS CONTENTS

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## **AES ELECTRIC LIMITED**

### **COMPANY INFORMATION**

#### **DIRECTORS**

The following directors were in office during the financial year ended 31 December 2017 and subsequently, except where noted:

| <b>Name</b>    | <b>Appointed</b> | <b>Resigned</b> |
|----------------|------------------|-----------------|
| Mark Green     | 18.4.2016        |                 |
| Mark Reynolds  |                  | 29.12.2017      |
| Carla Tully    |                  | 12.9.2017       |
| Julian Marquez |                  | 8.3.2016        |
| Ian Luney      | 12.9.2017        | 31.7.2018       |
| Paul Chapman   | 30.7.2018        |                 |
| Serhiy Zuyev   | 30.7.2018        |                 |

#### **REGISTERED OFFICE**

10 Temple Back  
Bristol  
United Kingdom  
BS1 6FL

#### **BANKERS**

Citibank London N.A

#### **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 2017.

#### 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 relatively low 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.

On 26 January 2018, Eirgrid and SONI announced the results of the first annual ISEM capacity auction. Both Kilroot coal units failed to clear in this auction and did not secure annual capacity contracts. As a result, and given the clear exit signal, AES intends to retire these coal units at the start of ISEM. Originally this was to be 23 May 2018, but the start of this new market has been delayed to 1 October 2018. In order to retire a unit, AES must follow the SONI Generation Plant Closure Process which requires a derogation to be sought to retire units within 36 months. AES is currently within this process and SONI have not yet made a recommendation to the Utility Regulator as to whether these units can close on the dates requested. Management's assumption is that the coal units will close at the start of ISEM on 1 October 2018.

The decision to retire the coal units triggered a revision of the recoverability of the assets of AES Kilroot Power Ltd and resulted in an impairment of fixed assets of power plant as well as an impairment of the investment of AES Electric Ltd. The impairment amounts to £24,734,400.17 decrease of revaluation reserve and £50,078,273.49 impairment loss in the profit and loss account.

The sale of Cloghan Ltd was finalized in February 2017 between AES Electric Ltd. and LCC Group Ltd. AES Horizons realized gain from the deal in 2017 amounts to £853,000.

#### 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

Serhiy Zuyev  
Director

Date: 4 September 2018

## **AES ELECTRIC LIMITED**

### **DIRECTORS REPORT**

The directors present their report for the year ended 31 December 2017.

#### **Results and dividends**

The company's results for the year ended 31 December 2017 showed a loss after taxation of £ 47,467,000 (2016: loss after taxation of £ 546,000)

The company paid an interim dividend during the year of £ 6,528,000 (2016: £2,580,000). The directors do not recommend the payment of a final dividend (2016: £nil)

#### **Subsequent events**

In April 2018 the SEM Committee decided to extend the I-SEM G-Live Date to 01 October 2018. As a result, the coal units of AES Kilroot Power Ltd. will continue to operate at least until that date.

#### **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**

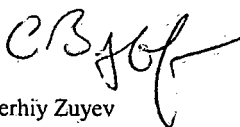
During the year the company maintained liability insurance for its Directors and officers. The Company indemnifies the directors in its Articles of Association to the extent allowed under the Companies Act 2006. The indemnity provision, which is a qualifying third-party indemnity provision as defined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

  
Serhiy Zuyev  
Director

Date: 4 September 2018

## 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 2017**

**Opinion**

We have audited the financial statements of AES Electric Limited for the year ended 31 December 2017 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, 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 FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)". In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 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 Auditor's responsibilities for the audit of the financial statements section of our report below. 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.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## AES ELECTRIC 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 strategic report or directors' report.

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

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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

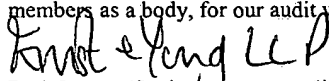
### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

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



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

Belfast  
Date: 21.9.2018



**Statement of Comprehensive Income**

*for the year ended 31 December 2017*

|  |    | 2017<br>£'000   | 2016<br>£'000 |
|--|----|-----------------|---------------|
| Turnover                                       | 3  | 2,725           | 2,615         |
| Cost of Sales                                  |    | (2,842)         | (3,179)       |
| <b>Gross loss</b>                              |    | <b>(117)</b>    | <b>(564)</b>  |
| Administrative expenses                        |    | (974)           | (469)         |
| Other operating income/ (expenses) , net       | 6  | -               | 459           |
| <b>Operating loss</b>                          | 4  | <b>(1,091)</b>  | <b>(574)</b>  |
| Gain on disposal of fixed asset / investment   | 12 | 853             | -             |
| Impairment of Investments                      | 12 | (50,078)        | -             |
| Income from group undertakings                 | 7  | 3,288           | -             |
| Interest receivable and similar income         | 8  | 1               | 142           |
| Interest payable and similar charges           | 9  | (373)           | (34)          |
| <b>Loss before taxation</b>                    |    | <b>(47,400)</b> | <b>(466)</b>  |
| Tax charge on loss                             | 10 | (67)            | (80)          |
| <b>Loss after taxation</b>                     |    | <b>(47,467)</b> | <b>(546)</b>  |
| Other comprehensive loss                       | 12 | (24,734)        | -             |
| <b>Total comprehensive income for the year</b> |    | <b>(72,201)</b> | <b>(546)</b>  |

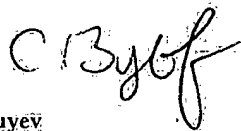
**AES ELECTRIC LIMITED**

**Statement of Financial Position**

*as at 31 December 2017*

|   | Notes | 2017<br>£'000  | 2016<br>£'000 |
|---|-------|----------------|---------------|
| <b>Non-current assets</b>                               |       |                |               |
| Intangible assets                                       | 11    | 5              | 37            |
| Investments   | 12    | 810            | 78,063        |
|   |       | <u>815</u>     | <u>78,100</u> |
| <b>Debtors</b>  |       |                |               |
| Amounts due within one year                             | 13    | 14,842         | 18,673        |
| Cash at bank and in hand                                |       | 997            | 793           |
| <b>Current assets</b>                                   |       | <u>15,839</u>  | <u>19,466</u> |
| Creditors: Amounts falling due within one year          | 14    | (17,752)       | (17,178)      |
| <b>Net current (liabilities)/assets</b>                 |       | <u>(1,913)</u> | <u>2,288</u>  |
| <b>Total assets less current liabilities</b>            |       | <u>(1,098)</u> | <u>80,388</u> |
| Creditors: Amounts falling due after more than one year | 15    | (161)          | (2,988)       |
| <b>NET (LIABILITIES)/ASSETS</b>                         |       | <u>(1,259)</u> | <u>77,400</u> |
| <b>CAPITAL AND RESERVES</b>                             |       |                |               |
| Called up share capital                                 | 17    | 10,309         | 10,309        |
| Revaluation reserve                                     | 18    | -              | 27,174        |
| Other reserves  | 18    | 5,022          | 4,952         |
| Profit and loss reserves                                |       | (16,590)       | 34,965        |
| <b>TOTAL SHAREHOLDERS (DEFICIT)/ FUNDS</b>              |       | <u>(1,259)</u> | <u>77,400</u> |

These financial statements were approved by the board of directors on 4 September 2018 and were signed on its behalf by:



**Serhiy Zuyev**

**Director**

**Company Registration No. 02222066**

# Statement of Changes in Equity

For the year ended 31 December 2017

|  | Note | Called up<br>share<br>capital<br>£'000 | Revaluation<br>reserve<br>£'000 | Other<br>reserves<br>£'000 | Profit and<br>loss account<br>£'000 | Total<br>shareholders<br>funds<br>£'000 |
|--|------|--|---------------------------------|----------------------------|-------------------------------------|---|
| <b>Balance at 1 January 2016</b>               |      | <b>10,309</b>                          | <b>27,174</b>                   | <b>4,879</b>               | <b>48,782</b>                       | <b>91,144</b>                           |
| Profit or loss                                 |      | -                                      | -                               | -                          | (546)                               | (546)                                   |
| Other comprehensive income                     |      | -                                      | -                               | -                          | -                                   | -                                       |
| <b>Total comprehensive income for the year</b> |      | <b>-</b>                               | <b>-</b>                        | <b>-</b>                   | <b>(546)</b>                        | <b>(546)</b>                            |
| Dividend paid/ declared                        |      | -                                      | -                               | -                          | (2,580)                             | (2,580)                                 |
| Employee share scheme                          |      | -                                      | -                               | 73                         | -                                   | 73                                      |
| Deemed distribution                            |      | -                                      | -                               | -                          | (10,691)                            | (10,691)                                |
| <b>Balance at 31 December 2016</b>             |      | <b>10,309</b>                          | <b>27,174</b>                   | <b>4,952</b>               | <b>34,965</b>                       | <b>77,400</b>                           |
| Profit or loss                                 |      | -                                      | -                               | -                          | (47,467)                            | (47,467)                                |
| Other comprehensive income                     |      | -                                      | (24,734)                        | -                          | -                                   | (24,734)                                |
| <b>Total comprehensive income for the year</b> |      | <b>-</b>                               | <b>(24,734)</b>                 | <b>-</b>                   | <b>(47,467)</b>                     | <b>(72,201)</b>                         |
| Employee share scheme                          |      | -                                      | -                               | 70                         | -                                   | 70                                      |
| Transfer to profit and loss reserve            | 19   | -                                      | (2,440)                         | -                          | 2,440                               | -                                       |
| Dividends paid / declared                      | 19   | -                                      | -                               | -                          | (6,528)                             | (6,528)                                 |
| <b>Balance at 31 December 2017</b>             |      | <b>10,309</b>                          | <b>(0)</b>                      | <b>5,022</b>               | <b>(16,590)</b>                     | <b>(1,259)</b>                          |

**AES ELECTRIC LIMITED**  
**Notes to the financial statements**  
**for the year ended 31 December 2017**

**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 2017**

**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 2017**

**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 2017

### 3 Turnover

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

|                              | 2017<br>£'000 | 2016<br>£'000 |
|------------------------------|---------------|---------------|
| Financial and other services | 2,725         | 2,615         |
|                              | <u>2,725</u>  | <u>2,615</u>  |

The turnover is realised in Jordan.

### 4 Operating loss

|                       | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------|---------------|---------------|
| Auditors remuneration | 12            | 12            |

### 5 Staff costs

Directors' remuneration

The directors received total remuneration for the year of £651,268 paid by Electric.

|                       | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------|---------------|---------------|
| Staff costs           |               |               |
| Wages and salaries    | 1,009         | 1,146         |
| Social security costs | 516           | 910           |
| Other pension costs   | 87            | 98            |
|                       | <u>1,612</u>  | <u>2,154</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 2017

### 5 Staff costs (continued)

Average number of persons employed (including directors)

|                | 2017<br>Number | 2016<br>Number |
|----------------|----------------|----------------|
| Administration | 2              | 2              |
| Development    | 4              | 6              |
|                | <u>6</u>       | <u>8</u>       |

### 6 Other operating income/ (expenses) , net

|                  | 2017<br>£'000 | 2016<br>£'000 |
|------------------|---------------|---------------|
| Revaluation ESOP | -             | 459           |
|                  | <u>-</u>      | <u>459</u>    |

### 7 Income from group undertakings

|                                | 2017<br>£'000 | 2016<br>£'000 |
|--------------------------------|---------------|---------------|
| Income from group undertakings | 3,288         | -             |
|                                | <u>3,288</u>  | <u>-</u>      |

### 8 Interest receivable and similar income

|                             | 2017<br>£'000 | 2016<br>£'000 |
|-----------------------------|---------------|---------------|
| Foreign exchange gain (net) | -             | 141           |
| Bank interest receivable    | 1             | 1             |
|                             | <u>1</u>      | <u>142</u>    |

### 9 Interest payable and similar charges

|                                     | 2017<br>£'000 | 2016<br>£'000 |
|-------------------------------------|---------------|---------------|
| Interest payable to group companies | 19            | 34            |
| Foreign exchange loss (net)         | (354)         | -             |
|                                     | <u>(373)</u>  | <u>34</u>     |

### 10 Tax

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| Foreign tax                                | (87)          | (80)          |
| Adjustments in respect of previous periods | 20            | -             |
| Current tax (charge)/credit for the period | <u>(67)</u>   | <u>(80)</u>   |



# AES ELECTRIC LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 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:

|  | 2017<br>£'000 | 2016<br>£'000 |
|--|---------------|---------------|
| <b>Loss before tax</b>   | <b>47,400</b> | <b>466</b>    |
| Tax on loss at standard<br>UK corporation tax rate of 19.25% (2016: 20%) | 9,123         | 93            |
| Effect of:   |               |               |
| Expenses not deductible for tax purposes                                 | (8,992)       | (131)         |
| Fixed asset timing differences   | -             | 4             |
| Movement in short term timing differences                                | -             | 42            |
| Deferred tax not recognised  | (10)          | -             |
| Group relief surrendered   | (121)         | (8)           |
| Foreign tax  | (87)          | (80)          |
| Adjustment in respect of prior years                                     | 20            | -             |
| <b>Tax charge for the period</b>   | <b>(67)</b>   | <b>(80)</b>   |

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

|   | 2017<br>£'000  | 2016<br>£'000  |
|---|----------------|----------------|
| Tax effect of timing difference because of: |                |                |
| Excess capital allowances over depreciation | (13)           | (16)           |
| Other short term timing differences         | (39)           | (27)           |
| Tax losses carried forward                  | (9,556)        | (9,581)        |
| <b>Total deferred tax liability/(asset)</b> | <b>(9,608)</b> | <b>(9,624)</b> |

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 £9,607,938 (2016: £9,624,127) of which £3,710,728 (2016: £3,735,817) arises in respect of trading losses, £5,845,376 (2016: £5,845,375) in respect of capital losses and £51,834 (2016: £42,935) 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 2017

### 11 Intangible assets

|                                  | Computer<br>software<br>£'000 |
|----------------------------------|-------------------------------|
| <b>Cost:</b>                     |                               |
| At 1 January 2017                | 306                           |
| Additions                        | 6                             |
| and at 31 December 2017          | <u>312</u>                    |
| <b>Acquisitions:</b>             | 6                             |
| <b>Accumulated amortisation:</b> |                               |
| At 1 January 2017                | 269                           |
| Charge for the year              | 38                            |
| At 31 December 2017              | <u>307</u>                    |
| <b>Net book value:</b>           |                               |
| At 31 December 2017              | <u>11</u>                     |
| At 31 December 2016              | <u>42</u>                     |

### 12 Investments

|                         | Subsidiary<br>undertakings<br>£'000 |
|-------------------------|-------------------------------------|
| <b>Cost</b>             |                                     |
| At 1 January 2017       | 92,085                              |
| Disposals               | (2,441)                             |
| At 31 December 2017     | <u>89,644</u>                       |
| <b>Amounts provided</b> |                                     |
| At 1 January 2017       | (14,022)                            |
| Impairment              | (74,812)                            |
| At 31 December 2017     | <u>(88,834)</u>                     |
| <b>Net book value:</b>  |                                     |
| At 31 December 2017     | <u>810</u>                          |
| At 31 December 2016     | <u>78,063</u>                       |

# AES ELECTRIC LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 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 2017 were as follows:

| Name of company                 | Country of incorporation | Type of shares | Proportion of voting rights and shares held | Nature of business     | Registered address   |
|---------------------------------|--------------------------|----------------|---|------------------------|--|
| <b>Subsidiary undertakings:</b> |                          |                |   |                        |  |
| AES Horizons Investment Limited | England & Wales          | Ordinary       | 100%  | Holdings company       | First Floor Templeback, 10 Temple Back, Bristol, United Kingdom, BS1 6FL |
| <b>Associated undertakings:</b> |                          |                |   |                        |  |
| AES (NI) Limited                | Northern Ireland         | Ordinary       | 47.78%                                      | Electricity generation | Kilroot Power Station, Larne Road, Carrickfergus, Co Antrim, BT38 7LX    |

On 26 January 2018, Eirgrid and SONI announced the results of the first annual ISEM capacity auction. Both Kilroot coal units failed to clear in this auction and did not secure annual capacity contracts. As a result, and given the clear exit signal, AES intends to retire these coal units at the start of ISEM. Originally this was to be 23 May 2018, but the start of this new market has been delayed to 1 October 2018. In order to retire a unit, AES must follow the SONI Generation Plant Closure Process which requires a derogation to be sought to retire units within 36 months. AES is currently within this process and SONI have not yet made a recommendation to the Utility Regulator as to whether these units can close on the dates requested. Management's assumption is that the coal units will close at the start of ISEM on 1 October 2018.

The decision to retire the coal units triggered a revision of the recoverability of the assets of AES Kilroot Power Ltd and resulted in an impairment of fixed assets of power plant as well as an impairment of the investment of AES Electric Ltd. The impairment amounts to £24,734,400.17 decrease of revaluation reserve and £50,078,273.49 impairment loss in the profit and loss account.

The sale of Cloghan Ltd was finalized in February 2017 between AES Electric Ltd. and LCC Group Ltd. AES Horizons realized gain from the deal in 2017 amounts to £853,000.

### 13 Debtors

|                                    | 2017<br>£'000 | 2016<br>£'000 |
|------------------------------------|---------------|---------------|
| <b>Amounts due within one year</b> |               |               |
| Amounts owed by group companies    | 14,134        | 17,984        |
| VAT recoverable                    | 17            | 66            |
| Other debtors                      | 371           | 315           |
| Employee income tax receivable     | 320           | 297           |
| Prepayments and accrued income     | -             | 11            |
|                                    | <b>14,842</b> | <b>18,673</b> |

The amounts owed by group undertakings due within one year are repayable on demand, after a period of at least one year. This includes receivable from AES Horizons Investments Limited £8,941,000 (2016: £8,941,000). These amounts do not bear interest. The fair value is a reasonable approximation to the carrying value.

# AES ELECTRIC LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 14 Creditors: amounts falling due within one year

|                                    | 2017          | 2016          |
|------------------------------------|---------------|---------------|
|                                    | £'000         | £'000         |
| Amounts owed to group undertakings | 16,328        | 16,264        |
| Accruals                           | 1,376         | 785           |
| Trade and other creditors          | 48            | 129           |
|                                    | <u>17,752</u> | <u>17,178</u> |

### 15 Creditors: amounts falling due after more than one year

|  | 2017       | 2016         |
|--|------------|--------------|
|  | £'000      | £'000        |
| Loans provided by parent company                     | 41         | 2,921        |
| Long term portion of provision for performance units | 120        | 67           |
|  | <u>161</u> | <u>2,988</u> |

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

|  |    |       |
|--|----|-------|
| Wholly repayable within five years     | 41 | 2,921 |
| Not wholly repayable within five years | -  | 9     |

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

16 Financial instruments

|   | 2017           | 2016          |
|---|----------------|---------------|
|   | £'000          | £'000         |
| <b>Assets measured at amortised cost</b>          |                |               |
| <i>Debtors falling due within one year:</i>       |                |               |
| Trade debtors                                     | 708            | 689           |
| Amounts owed by fellow subsidiaries               | 14,134         | 17,984        |
| <b>Total</b>                                      | <b>14,842</b>  | <b>18,673</b> |
| <br><b>Liabilities measured at amortised cost</b> |                |               |
| <i>Creditors falling due within one year:</i>     |                |               |
| Amounts owed to fellow subsidiaries               | 16,328         | 16,264        |
| Trade payables and accruals                       | 1,424          | 914           |
| <b>Total</b>                                      | <b>17,752</b>  | <b>17,178</b> |
| <b>Net</b>  | <b>(2,910)</b> | <b>1,495</b>  |

17 Called up share capital

|  | 2017   | 2016   |
|--|--------|--------|
|  | £'000  | £'000  |
| <b>Called up, allotted and fully paid:</b>               |        |        |
| 10,309,352 (2016: 10,309,352) Ordinary shares of £1 each | 10,309 | 10,309 |

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

### 18 Revaluation reserves and Other reserves

#### Revaluation reserve

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 (AES Cloghan Ltd. 2,440,569 and AES (NI) 24,734,400) revaluation reserve in equity. After impairment of investment and sale of Cloghan in 2017 the reserve was written off.

#### 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 £5,022,000 (2016: £4,952,000).

#### 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 (2016: £ 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:

|                                | 2017 | 2016 |
|--------------------------------|------|------|
| 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.

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 £8.83 and £7.63 for the years ended 31 December 2017 and 2016 respectively.

A summary of the option activity for the year ended 31 December 2017 follows (number of options in thousands, pounds in millions except per option amounts, term in years):

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2017

18 Revaluation reserves and Other reserves (continued)

|  | Options        | Weighted<br>Average<br>Exercise Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |
|--|----------------|---------------------------------------|---|
|  | (in thousands) |                                       |   |
| Outstanding at December 31, 2016                 | 8.00           | £ 16.54                               |   |
| Exercised  | -              | -                                     |   |
| Forfeited and expired                            | 1.48           | £ 16.49                               |   |
| Granted  | -              | -                                     |   |
| Outstanding at December 31, 2017                 | 2.22           | £ 13.96                               | 0.11  |
| Vested and expected to vest at December 31, 2017 | 2.22           | £ 13.96                               | 0.11  |
| Eligible for exercise at December 31, 2017       | 2.22           | £ 13.96                               | 0.11  |

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 2017 was £60,000 (2016: £62,000).

*Restricted Stock Units without market conditions*

For the years ended 31 December 2017 and 2016, 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 2017 and 2016 had grant date fair values per RSU of £8.83 and £7.63 respectively.

A summary of the RSU activity for the year ended 31 December 2017 follows (number of RSUs in thousands, pounds in millions except per unit amounts, term in years):

|   | Restricted<br>stock units<br>('000) | Weighted<br>average grant<br>date fair values | Weighted<br>average<br>remaining<br>vesting term<br>(years) |
|---|-------------------------------------|---|---|
| Non vested at 1 January 2017                    | 18                                  | £ 8.06  |   |
| Vested during the year                          | (9)                                 | £ 8.66  |   |
| Forfeited and expired                           | -                                   | -   |   |
| Granted   | 8                                   | £ 8.83  |   |
| Net shares transferred during the year          | -                                   | -   |   |
| Non vested at 31 December 2017                  | 17                                  | 8.10  | 1   |
| Vested at 31 December 2017                      | -                                   | -   |   |
| Vested and expected to vest at 31 December 2017 | 16                                  | £ 8.09  |   |

**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 December 2017

**19 Dividends and Deemed distribution**

**Dividends**

The company paid an interim dividend during the year of £ 6,528,000 (2016: £2,580,000).

|  | 2017         | 2016         |
|--|--------------|--------------|
|  | £'000        | £'000        |
| Declared and paid during the year:             |              |              |
| Interim paid November 2016: £0.25 per share    |              | 2,580        |
| Interim paid March 2017: £0.3502 per share     | 3,610        |              |
| Interim paid March 2017: £0.2458 per share     | 2,534        |              |
| Interim paid December 2017: £0.0179 per share  | 185          |              |
| Interim paid December 2017: £0.009 per share   | 93           |              |
| Interim paid December 2017: £0.01027 per share | 106          |              |
|  | <u>6,528</u> | <u>2,580</u> |

**20 Contingent liabilities**

There were no contingent liabilities as at 31 December 2017 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 April 2018 the SEM Committee decided to extend the I-SEM G-Live Date to 01 October 2018. As a result, the coal units of AES Kilroot Power Ltd. will continue to operate at least until that date.

**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 5<sup>th</sup> Street NW, Washington DC 20549, USA.