

EDF ENERGY PLC

REGISTERED NUMBER: 2366852

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015

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EDF ENERGY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2015

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Directors	Vincent de Rivaz Robert Guyler
Company secretary	Lisa Deverick
Auditor	Deloitte LLP 2 New Street Square London EC4A 3BZ
Registered office	40 Grosvenor Place Victoria London SW1X 7EN

EDF ENERGY PLC
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STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2015.

Principal activities

The Company's principal activities during the year continued to be procurement of energy and commodities on behalf of other companies within the EDF Energy plc group and the provision of head office services. It will continue these activities for the foreseeable future.

Review of the business

The loss for the year before taxation amounted to £353.3m (2014 restated: £22.7m profit) and the loss after taxation amounted to £363.9m (2014 restated: £34.5m profit).

EDF Energy plc is a wholly-owned subsidiary of EDF Energy Holdings Limited (the "Group") which manages its operations on a group basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, which includes the Company, and future likely developments of the business are discussed in the Group's Annual Report which does not form part of this report and includes a material impairment for its coal plants and gas storage facilities.

Principal risks and uncertainties

The following is a discussion of the key risks facing the Company together with a summary of the Company's approach to managing those risks.

Margin risk

The Company purchases gas and electricity on behalf of other companies within the Group and recharges the costs to EDF Energy Customers plc. The Company makes a fixed margin per month relating to its energy trading activities, but margin risk arises as the margin percentage will fluctuate in line with price changes. Risk management is monitored for the whole of EDF Energy, through sensitivity analysis and stop loss per commodity and across commodities, within the Group risks mandate.

Interest rate risk

The Company's exposure to interest rate fluctuations on its borrowings and deposits is managed principally through the use of fixed rate debt instruments and swap agreements. The Company's policy is to use derivatives to reduce exposure to short-term interest rates and not for speculative purposes.

Foreign currency risk

The Company's exposure to foreign currency risk mainly relates to the currency exposure on the service of interest and capital on euro-denominated debt, the purchase of energy and EU emissions certificates and other foreign currency-denominated purchases. The Company's policy is to hedge/fix known currency exposures as they arise. The euro currency swap agreements fix the sterling equivalent that will be required to service the interest and capital repayments of foreign currency debt instruments. The Company enters into forward currency purchase contracts to fix the sterling price for future foreign currency-denominated transactions.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Risk of loss is monitored through establishment of approved counterparties, maximum counterparty limits and minimum credit ratings.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Health and safety risk

The health and safety of all our employees, contractors, agency staff and the public is a key risk given the nature of the Company's business. To minimise this risk, the Company is committed to creating a culture that views safe working as the only way of working and to reviewing all our processes and procedures to ensure they deliver this. Training is provided to managers to ensure they understand their responsibility for the safety of the employees that they set to work. In addition, a confidential helpline has been set up for the use of anyone within the organisation to help eradicate unsafe practices and safeguard our employees.

Cyber risk

Cyber security threats are increasing in magnitude, sophistication, and pace. The impact of a cyber security incident can significantly damage business operations, profit and brand. EDF Energy has invested in technology to protect itself from such threats.

Retirement benefit obligations risk

The Company has two defined benefit pension schemes. Low interest rates, and changes in demographic factors have led scheme liabilities to grow at a faster rate than assets, resulting in actuarial deficits that have led to increased pension expense and cash contributions. The Company and the pension scheme trustees keep investment risk under review, concentrating on prudent asset allocation and liability hedging. A pension benefit reform has been implemented effective from 1 January 2016 to reduce the actuarial deficit and the required cash costs. See note 28 for more details of pension risks.

Taxation risk

Taxation risk is the risk that the Company suffers losses arising from additional tax charges, financial penalties or reputational damage. These risks could arise from failure to comply with procedures required by tax authorities, the interpretation of tax law, or changes in tax law. The Company has mitigated this risk by the implementation of effective, well documented and controlled processes to ensure compliance with tax disclosure and filing obligations. This is further supported by the use of appropriate advice from reputable professional firms.

Creditors' payment policy

The Group's current policy concerning the payment of its trade creditors and other suppliers is to:

- settle the terms of payment with those creditors/suppliers when agreeing the terms of each transaction;
- ensure that those creditors/suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts;
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors/suppliers for revenue and capital supplies of good and services without exception. At 31 December 2015, the company had an average of 20.2 days (2014: 20.8 days) purchases outstanding in its trade creditors.

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STRATEGIC REPORT (CONTINUED)

Going concern

After making enquiries and reviewing cash flow forecasts and available facilities for at least 12 months from the date of signing these financial statements, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. This judgement has been formed taking into account the principal risks and uncertainties that the Company faces and which have been outlined in more detail elsewhere in the Strategic Report. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 28 June 2016 and signed on its behalf by:


.....
Robert Guyler
Director

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DIRECTORS' REPORT

The Directors present their report and the financial statements for the year ended 31 December 2015.

Directors

The Directors who held office during the year and to the date of this report were as follows:

Vincent de Rivaz

Simone Rossi (resigned 10 March 2015)

Robert Guyler (appointed 10 March 2015)

Simone Rossi was employed and had a service contract with the Company. Vincent de Rivaz is employed by and has a service contract with the ultimate parent company Electricité de France SA ("EDF SA"). Robert Guyler is employed and has a service contract with the Company.

There are no contracts of significance during or at the end of the financial year in which a Director of the Company has a material interest. Neither of the Directors who held office at the end of the financial year had any interests in the shares of the Company or any Group company that are required to be disclosed in accordance with the Companies Act 2006.

There were qualifying third-party indemnity provisions in place for the benefit of one or more Directors of the Company during the financial year and at the date of approval of the financial statements.

Dividends

The Directors do not recommend payment of a dividend (2014: £nil).

Future developments

The future developments of the Company are outlined in the Strategic Report.

Political donations

The Company made no political donations in either the current or prior year.

Equal opportunities

The Company is fully committed to ensuring that all current and potential future employees and customers are treated fairly and equally, regardless of their gender, sexuality, marital status, disability, race, colour, nationality or ethnic origin. The Company provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities. In the event of employees becoming disabled during employment, where possible, assistance and retraining is given so that they may attain positions compatible with their ability.

Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting their employment and on the various factors affecting the performance of the Company and group. This is carried out in a number of ways, including formal and informal briefings, departmental meetings and regular reports in staff newsletters and on the group intranet.

Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

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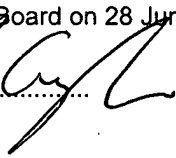
DIRECTORS' REPORT (CONTINUED)

Reappointment of auditor

Deloitte LLP have indicated their willingness to continue in office as auditor to the Company. A resolution to reappoint Deloitte LLP as auditor will be tabled at the forthcoming Annual General Meeting.

Approved by the Board on 28 June 2016 and signed on its behalf by:

.....
Robert Guyler
Director



EDF ENERGY PLC
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DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual 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), including Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

EDF ENERGY PLC
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDF ENERGY PLC

We have audited the financial statements of EDF Energy plc for the year ended 31 December 2015, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 31. 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 FRS 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, 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 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 the 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 2015 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

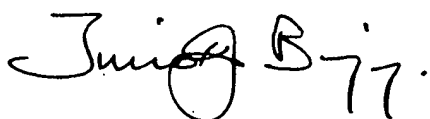
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDF ENERGY PLC (CONTINUED)

Matters on which we are required to report by exception

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



.....
Timothy Biggs FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor

2 New Street Square
London
EC4A 3BZ

28 June 2016

EDF ENERGY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
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INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £ m	Restated 2014 £ m
Revenue	4	7,600.8	5,678.1
Fuel, energy and related purchases	6	<u>(7,490.9)</u>	<u>(5,631.2)</u>
Gross margin		109.9	46.9
Materials and contracting costs		(18.3)	(35.7)
Personnel expenses	8	(80.3)	(82.1)
Other operating expenses		(205.2)	(201.8)
Other operating income		<u>229.1</u>	<u>269.2</u>
Operating profit/(loss)		35.2	(3.5)
(Loss)/gain on derivative commodity contracts	5	(35.8)	35.2
Depreciation and amortisation	5	(18.7)	(16.6)
Impairment	12	<u>(327.7)</u>	<u>-</u>
(Loss)/profit before taxation and finance costs		(347.0)	15.1
Investment income	9	28.5	41.0
Finance costs	10	(34.5)	(33.1)
Other gains and losses		<u>(0.3)</u>	<u>(0.3)</u>
(Loss)/profit on ordinary activities before taxation		(353.3)	22.7
Taxation (charge)/credit	11	<u>(10.6)</u>	<u>11.8</u>
(Loss)/profit for the year		<u>(363.9)</u>	<u>34.5</u>

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 £ m	2014 £ m
(Loss)/profit for the year	(363.9)	34.5
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	9.7	(14.8)
Income tax effect	(2.5)	3.1
Items that may be reclassified subsequently to profit or loss		
Gain on cash flow hedges (net) (note 27)	<u>181.5</u>	<u>34.4</u>
Total comprehensive (loss)/income attributable to the owners of the Company for the year	<u>(175.2)</u>	<u>57.2</u>

The income tax effect on defined benefit pensions includes a deferred tax charge of (£3.3m) (2014: credit of £1.3m) and a current tax credit of £0.8m (2014: credit of £1.8 m).

The net gain on cash flow hedges includes a deferred tax charge of (£41.8m) (2014: charge of (£8.6m)).

EDF ENERGY PLC
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BALANCE SHEET
AT 31 DECEMBER 2015

	Note	2015 £ m	Restated 2014 £ m
Non-current assets			
Intangible assets	13	340.7	276.0
Property, plant and equipment	14	94.4	85.7
Financial assets	15	816.6	1,031.1
Investments in subsidiary undertakings	16	14.4	98.0
Derivative financial instruments	24	118.9	102.5
Deferred tax assets	23	-	19.2
		<u>1,385.0</u>	<u>1,612.5</u>
Current assets			
Inventories	17	259.3	288.0
Trade and other receivables	18	3,818.6	3,897.9
Cash and cash equivalents	19	242.1	503.4
Derivative financial instruments	24	327.1	198.0
		<u>4,647.1</u>	<u>4,887.3</u>
Total assets		<u>6,032.1</u>	<u>6,499.8</u>
Current liabilities			
Other liabilities	20	(1,501.5)	(1,849.3)
Derivative financial instruments	24	(228.3)	(253.2)
Current tax liability		<u>(91.2)</u>	<u>(71.0)</u>
		<u>(1,821.0)</u>	<u>(2,173.5)</u>
Non-current liabilities			
Borrowings	21	(587.2)	(623.1)
Derivative financial instruments	24	(148.1)	(122.1)
Long-term provisions	22	(442.1)	(377.0)
Deferred tax liability	23	(27.0)	-
Post-employment benefits provision	28	(35.4)	(57.6)
		<u>(1,239.8)</u>	<u>(1,179.8)</u>
Total liabilities		<u>(3,060.8)</u>	<u>(3,353.3)</u>
Net assets		<u>2,971.3</u>	<u>3,146.5</u>

EDF ENERGY PLC
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BALANCE SHEET
AT 31 DECEMBER 2015 (CONTINUED)

	Note	2015 £ m	Restated 2014 £ m
Capital and reserves			
Called up share capital	25	1,296.6	1,296.6
Share premium reserve		13.9	13.9
Capital and redemption reserves		12.9	12.9
Hedging reserve	27	139.3	(42.2)
Profit and loss account		<u>1,508.6</u>	<u>1,865.3</u>
Shareholders' funds		<u>2,971.3</u>	<u>3,146.5</u>

The financial statements of EDF Energy plc (registered number 2366852) on pages 9 to 48 were approved by the Board and authorised for issue on 28 June 2016 and signed on its behalf by:

.....
 Robert Guyler
 Director

EDF ENERGY PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital £ m	Share premium £ m	Capital reserve £ m	Redemption reserve £ m	Cash flow hedging reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2014	1,296.6	13.9	1.9	11.0	(76.6)	1,842.5	3,089.3
Profit for the year	-	-	-	-	-	34.5	34.5
Other comprehensive income	-	-	-	-	34.4	(11.7)	22.7
At 31 December 2014	<u>1,296.6</u>	<u>13.9</u>	<u>1.9</u>	<u>11.0</u>	<u>(42.2)</u>	<u>1,865.3</u>	<u>3,146.5</u>
Loss for the year	-	-	-	-	-	(363.9)	(363.9)
Other comprehensive income	-	-	-	-	181.5	7.2	188.7
At 31 December 2015	<u><u>1,296.6</u></u>	<u><u>13.9</u></u>	<u><u>1.9</u></u>	<u><u>11.0</u></u>	<u><u>139.3</u></u>	<u><u>1,508.6</u></u>	<u><u>2,971.3</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1 General information

EDF Energy plc is a company incorporated in the United Kingdom under the Companies Act. It is resident in the United Kingdom for tax purposes.

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard (FRS 101) Reduced Disclosure Framework and transitioned from previously extant UK GAAP to Financial Reporting Standard 101 Reduced Disclosure Framework for all periods presented. The date of transition was 1 January 2014. Transition reconciliations showing all material adjustments are disclosed in note 31. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the asset. The financial statements are presented in pounds sterling as that is the currency for the primary economic environment in which the company operates.

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
- b) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- c) the requirements of paragraph 33 (c) of IFRS 5 Non current Assets Held for Sale and Discontinued Operations;
- d) the requirements of IFRS 7 Financial Instruments: Disclosures;
- e) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- f) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
 - (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property;
 - (v) paragraph 50 of IAS 41 Agriculture;
- g) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- h) the requirements of IAS 7 Statement of Cash Flows;
- i) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Summary of disclosure exemptions (continued)

- j) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- k) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- l) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Going concern

As set out in the Strategic Report, after making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements

Exemption from preparing group accounts

The financial statements contain information about EDF Energy plc as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of EDF Energy Holdings Limited, a company incorporated in United Kingdom.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

The Company recognises revenue when;

- the amount of revenue can be reliably measured;
- it is probable that future economic benefits will flow to the entity; and
- and specific criteria have been met for each of the company activities.

Finance income and costs policy

Finance costs of debt are recognised in the income statement over the term of such instruments, at a constant rate on the carrying amount.

Foreign currency transactions and balances

The functional and presentational currency of the Company is pounds sterling. Transactions in foreign currency are initially recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts to mitigate the risks. (See below for details of the Company's accounting policies in respect of such derivative financial instruments).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

EU Emissions trading scheme and Renewable Obligations Certificates

The Company recognises its free emissions allowances received under the National Allocation Plan at zero cost. Purchased emissions allowances are initially recognised at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceeds the level of allowances granted. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date. Movements are recognised within operating profit. Forward contracts for the purchase or sale of emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the income statement or hedging reserve depending on whether cash flow hedging is applied.

The Company is obliged to sell a specific ratio of electricity sales volume to its customers from renewable sources. This is achieved via generation from renewable sources or through the purchase of Renewable Obligation Certificates ("ROCs"). Any purchased certificates are recognised at cost and included within intangible assets. Any ROCs obtained directly through renewable generation are carried at zero cost but reduces the Company's outstanding obligations to supply certificates. The Company recognises a provision for its obligation to supply certificates, based on the energy it supplies to customers. The intangible assets are surrendered, and the provision is released at the end of the compliance period reflecting the consumption of economic benefit. As a result, no amortisation is recorded during the period.

Taxation

Current tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is provided or recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax arising from (1) the initial recognition of goodwill, (2) the initial recognition of assets or liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit, or (3) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future, is not provided for.

Deferred tax assets are recognised to the extent it is more likely than not that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Current tax and deferred tax for the year

Current tax and deferred tax are recognised in the income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment is stated at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is calculated on a straight-line basis, less any residual value, over the estimated useful life of the asset and charged to the income statement as follows:

Asset class	Depreciation method and rate
Information technology	Three to ten years
Tools and equipment	Five years
Meters	Twenty years
Fixtures and equipment	Four to five years
Motor vehicles	Five years

Intangible assets

IT software is initially recognised at cost and is amortised on a straight-line basis over a useful economic life of 3-8 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Investments

Fixed asset investments are shown at cost less any provision for impairment. Current assets investments are stated at the lower of cost and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time that the assets are substantially ready for their intended use. Qualifying assets are assets which take a substantial period of time to get ready for their intended use or sale.

In instances where the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the borrowing costs incurred are the borrowing costs that are capitalised. In instances where the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, a capitalisation rate is applied based on the weighted average cost of general borrowings during the period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Defined benefit pension obligation

The Group operates three defined benefit pension schemes. The cost of providing benefits is determined using the Projected Unit Credit method with actuarial valuations being carried out at each balance sheet date. Remeasurements comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs include current service, past service cost and gains or losses on curtailments and settlements which are included in personnel expenses. It also includes net interest expense which is included in finance cost.

The retirement benefit obligation recognised on the balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus arising from this calculation is limited to the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the schemes.

Investment in associates

An associate is an entity over which the Company is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associate less any impairment in the value of the individual investments. Losses of the associates in excess of the Company's interest in those associates are not recognised, only to the extent that the Company has not incurred legal or constructive obligations, or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Company's share of the fair value of the net identifiable assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Interest in joint operations

The Company's interests in joint operations are accounted for by recognising a proportionate share of the joint operation's assets, liabilities, income and expense with similar items in the financial statements on a line-by-line basis.

Where the Company transacts with its jointly-controlled entities, unrealised profit and losses are eliminated to the extent of the Company's interest in the joint operation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Derivative financial instruments

The Company enters into financial instruments to manage its exposure to fluctuations in foreign exchange rates, interest rates and commodity prices (including gas, coals, carbon and electricity), including FX forwards, interest rate swaps and forward sales and purchases of energy or commodities. Further details of derivative financial instruments are disclosed in note 24.

Forward sales and purchase of commodities and energy are considered to fall outside the scope of IAS 39 when the contract concerned is considered to qualify as "own use". This is demonstrated to be the case when the following conditions have been met:

- a physical delivery takes place under all such contracts;
- the volume purchased or sold under the contracts correspond to the Company's operating requirements; and
- the contracts are not considered as written options as defined by the standard.

Commodity forward contracts not qualifying as 'own use' which also meet the definition of a derivative are within the scope of IAS 39. This includes both financial and non-financial contracts.

Derivatives and other financial instruments are measured at fair value on the contract date and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise. Changes in the fair values of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in equity with any ineffective element being recognised immediately in the income statement, as explained further below.

The use of derivatives and other financial instruments is governed by the Company's policies and approved by appropriate management. The Company does not use derivatives and other financial instruments for speculative purposes.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At inception of the hedge relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge, and on an on-going basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The Company classifies hedges in the following categories:

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included within cost of sales for commodity contracts, and investment revenue or finance costs for financing instruments.

Amounts previously recognised in other comprehensive income and accumulated in equity are recycled in the income statement in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through the profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through the profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial liability or a financial asset and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or asset or (where appropriate) a shorter period, to the net carrying amount on initial recognition).

3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, some critical accounting judgements have been applied by management and some balances are based on estimates.

Goodwill and asset impairment

The Company performs impairment testing of other assets where there is an indication of potential impairment. Further information about impairment of other assets can be found in note 12. The impairment review involves a number of assumptions including discount rates, output values, asset lives and forward power prices.

Pension deficit

The pension deficit is calculated by independent qualified actuaries, based on actual payroll data and certain actuarial assumptions. These actuarial assumptions are made to model potential future costs and benefits and include: life expectancy, rates of returns on plan assets, inflation, discount rate and expected retirement age. These assumptions are reviewed on an annual basis and may change based on current market data. Further information is available about pensions in note 28.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Fair value measurement

Some of the Company's assets and liabilities, principally derivative financial instruments, are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability, the Company uses market-observable data to the extent that it is available. Where level 1 inputs are not available, the Company uses valuation techniques to determine fair values which are based on observable market data.

All derivative financial instruments are valued using a discounted cash flow. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at rate that reflects the credit risk of the counterparties. Similar valuation methodologies are used for commodity forward contracts, foreign currency forward contracts, cross currency swaps and interest rate swaps. There are no significant unobservable inputs into the valuation.

Provisions for impairment of receivables and inventories

Provisions are made against bad and doubtful debts, unbilled revenue and obsolete inventory. Provision against debtors is estimated based on applying a percentage provision rate to the aged debt book at the end of each period. The provision rates are based on the comparison of historical rates of collection compared to billing data. Any over-statement or under-statement of the provision is essentially a timing difference to the actual write-off level. Provision is made against inventory taking account of the age of the asset, using predefined formulae derived from actual experience.

Industry reconciliation process – fuel and energy purchases

The cost of electricity and gas purchases is reported in line with the latest settlement data provided by the industry system operators, which itself includes an inherent degree of estimation, depending on the maturity of those data. The industry reconciliation process allocates purchase volumes and associated settlement costs between suppliers based on a combination of estimated and metered customer consumption. Over time, as more actual reads become available and replace previous consumption estimates, the allocation of volumes and costs between suppliers is updated through the industry reconciliation process, and becomes continually more accurate as a result.

Revenue recognition

Revenue includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end. This is calculated by reference to data received through the third party settlement systems, together with estimates of consumption not yet processed through settlements and selling price estimates. These estimates are sensitive to the assumptions used in determining the portion of sales not billed and based on actual meter readings at the reporting date.

Revenue is valued at average pence per unit, and any unbilled revenue is treated as an unbilled debtor. This figure is adjusted based on a judgement of the likelihood of collecting the outstanding debt based on historical data.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2015	2014
	£ m	£ m
Sales of goods and services	7,600.8	5,678.1
Investment revenue (note 9)	<u>2.3</u>	<u>3.0</u>
	<u><u>7,603.1</u></u>	<u><u>5,681.1</u></u>

5 Operating profit / (loss)

Profit / (loss) for the year has been arrived at after charging/(crediting) the following gains and losses:

	2015	Restated 2014
	£m	£m
Depreciation expense	12.7	12.5
Amortisation expense	6.0	4.1
Impairment loss	327.7	-
Foreign exchange losses	-	(7.3)
Operating lease expense - property	13.7	17.2
Losses / (gains) on derivative commodity contracts	35.8	(35.2)
Losses / (gains) on derivative foreign exchange contracts	<u>7.1</u>	<u>(11.3)</u>

In 2015 an amount of £50,000 (2014: £32,106) was paid to Deloitte LLP for audit services. In 2015, amounts payable to Deloitte LLP by the Company in respect of other assurance services were £0.49m (2014: £0.4m).

6 Fuel, energy and related purchases

	2015	2014
	£m	£m
Purchase of energy	6,264.7	4,429.5
Distribution and transmission	597.8	584.4
Carbon certificates	74.2	117.9
Renewable obligation certificates	<u>554.2</u>	<u>499.4</u>
	<u><u>7,490.9</u></u>	<u><u>5,631.2</u></u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Directors' remuneration

The directors' remuneration for the year was as follows:

	2015	2014
	£ m	£ m
Aggregate remuneration	1.1	1.3
Amounts receivable under long-term incentive schemes	0.3	0.3
Expatriate related benefits	0.4	0.5
	<u>1.8</u>	<u>2.1</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2015	2014
	No.	No.
Accruing benefits under defined benefit pension scheme	<u>1</u>	<u>1</u>

In respect of the highest paid director:

	2015	2014
	£ m	£ m
Aggregate remuneration	0.7	0.6
Amounts receivable under long term incentive schemes	0.2	0.3
Total remuneration excluding expatriate related benefits	0.9	0.9
Expatriate related benefits	0.4	0.3
Total remuneration	<u>1.3</u>	<u>1.2</u>

The Directors of the Company are paid by the Company for services provided to all companies within the Group and have been set out above.

No Director (2014: none) held any interest in shares or debentures of the Company or the Group required to be disclosed under the Companies Act 2006.

The aggregate remuneration includes basic salary amounts receivable under annual incentive schemes.

The remuneration of all Directors disclosed above is also included in the financial statements of EDF Energy Holdings Limited.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Personnel expenses

The aggregate payroll costs (including directors' remuneration) were as follows:

	2015	2014
	£ m	£ m
Wages and salaries	63.0	57.9
Social security costs	4.7	7.8
Pension costs	4.5	14.7
Severance	8.1	1.7
	<u>80.3</u>	<u>82.1</u>

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2015	2014
	No.	No.
Corporate and Steering Functions	886	940
Customers	115	131
Generation	69	48
Nuclear	2	3
	<u>1,072</u>	<u>1,122</u>

9 Investment income

	2015	2014
	£ m	£ m
Interest on bank deposits	1.1	2.5
Interest receivable from other Group companies	26.2	26.7
Fair value gains on foreign currency derivatives	-	11.3
Foreign exchange gains	1.1	-
Other finance income	0.1	0.5
	<u>28.5</u>	<u>41.0</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 Finance costs

	2015	Restated 2014
	£ m	£ m
Interest on bonds	24.9	24.9
Interest on bank overdrafts and borrowings	1.4	0.1
Interest payable on loans from other Group companies	0.1	-
Foreign exchange losses	-	7.1
Fair value losses of foreign currency derivatives	7.1	-
Pension scheme interest	2.4	2.4
Other interest	-	0.1
	<u>35.9</u>	<u>34.6</u>
Total finance cost	35.9	34.6
Less: amounts included in the cost of qualifying assets	<u>(1.4)</u>	<u>(1.5)</u>
Total borrowing costs	<u>34.5</u>	<u>33.1</u>

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 3.643 % per annum. This is a fixed rate and is checked periodically.

11 Tax on profit on continuing ordinary activities

(a) Tax charged/(credited) in the income statement

	2015	2014
	£ m	£ m
Current taxation		
UK corporation tax charge/(credit) on profits / loss made in the year	2.9	(8.9)
Adjustments in respect of previous years' reported tax charges/(credits)	<u>6.6</u>	<u>(17.4)</u>
	<u>9.5</u>	<u>(26.3)</u>
Deferred taxation		
Current year charge	0.8	11.1
Adjustments in respect of previous years' reported tax charges	<u>0.3</u>	<u>3.4</u>
Total deferred tax charge for the year	<u>1.1</u>	<u>14.5</u>
Income tax charge/(credit) reported in the profit and loss account	<u>10.6</u>	<u>(11.8)</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tax on profit on continuing ordinary activities (continued)

(b) The charge/(credit) for the year can be reconciled to the (loss)/ profit in the income statement as follows:

	2015 £ m	2014 £ m
(Loss)/profit before tax	<u>(353.3)</u>	<u>22.7</u>
Tax at the UK corporation tax rate of 20.25% (2014: 21.50%)	(71.5)	4.9
Effect of:		
Non-deductible impairment (note 12)	66.3	-
Other non-deductible expenses and non-taxable income	9.0	(1.8)
Current year effect of deferred tax rate change	(0.1)	(0.9)
Adjustment to prior-year corporation tax charge/(credit)	6.6	(17.4)
Adjustment to prior-year deferred tax charge	<u>0.3</u>	<u>3.4</u>
Income tax charge/(credit) reported in the profit and loss account	<u>10.6</u>	<u>(11.8)</u>

(c) Other factors affecting the tax charge for the year:

The accounting for deferred tax follows the accounting treatment of the underlying item on which deferred tax is being provided and hence is booked within equity if the underlying item is booked within equity.

In the current year a deferred tax charge of £45.1m (2014: charge of £7.3m) has been recognised in equity. This consists of a charge of £3.3m (2014: credit of (£1.3m)) in respect of pension movements and a charge of £41.8m (2014: charge of £8.6m) in respect of movements in cash flow hedges.

A current tax credit of £0.8m (2014: credit of £1.8m) has also been recognised in equity in respect of pension movements.

Changes to the main rate of corporation tax were announced in Finance Act 2013. These comprised a reduction in the main rate of corporation tax for the financial year beginning 1 April 2014 from 23% to 21% and a further reduction for the financial year beginning 1 April 2015 from 21% to 20%.

Further changes to the main rate of corporation tax were announced in Finance Act 2015. These comprised a reduction in the main rate of corporation tax for the financial year beginning 1 April 2017 from 20% to 19% and a further reduction for the financial year beginning 1 April 2020 from 19% to 18%.

The closing deferred tax balance at 31 December 2015 has been calculated at 18.3% (31 December 2014: 20.0%). This is the average tax rate at which the reversal of the net deferred tax liability is expected to occur.

In the March 2016 Budget, the Government announced a reduction in the main rate of corporation tax for the financial year beginning 1 April 2020 to 17%. This reduction was not substantively enacted at the balance sheet date and so is not reflected in these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Impairment of investments and financial assets

	2015	2014
	£ m	£ m
Impairment	<u>(327.7)</u>	<u>-</u>

Breakdown of impairments recognised

	2015
	£m
Subsidiary undertakings	
Cheshire Cavity Storage Group Limited	46.8
EDF Energy (Gas Storage Hole House) Limited	36.8
Financial assets	
EDF Energy (West Burton Power) Limited	239.1
EDF Energy (Gas Storage Hole House) Limited	5.0
	<u>327.7</u>

A reduction in gas price volatility was considered as an impairment trigger for the gas storage facilities. An impairment was booked in Cheshire Cavity Storage Group Limited and EDF Energy (Gas Storage Hole House) Limited which resulted in negative net assets in these two companies. As a result, the investments in subsidiary undertakings and financial assets due from these companies were impaired. The main assumptions used for the calculation were the discount rate, and forward power and gas prices and volatility of forward gas prices. The discount rate was derived from an after-tax rate of 6.5% (2014: 6.5%).

In 2015, an impairment test was performed for the CCGT station at West Burton due to the lack of market reaction to plant closures in recent months which was considered as an impairment trigger. An impairment was booked in EDF Energy (West Burton Power) Limited resulting in negative net assets. As a result, the financial asset due from this company was impaired. The fair value was based on discounted cash flows over its expected useful life. The main assumptions used for the calculation were the discount rate and forward power and gas prices. The discount rate was derived from an after-tax rate of 6.7% (2014: 6.7%).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Intangible assets

	IT software £ m	EU Emissions trading certificates £ m	CO2 Emission rights £ m	Total £ m
Cost or valuation				
At 1 January 2015	76.7	117.5	136.6	330.8
Additions	13.5	77.7	233.9	325.1
Disposals	<u>(1.6)</u>	<u>(117.5)</u>	<u>(136.6)</u>	<u>(255.7)</u>
At 31 December 2015	<u>88.6</u>	<u>77.7</u>	<u>233.9</u>	<u>400.2</u>
Amortisation				
At 1 January 2015	54.8	-	-	54.8
Amortisation charge	6.0	-	-	6.0
Amortisation eliminated on disposals	<u>(1.3)</u>	<u>-</u>	<u>-</u>	<u>(1.3)</u>
At 31 December 2015	<u>59.5</u>	<u>-</u>	<u>-</u>	<u>59.5</u>
Carrying amount				
At 31 December 2015	<u>29.1</u>	<u>77.7</u>	<u>233.9</u>	<u>340.7</u>
At 31 December 2014	<u>21.9</u>	<u>117.5</u>	<u>136.6</u>	<u>276.0</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Property, plant and equipment

	Land and buildings £ m	Other property, plant and equipment £ m	Assets under construction £ m	Total £ m
Cost				
At 1 January 2015	17.0	103.7	58.4	179.1
Additions	-	-	21.4	21.4
Disposals	-	(9.7)	-	(9.7)
Transfers	21.3	22.5	(43.8)	-
At 31 December 2015	<u>38.3</u>	<u>116.5</u>	<u>36.0</u>	<u>190.8</u>
Depreciation				
At 1 January 2015	8.3	85.1	-	93.4
Charge for the year	0.8	11.9	-	12.7
Eliminated on disposal	-	(9.7)	-	(9.7)
At 31 December 2015	<u>9.1</u>	<u>87.3</u>	<u>-</u>	<u>96.4</u>
Carrying amount				
At 31 December 2015	<u>29.2</u>	<u>29.2</u>	<u>36.0</u>	<u>94.4</u>
At 31 December 2014	<u>8.7</u>	<u>18.6</u>	<u>58.4</u>	<u>85.7</u>

Assets in the course of construction mainly relates to various PPE projects and include an amount of £1.4m (2014: £1.5m) in respect of borrowing costs capitalised.

15 Financial assets

	2015 £ m	2014 £ m
Non-current financial assets		
Loans to other subsidiary companies	<u>816.6</u>	<u>1,031.1</u>

£316.7m (2014: £531.2m) of the loans to subsidiary companies is interest bearing and £499.9m (2014: £499.9m) is interest free. The loans are repayable on demand. The interest on the loans is calculated at one month LIBOR plus 40 bps.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Investment in subsidiary undertakings

	£ m
Cost	
At 1 January 2014 and 31 December 2014	98.0
Impairment (see note 12)	<u>(83.6)</u>
At 31 December 2015	<u>14.4</u>
Carrying amount	
At 31 December 2015	<u>14.4</u>
At 31 December 2014	<u>98.0</u>
At 1 January 2014	<u>98.0</u>

Details of the subsidiaries as at 31 December 2015, which are incorporated in the United Kingdom and are registered and operate in England and Wales (unless otherwise stated) are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held	
		2015	2014
British Energy Direct Limited	Sale of electricity	100%	100%
Cheshire Cavity Storage 1 Limited	Provision of gas storage facilities	100%	100%
EDF Energy 1 Limited	Marketing and supply of electricity and gas	100%	100%
EDF Energy (Cottam Power) Limited	Provision and supply of electricity generation	100%	100%
EDF Energy Customers plc	Electricity retailing	100%	100%
EDF Energy (Dormant Holdings) Limited	Holding company	100%	100%
EDF Energy Investments	Holding company	100%	100%
EDF Energy (London Heat & Power) Limited	Generation and supply of electricity and heat	100%	100%
EDF Energy (Projects) Limited	Investment company	100%	100%
51° Limited	Investment company	100%	100%
Associated Electricity Supplies Limited	Investment company	100%	100%
EDF Energy (West Burton Power) Limited	Power generation	100%	100%
SEEBOARD Energy Gas Limited	Gas supply	100%	100%
SEEBOARD Energy Limited	Energy supply	100%	100%
Sutton Bridge Financing Limited	Financial activities	100%	100%

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16 Investment in subsidiary undertakings (continued)

The Barkantine Heat & Power Company Limited	Generation and supply of electricity and heat	100%	100%
EDF Energy Round 3 Isle of Wight Limited	Renewable energy	51%	51%
EDF Energy (Gas Storage Hole House) Limited	Provision of gas storage	100%	100%
Cheshire Cavity Storage Group Limited*	Holding company	100%	100%
Deletopicnic Limited*	Holding company	100%	100%
EDF Energy (Energy Branch) plc*	Investment in electricity generation	100%	100%
EDF Energy Fleet Services Limited*	Provision and supply of transport services	100%	100%
EDF Energy (Metro Holdings) Limited*	Investment company	100%	100%
EDF Energy Customer Field Services (Metering) Limited*	Investment company	100%	100%

* indicates direct investment of EDF Energy plc

Associates

Details of the associates as at 31 December 2015 are as follows:

Name of associate	Principal activity	Proportion of ownership interest and voting rights held	
		2015	2014
Fallago Rig Windfarm Limited	Renewable energy	10%	10%
Navitus Bay Development Limited	Renewable energy	25.5%	25.5%
Lewis Wind Power Limited	Renewable energy	50%	50%
Green Rigg Windfarm Limited	Renewable energy	10%	10%
Rusholme Windfarm Limited	Renewable energy	10%	10%
Glass Moor II Windfarm Limited	Renewable energy	10%	10%
Barking Power Limited	Electricity generation	18.6%	18.6%

Barking Power Limited has a reporting date of 31 March. Fallago Rig Windfarm Limited has a reporting date of 30 June. In both cases, the financial information presented in these financial statements are aligned with the Company's financial year.

During 2015, the majority shareholder of Barking Power Limited negotiated to buy the shares belonging to the third shareholder, which triggered the right for EDF Energy (Energy Branch) plc to also sell its shares on the same basis. This valued the EDF Energy stake at £10.8m. The Company sold its share in Barking Power Limited to ATCO Power Generation Limited on 9 March 2016.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Investment in subsidiary undertakings (continued)

Joint ventures

Details of the joint ventures indirectly held as at 31 December 2015 and 31 December 2014 are as follows:

Name of Joint ventures	Principal activity	Proportion of ownership interest and voting rights held	
		2015	2014
EDF Energy Renewables Holdings Limited	Renewable energy	50%	50%
Braemore Wood Windfarm Limited	Renewable energy	50%	50%
Royal Oak Windfarm Limited	Renewable energy	50%	50%
Bicker Fen Windfarm Limited	Renewable energy	50%	50%
Burnfoot Windfarm Limited	Renewable energy	50%	50%
Farifield Windfarm Limited	Renewable energy	50%	50%
Boundary Lane Windfarm Limited	Renewable energy	50%	50%
Walkway Windfarm Limited	Renewable energy	50%	50%
Teesside Windfarm Limited	Renewable energy	50%	50%
Longpark Windfarm Limited	Renewable energy	50%	50%
Roadie Windfarm Limited	Renewable energy	50%	50%
Burnhead Moss Windfarm Limited	Renewable energy	50%	50%
EDF Energy Renewables Limited	Renewable energy	50%	50%
Barmoor Wind Power Limited	Renewable energy	50%	50%
Blyth Offshore Demonstrator Limited	Renewable energy	50%	50%
Fenland Windfarms Limited	Renewable energy	50%	50%
Cemmaes Windfarm Limited	Renewable energy	50%	50%
Llangwryfon Windfarms Limited	Renewable energy	50%	50%
Great Orton Windfarm II Limited	Renewable energy	50%	50%
Cold Northcott Windfarm Limited	Renewable energy	50%	50%
First Windfarm Holdings Limited	Renewable energy	50%	50%
High Hedley Hope Wind Limited	Renewable energy	50%	50%
Red Tile Wind Limited	Renewable energy	50%	50%
Corriemollie Windfarm Limited	Renewable energy	50%	50%
Park Spring Wind Farm Limited	Renewable energy	50%	50%
Pearie Law Windfarm Limited	Renewable energy	50%	50%
Cumbria Wind Farms Limited	Renewable energy	50%	50%
Beck Burn Windfarm Limited	Renewable energy	50%	50%
Dorenell Windfarm Limited	Renewable energy	50%	50%
EDF EN Services UK Limited	Renewable energy	50%	50%

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Inventories

	2015	2014
	£ m	£ m
Raw materials and consumables	258.7	287.6
Levy exemption certificates	0.6	0.4
	<u>259.3</u>	<u>288.0</u>

18 Trade and other receivables

	2015	2014
	£ m	£ m
Trade receivables	102.2	106.5
Amounts owed by other Group companies	3,627.2	3,696.0
VAT	58.1	62.7
Other debtors	31.1	32.7
	<u>3,818.6</u>	<u>3,897.9</u>

19 Cash and cash equivalents

	2015	2014
	£ m	£ m
Cash at bank	6.3	42.7
Cash pooling with intermediate parent company	235.8	460.7
	<u>242.1</u>	<u>503.4</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. EDF Energy plc operates a collective net overdraft facility arrangement which permits the offset of cash balances and overdrafts between its subsidiary companies.

20 Other liabilities

	2015	2014
	£ m	£ m
Trade payables	570.6	622.6
Accruals	141.5	134.4
Amounts due to other Group companies	746.0	1,043.9
Other payables	43.3	48.3
Interest payable	0.1	0.1
	<u>1,501.5</u>	<u>1,849.3</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Borrowings

	2015	2014
	£ m	£ m
Non-current loans and borrowings		
€800m Eurobond	<u>587.2</u>	<u>623.1</u>

All borrowings are denominated in sterling and valued at amortised cost unless otherwise stated. The borrowings are unsecured.

On 27 June 2013 a new ten year Eurobond was entered into for €800m with fixed interest rate of 2.8% which was subsequently swapped into a sterling bond of £684m with fixed interest payable at 3.6%. The bond is carried at the sterling equivalent of €800m at the balance sheet date as shown above.

22 Provisions for liabilities

	Renewable obligation certificates	Onerous contracts	Restructuring	Insurance	Total
	£m	£m	£m	£m	£m
At 1 January 2015	372.9	0.2	3.2	0.7	377.0
Additional provisions	433.3	-	6.8	-	440.1
Provisions used	(372.9)	(0.2)	(1.9)	-	(375.0)
At 31 December 2015	<u>433.3</u>	<u>-</u>	<u>8.1</u>	<u>0.7</u>	<u>442.1</u>

The provision for renewable obligations' certificates represents the additional certificates required to cover the Company's obligations to supply its customers with certain amounts of electricity which have been generated from renewable energy sources. This provision will be utilised in 2016.

The restructuring provision covers the costs of severance related to restructuring which has been announced to impacted employees. It is expected to be utilised in 2016 and 2017.

Onerous contract provisions relate to building leases, which ended during the year.

Insurance provisions relate to various immaterial potential claims.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Deferred tax

The following are the major deferred tax assets and (liabilities) recognised by the Company and movements thereon during the current and prior reporting period.

	Accelerated capital allowances	Short term timing differences	Pensions	Financial Instruments	Total
	£m	£m	£m	£m	£m
At 1 January 2014	8.0	2.7	9.3	21.0	41.0
Credit/(charge) to income					
Current year	(0.9)	(1.8)	0.9	(9.3)	(11.1)
Adjustments in respect of previous years' reported tax charges	(3.6)	0.2	-	-	(3.4)
(Charge) to equity					
Current year	-	-	1.3	(8.6)	(7.3)
At 1 January 2015	3.5	1.1	11.5	3.1	19.2
Credit/(charge) to income					
Current year	(0.8)	0.9	(1.6)	0.7	(0.8)
Adjustments in respect of previous years' reported tax charges	(0.3)	-	-	-	(0.3)
Effect of decreased tax rate on opening liability	(0.3)	(0.1)	(0.2)	0.6	-
(Charge) to equity					
Current year	-	-	(2.5)	(40.9)	(43.4)
Effect of decreased tax rate on opening liability	-	-	(0.8)	(0.9)	(1.7)
At 31 December 2015	2.1	1.9	6.4	(37.4)	(27.0)

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2015	2014
	£m	£m
Deferred tax assets	10.4	19.2
Deferred tax liabilities	(37.4)	0
	<u>(27.0)</u>	<u>19.2</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Derivative financial instruments

	Carrying value	
	2015	2014
	£m	£m
Financial assets		
Current		
<i>Derivatives at fair value through profit and loss (FVTPL)</i>		
Foreign currency forward contracts	4.9	6.6
Commodity purchase contracts	(8.6)	22.7
Total current derivative financial instruments	<u>(3.7)</u>	<u>29.3</u>
Split by:		
Current assets	17.2	55.3
Current liabilities	(20.9)	(26.0)
	<u>(3.7)</u>	<u>29.3</u>
Non-current		
<i>Derivatives at fair value through profit and loss (FVTPL)</i>		
Foreign currency forward contracts	1.0	4.7
Commodity purchase contracts	(17.8)	2.4
Total non-current derivative financial instruments	<u>(16.8)</u>	<u>7.1</u>
Split by:		
Non-current assets	3.7	9.6
Non-current liabilities	(20.5)	(2.5)
	<u>(16.8)</u>	<u>7.1</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Derivative financial instruments (continued)

	Carrying value	
	2015	2014
	£m	£m
Financial assets		
Current		
<i>Derivatives that are designated as hedging instruments in a cash flow hedge (CFH)</i>		
Foreign currency forward contracts	(0.4)	(6.0)
Commodity purchase contracts	103.0	(78.6)
Cross-currency interest rate swaps	(0.1)	0.1
Total current derivative financial instruments	<u>102.5</u>	<u>(84.5)</u>
Split by:		
Current assets	309.9	142.7
Current liabilities	(207.4)	(227.2)
	<u>102.5</u>	<u>(84.5)</u>
Non-current		
<i>Derivatives that are designated as hedging instruments in a cash flow hedge (CFH)</i>		
Foreign currency forward contracts	(0.2)	(0.8)
Commodity purchase contracts	65.6	14.6
Cross-currency interest rate swaps	(77.8)	(40.5)
Total non-current derivative financial instruments	<u>(12.4)</u>	<u>(26.7)</u>
Split by:		
Non-current assets	115.2	92.9
Non-current liabilities	(127.6)	(119.6)
	<u>(12.4)</u>	<u>(26.7)</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Derivative financial instruments (continued)

Valuation methods and assumptions

All derivative financial instruments are valued using a discounted cash flow. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the counterparties. Similar valuation methodologies are used for commodity forward contracts, foreign currency forward contracts, cross currency swaps and interest rate swaps. There are no significant unobservable inputs into the valuation.

25 Share capital

Allotted, called up and fully paid shares

	2015		2014	
	No. m	£ m	No. m	£ m
Ordinary shares of £0.58 each	2,223	1,296.6	2,223	1,296.6

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 Other financial commitments

Other commitments

The Company has given letters of credit and guarantees to the value of £57m (2014: £53m) in relation to credit support for energy trading and use of distribution systems, performance of contractual obligations and HMRC obligations.

Operating lease commitments

As at 31 December 2015 the Company had annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:

	2015	2014
	£ m	£ m
Within one year	2.4	1.9
In two to five years	5.9	8.9
In over five years	<u>2.0</u>	<u>2.7</u>
	<u><u>10.3</u></u>	<u><u>13.5</u></u>

The contingent rent shown in accounts represents the income statement charge during 2015, with the future payments calculated based on the daily rental multiplied by the remaining days to which the Company is committed under the current leases, then analysed by maturity.

Individual rental leases contain break options (whereby the Company could serve notice to terminate the lease) and rent reviews (whereby the landlord could renegotiate the rental base on market prices).

As at 31 December 2015 the Company has received annual commitments under non-cancellable operating leases as follows:

	2015	2014
	£ m	£ m
Within one year	-	1.6
In two to five years	<u>-</u>	<u>-</u>
	<u><u>-</u></u>	<u><u>1.6</u></u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 Hedging reserve

	2015	2014
	£m	£m
Balance at start of year	(42.2)	(76.6)
<i>Net gains/(losses) arising on changes in fair value of instruments in a cash flow hedge:</i>		
Commodity purchase contracts	(81.9)	(349.0)
Cross currency interest rate swaps	(1.6)	11.0
Foreign currency forward contracts	16.1	35.0
<i>Net gains/(losses) arising on changes in fair value of hedging instruments transferred to profit or loss:</i>		
Commodity purchase contracts	298.7	364.0
Foreign currency forward contracts	(8.0)	(18.0)
Deferred tax on net gains in cash flow hedge	(41.8)	(8.6)
Total movement in year	<u>181.5</u>	<u>34.4</u>
Balance at end of year	<u>139.3</u>	<u>(42.2)</u>

The hedging reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of hedging instruments designated as cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve, will be re-classified to the income statement only when the hedged transaction affects the income statement, or included as a basis adjustment to the non-financial hedged item in accordance with the Company's accounting policy.

During the year a gain of £290.7m (2014: £346.0m) was recycled from the hedging reserve and included within fuel, energy and related purchases, in relation to contracts which had matured.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 Pension and other schemes

Defined benefit pension schemes

The Company participates in two defined benefit pension schemes for qualifying employees; the EDF Energy Pension Scheme ("EEPS") and the EDF Energy Generation & Supply Group of the Electricity Supply Pension Scheme ("EEGSG"). These schemes are administered by separate boards of trustees which are legally separate from the Group.

The Group operates a policy of allocating the pension deficit for EEPS and EEGSG among the wholly owned employing companies within the Group. The allocation of the deficit is performed through identifying an individual's share of their overall deficit for each scheme. Assets and liabilities are apportioned to legal entities based on their employee's share. For individuals who are no longer employed by the company, their deficit remains with their last employing company. Payroll contributions are attributed to the company which bears the cost of those employees, regardless of whether or not they are employing companies. Pension interest payable and receivable, actuarial gains and losses and benefits paid are all allocated to employing companies, based on that company's share of the assets and liabilities at the start of the year. A full review of the allocation is performed every three years based on updated triennial valuations.

UK legislation requires that pension schemes are funded prudently.

Further details of the Group defined benefit schemes are included in note 39 of the consolidated financial statements of the Group which are available as disclosed in note 30.

Financial impact of defined benefit pension schemes

The amounts recognised in the statement of financial position are as follows:

	EEPS	EEGSG	Total	
	2015	2015	2015	2014
	£ m	£ m	£ m	£ m
Fair value of scheme assets	169.3	238.9	408.2	377.5
Present value of scheme liabilities	(187.1)	(256.5)	(443.6)	(435.1)
Defined benefit pension scheme deficit	<u>(17.8)</u>	<u>(17.6)</u>	<u>(35.4)</u>	<u>(57.6)</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 Pension and other schemes (continued)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	EEPS 2015 £ m	EEGSG 2015 £ m	Total 2015 £	Total 2014 £ m
Effect of curtailment				
Fair value at start of year	143.9	233.5	377.4	359.1
Expected return on scheme assets	4.8	8.3	13.1	14.6
Actuarial gains and losses arising from changes in demographic assumptions	1.0	(6.9)	(5.9)	(17.9)
Employer contributions	20.1	9.0	29.1	17.8
Contributions by scheme participants	1.9	2.0	3.9	8.3
Benefits paid	(2.4)	(7.0)	(9.4)	(7.4)
Effect of amendments	-	-	-	3.0
Fair value at end of year	<u>169.3</u>	<u>238.9</u>	<u>408.2</u>	<u>377.5</u>

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	EEPS 2015 £ m	EEGSG 2015 £ m	Total 2015 £	Total 2014 £ m
Present value at start of year	182.1	252.9	435.0	405.8
Current service cost	23.4	7.1	30.5	19.9
Actuarial gains and losses arising from changes in demographic assumptions	(12.0)	(3.7)	(15.7)	(3.2)
Interest cost	6.5	9.0	15.5	17.0
Benefits paid	(2.4)	(7.0)	(9.4)	(7.4)
Effect of amendments	(10.5)	(1.8)	(12.3)	3.0
Present value at end of year	<u>187.1</u>	<u>256.5</u>	<u>443.6</u>	<u>435.1</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 Pension and other schemes (continued)

Amounts recognised in the income statement

	EEPS	EEGSG	Total	
	2015	2015	2015	2014
	£ m	£ m	£ m	£ m
Amounts recognised in operating profit				
Current service cost	(23.4)	(7.1)	(30.5)	(19.9)
Losses (gains) on curtailments and settlements	10.5	1.8	12.3	(3.0)
Recognised in arriving at operating profit	<u>(12.9)</u>	<u>(5.3)</u>	<u>(18.2)</u>	<u>(22.9)</u>
Amounts recognised in finance income or costs				
Interest cost	<u>(1.7)</u>	<u>(0.7)</u>	<u>(2.4)</u>	<u>(2.4)</u>
Total recognised in the income statement	<u><u>(14.6)</u></u>	<u><u>(6.0)</u></u>	<u><u>(20.6)</u></u>	<u><u>(25.3)</u></u>

29 Related party transactions

The Company has taken advantage of the exemption in FRS 101 Reduced Framework from disclosing transactions with other members of the group, which would otherwise be required for disclosure under IAS 24.

30 Parent undertaking and controlling party

EDF Energy Group Holdings plc holds a 100% interest in the Company and is considered to be the immediate parent company. EDF Energy Holdings Limited is the smallest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from 40 Grosvenor Place, Victoria, London, SW1X 7EN.

At 31 December 2015, Electricité de France SA, a company incorporated in France, is regarded by the Directors as the Company's ultimate parent company and controlling party. This is the largest group for which consolidated financial statements are prepared. Copies of that company's consolidated financial statements may be obtained from Electricite de France SA, 22-30 Avenue de Wagram, 75382, Paris, Cedex 08, France.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the Company prepared and presented its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 "First time adoption of International Financial Reporting Standards".

Exemptions Applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2014 year ends retrospectively. The Company has taken advantage of the following exemptions:

- ☐ IFRS 2 Share based payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005. This treatment is consistent with the transitional provisions taken when the company adopted FRS 20, the UK equivalent standard.
- ☐ Cumulative actuarial gains and losses on pensions and other post employment benefits are recognised in full in equity on the date of transition to IFRS.

This is the same treatment as under previous UK GAAP.

Reconciliation of Equity

	At 31 December 2014 £m
Equity reported under previous UK GAAP	3,157.5
Adjustments to equity on transition to FRS 101:	
1. Capitalised interest	1.5
2. Derivatives FVTPL	37.0
3. Derivatives CFH	(42.2)
4. Tax effect of pension return on assets	(0.7)
5. Tax effect of transitional adjustments	(6.6)
Equity as reported under FRS 101	<u>3,146.5</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 Transition to FRS 101 (continued)

Reconciliation of Total Comprehensive Income	At 31 December
	2014
	£m
Total Comprehensive Income under previous UK GAAP	(15.8)
Adjustments to Comprehensive Income on transition to FRS 101:	
1. Capitalised interest	1.5
2. Derivatives FVTPL	37.0
3. Gain on cash flow hedge	31.5
4. Pension return on assets	3.7
5. Tax effect of pension return on assets	(0.7)
Total Comprehensive Income as reported under FRS 101	<u>57.2</u>

On transition to FRS 101, borrowing costs are required to be capitalised. As a result, borrowing costs on assets under construction have been capitalised, resulting in an increase in equity and total comprehensive income.

On transition to FRS 101, derivative financial instruments are required to be held on the balance sheet at fair value. The Company has foreign exchange forward contracts which are accounted for as FVTPL, and holds hedging instruments which are designated as cash flow hedges, resulting in a restatement of equity and total comprehensive income.

On transition to FRS 101, pension return on assets are required to be calculated based on the discount rate and not the expected return on plan assets. The Company has an adjustment arising from this, requiring a restatement of total comprehensive income, with the tax effect resulting in a restatement of equity and total comprehensive income.