

Registration number: 02592745

**Centrica Business Solutions (Generation) Limited
(formerly Combined Power (South) Limited)**

Annual Report and Financial Statements

for the Year Ended 31 December 2018



Centrica Business Solutions (Generation) Limited

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Centrica Business Solutions (Generation) Limited

Strategic Report for the Year Ended 31 December 2018

The Directors present their strategic report for Centrica Business Solutions (Generation) Limited (the 'Company') for the Year Ended 31 December 2018.

Company strategy

The Company's strategy is to:

- Provide the highest standard of service to our customers and constantly exceed their expectations;
- Create a working environment where excellence, commitment and achievement are recognised and rewarded;
- Promote a quality-focused culture and aim to become the partner of first choice; and
- Build successful long-term income streams through successful long-term relationships with customers, suppliers and influencers.

This strategy will be achieved by working with our existing stakeholders to develop new business opportunities, both in the UK and overseas, and by continuing to support the expansion of cogeneration technologies in attractive overseas markets through our network of Cogen Partners and the international operations of the Centrica plc group ('the Group'), since the Company was acquired by Centrica plc in May 2016.

Review of the business

On the 27th March 2018, the Company changed its name from Combined Power (South) Limited to Centrica Business Solutions (Generation) Limited.

The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101: Reduced Disclosures Framework ('FRS 101').

The principal activity of the Company was, and remains, the supply of electricity and heat generated from combined heat and power ('CHP') units. The Company's revenue decreased by 4% compared to the previous year due to a negotiated tariff change in lieu of contract extensions which will provide a good return to the business in future years. Profit before income tax amounts to £2.07m for the year compared to £2.77m in the previous period, the reduction being attributable to the temporary tariff change noted earlier. The financial position of the Company is presented in the Statement of Financial Position on page 12. Total equity at 31 December 2018 was £17.79m (31 December 2017: £6.81m) after reflecting the issue of share capital to the immediate parent company and the subsequent share premium created of £10.0m (31 December 2017: £nil).

All areas of the Company's current activity are in sectors offering good potential for future growth – supported by UK, EU and worldwide policies for sustainable energy and energy efficiency. We expect to make steady progress in our selected markets as we invest in new equipment and projects.

Principal risks and uncertainties

In common with all businesses, the Company is affected by a number of factors, not all of which are wholly within the control of the business.

The regulatory and technology changes in the UK and in the broader operating environment, together with the associated movements in energy prices each have the ability to both stimulate and suppress demand for the Company's products. The long-term trend is that energy prices will increase and, due to the nature of the UK power generation market, should help to provide opportunities to develop new sales and long-term revenue streams.

Centrica Business Solutions (Generation) Limited

Strategic Report for the Year Ended 31 December 2018 (continued)

An increased focus on the environmental impact of CHP as the UK energy market moves to a clean energy supply system and a desire for zero carbon emissions means that, for CHP to remain relevant in providing low cost, low carbon energy, changes must take place. We are ideally placed to respond to these challenges through our market leading position, awareness of new technologies and our close links with well renowned trade associations and industry bodies.

Over the years there have been significant improvements in all aspects of CHP and its associated technology. A failure to keep pace with technological development would put us at a competitive disadvantage. To ensure we remain at the forefront of innovation our product offering is continuously enhanced by our dedicated product development team.

Exit from the European Union

The UK referendum vote in June 2016 to leave the European Union has added to the risks and uncertainties faced by the Company. However, it is considered that the direct impact of these uncertainties on the Company is limited in the short-term. Many details of the implementation process remain unclear. Extricating from the European Union treaties is a task of immense complexity but with the Company is well-positioned to manage the possible market impacts. There are also potential tax consequences of the withdrawal and these will continue to be reassessed at each reporting date to ensure our tax provisions reflect the most likely outcome following the withdrawal.

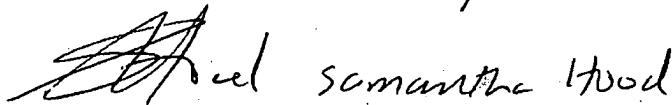
Key performance indicators (KPIs)

Given the nature of the business, the Company's Directors are of the opinion that the Company's key performance indicators necessary for an understanding of the development, performance and position of the business are revenue, net profitability, and net assets. The assessment of these KPIs is shown in the review of the business section on page 1.

Future developments and important events after the financial year end

The Group continues to implement the results of the 2015 strategic review. This implementation includes a review of how the Group's businesses are structured and may result in future changes to underlying subsidiary business operations including those of the Company.

Approved by the Board of Directors on 20 May 2019 and signed on behalf of the Board by:



By order of the Board and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 02592745

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica Business Solutions (Generation) Limited

Directors' Report for the Year Ended 31 December 2018

The Directors present their Annual Report and the audited financial statements for the year ended 31 December 2018.

Directors of the Company

The Directors of the Company who were in office during the year and up to the date of signing of the financial statements were as follows:

A K Barlow

D Winstanley

C S Dixon

I A Hopkins

C Pike

P Law

C J Marsland (resigned 12 June 2018)

R M McCord

J P Pikunic

Results and dividends

The results of the Company are set out on page 10. The profit for the financial year ended 31 December 2018 is £0.98m (2017: £2.23m). No dividends were paid during this or the previous financial year. The Directors do not recommend a final dividend payment in respect of the financial year ended 31 December 2018.

Future developments

Future developments are discussed in the Strategic Report on pages 1 - 2.

Going Concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, intends to support the Company to ensure it can meet its obligations as they fall due. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised. The Directors are considering the future activities of the Company including opportunities for future investments.

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year. The insurance does not provide cover in the event that the Director is proved to have acted fraudulently.

Centrica Business Solutions (Generation) Limited

Directors' Report for the Year Ended 31 December 2018 *(continued)*

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors. The Company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures where appropriate.

Interest bearing assets and liabilities are monitored closely by the Centrica Treasury team to ensure certainty of cash flows.

Credit risk

The Company's principal financial assets are trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an expected loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

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.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance facilities as put in place by the Centrica Treasury team through other Centrica Group companies.

Centrica Business Solutions (Generation) Limited

Directors' Report for the Year Ended 31 December 2018 *(continued)*


Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and that they have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Reappointment of auditors

In accordance with section 487 of the Companies Act 2006, of the auditors will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

Approved by the Board of Directors on 20 May 2019 and signed on behalf of the Board by:

 Samantha Hood

By order of the Board and on behalf of Centrica Secretaries Limited
Company Secretary

Company registered in England and Wales, No. 02592745

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica Business Solutions (Generation) Limited

Statement of Directors' Responsibilities for the Year Ended 31 December 2018

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable UK 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' ('FRS101'). 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS101, 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 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.

Centrica Business Solutions (Generation) Limited

Independent Auditors' Report to the Members of Centrica Business Solutions (Generation) Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Centrica Business Solutions (Generation) Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the Company which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

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.

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 Financial Reporting Council's (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 related to going concern

We are required by ISAs (UK) to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Centrica Business Solutions (Generation) Limited

Independent Auditors' Report to the Members of Centrica Business Solutions (Generation) Limited (*continued*)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, 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.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Centrica Business Solutions (Generation) Limited

Independent Auditors' Report to the Members of Centrica Business Solutions (Generation) Limited (continued)

Report on other legal and regulatory requirements

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 the Directors' Report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.

D. Winstone

Daryl Winstone (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

20 May 2019

Centrica Business Solutions (Generation) Limited

Income Statement for the Year Ended 31 December 2018

		Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Revenue	4	6,538	6,828
Cost of sales	5	<u>(4,444)</u>	<u>(4,050)</u>
Gross profit		2,094	2,778
Operating costs	5,6	(28)	(8)
Other income	5	<u>-</u>	<u>-</u>
Operating profit		<u>2,066</u>	<u>2,770</u>
Finance income	7	-	-
Finance costs	7	<u>-</u>	<u>-</u>
Profit before tax		2,066	2,770
Tax charge	9	<u>(1,091)</u>	<u>(540)</u>
Profit for the year from continuing operations		<u>975</u>	<u>2,230</u>

The notes on pages 14 to 26 form an integral part of these financial statements.

Centrica Business Solutions (Generation) Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Profit for the year and total comprehensive income	<u>975</u>	<u>2,230</u>

Centrica Business Solutions (Generation) Limited

Statement of Financial Position as at 31 December 2018

	Note	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Non-current assets			
Property, plant and equipment	10	7,097	5,601
		<u>7,097</u>	<u>5,601</u>
Current assets			
Trade and other receivables	11	13,453	4,206
Cash and cash equivalents		-	-
		<u>13,453</u>	<u>4,206</u>
Total assets		<u>20,550</u>	<u>9,807</u>
Current liabilities			
Trade and other payables	12	(714)	(1,238)
		<u>(714)</u>	<u>(1,238)</u>
Total assets less current liabilities		<u>19,836</u>	<u>8,569</u>
Non-current liabilities			
Deferred tax liabilities	9	(1,462)	(1,173)
Trade and other payables	12	-	-
Provisions for other liabilities and charges	13	(585)	(582)
		<u>(2,047)</u>	<u>(1,755)</u>
Net assets		<u>17,789</u>	<u>6,814</u>
Equity			
Share capital	14	200	200
Share premium	14	10,000	-
Retained earnings		<u>7,589</u>	<u>6,614</u>
Total equity		<u>17,789</u>	<u>6,814</u>

The financial statements on pages 10 to 26 were approved and authorised for issue by the Board of Directors on 20 May 2019 and signed on its behalf by:


D Winstanley

Director

Company number 02592745

Centrica Business Solutions (Generation) Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	200	-	6,614	6,814
Profit for the year	-	-	975	975
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	975	975
Dividends	-	-	-	-
Issue of shares	-	10,000	-	10,000
At 31 December 2018	200	10,000	7,589	17,789

	Share capital £ 000	Share premium £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	200	-	4,384	4,584
Profit for the period	-	-	2,230	2,230
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	2,230	2,230
Dividends	-	-	-	-
At 31 December 2017	200	-	6,614	6,814

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1. General information

Centrica Business Solutions (Generation) Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales.

The registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 and 2.

2. Accounting policies

Basis of preparation

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

From 1 January 2018, the following standards and amendments are effective in the Company's Financial Statements. Their first time adoption did not have a material impact on the financial statements:

- IFRS 9: 'Financial Instruments'
- IFRS 15: 'Revenue from contracts with customers'.

The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

IFRS 9: 'Financial Instruments'

The Company adopted IFRS 9: 'Financial Instruments' from 1 January 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI).

Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Company's financial assets and loan commitments. No changes to the impairment provisions were made on transition to IFRS9 as these are not considered material.

IFRS 15: 'Revenue from contracts with customers'

The primary impact of application is the revision of accounting policies to reflect the five-step approach to revenue recognition required by IFRS 15. All revenue for this Company has been assessed to be within the scope of IFRS and this has resulted in no changes to amounts previously recognised in the financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of IAS 7 'Statement of Cash Flows';
- the statement of compliance with Adopted IFRSs;
- the effects of new but not yet effective IFRSs;
- prior year reconciliations for property, plant and equipment and intangible assets;
- the prior year reconciliations in the number of shares outstanding at the beginning and at the end of the year for share capital;
- disclosures in respect of related party transactions with wholly-owned subsidiaries in a group;
- disclosures in respect of the compensation of key management personnel; and
- disclosures in respect of capital management.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2. Accounting policies (continued)

These financial statements are presented in pound sterling (with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated), which is also the functional currency of the Company. Operations and transactions conducted in currencies other than the functional currency are translated in accordance with the foreign currencies accounting policy set out below.

Measurement convention

The financial statements are prepared on the historical cost basis.

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.

Going concern

The financial statements have been prepared on a going concern basis as Centrica plc, the ultimate parent company, intends to support the Company to ensure it can meet its obligations as they fall due. The Directors have received confirmation that Centrica plc intends to support the Company for at least one year after the financial statements were authorised. The Directors are considering the future activities of the Company including opportunities for future investments.

Revenue recognition

Energy supply to business customers: The Company supplies electricity and heat to business customers in the UK and Ireland. The performance obligation is the supply of energy over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer consumes based on the units of energy delivered. This is the point at which revenue is recognised.

Finance income: Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Discount Energy Purchase contracts

The Company enters into long term contracts under which it provides combined heat and power solutions to customers, along with ongoing operations and maintenance services. The Company's Discounted Energy Purchase ("DEP") contracts contain clauses that grant the Company the right to substitute assets used in performing the contracts, where this allows for the contract to be operated more efficiently. The Company makes use of such options from time to time, and accordingly, the Directors have judged that these contracts do not grant to the customer a right to use a specified asset. Therefore, DEP contracts are not accounted for as leases under IAS 17 – Leases and IFRIC 4 – Determining whether an arrangement contains a lease.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing at the reporting period date, and associated gains and losses are recognised in the income statement for the period.

Taxation

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 or substantively enacted by the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in equity. In this case, the tax is recognised in equity.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 *(continued)*

2. Accounting policies *(continued)*

Taxation *(continued)*

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Company's assets and liabilities and their tax base.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the future and there is sufficient taxable profit available against which the temporary differences can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement using tax rates that have been enacted or substantively enacted at the balance sheet date.

Property, plant and equipment ('PP&E')

PP&E is included in the statement of financial position at cost, less accumulated depreciation and any provisions for impairment. The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Other PP&E are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Depreciation of PP&E assets

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, as follows:

Asset classes	Depreciation method and rate
Plant & machinery	Straight-line, over life of operating contract

The carrying values of PP&E are tested annually for impairment and are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where discounting is used, the increase in the provision due to the passage of time is recognised in the income statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 *(continued)*

2. Accounting policies *(continued)*

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ('CGU').

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest method less an allowance for impairment losses. Changes in the Company's impairment policy as a result of the application of IFRS9 did not result in any material changes to the financial statements. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less, receivables are classified as current assets. If not they are presented as non-current assets.

(b) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade payables are initially recognised at fair value, which is usually original invoice amount and are subsequently held at amortised cost using the effective interest. If payment is due within one year or less payables are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are re-acquired (treasury or own shares) are deducted from equity. No gain or loss is recognised in the Company's income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 *(continued)*

2. Accounting policies *(continued)*

Financial assets and liabilities *(continued)*

(e) Interest-bearing loans and other borrowings

All interest-bearing (and interest free) loans and other borrowings with banks or similar institutions and 'intercompany entities' are initially recognised at fair value net of directly attributable transaction costs (if any, in respect of 'intercompany funding'). After initial recognition, these financial instruments are measured at amortised cost using the EIR method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Company's income statement. Amortised cost is calculated by taking into account any issue costs, discount or premium, when applicable.

3. Critical accounting judgements and key sources of uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical judgements in applying the Company's accounting policies

(a) Balance sheet treatment of plant and machinery to fulfil electricity and heat contracts

The accounting treatment of the assets used to provide the services under the DEP contracts is assessed against IAS 17 – Leases. Judgement is exercised in determining the extent to which the equipment will be used for its economic life on the customer site or if the equipment can be substituted and the service performed through other means by reference to a review of the contract and the technology used to fulfil the contract obligations.

Key sources of estimation uncertainty

(a) Decommissioning provision

Uncertainty exists in quantifying the financial obligations under the contracts to decommission the equipment installed on customer sites at the end of their contractual life and creates a sensitivity in determining the carrying value of the provision. The provision is calculated based on the actual costs incurred when removing and decommissioning equipment from site and applying this to the equipment remaining on customer premises, together with assessing the expected future costs that could be incurred due to changes in legislation.

(b) Provisions for receivables

The recoverability of trade receivables is uncertain as to whether a customer will pay in full for the monies owed and so requires an element of judgement to be made based on a number of factors such as the credit history, expected credit loss and correspondence with customer which are assessed in conjunction with the credit control team.

4. Revenue

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

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
By activity:		
Supply of electricity and heat generated from CHP units	6,538	6,828
	<u>6,538</u>	<u>6,828</u>

The Company's revenue relates to activities entirely undertaken in Europe.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

5. Analysis of costs by nature

	Year Ended 31 December 2018			Year Ended 31 December 2017		
	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000	Cost of sales £ 000	Operating costs £ 000	Total costs £ 000
Material & subcontractor costs	3,102	-	3,102	2,681	-	2,681
Depreciation and amortisation	1,342	-	1,342	1,369	-	1,369
Other operating costs	-	28	28	-	8	8
Total operating costs by nature	4,444	28	4,472	4,050	8	4,058

6. Employee costs

The Company has no employees (2017: nil). The Directors were remunerated as employees of the Centrica plc Group and did not receive any remuneration, from any source, specifically for their services as Directors of the Company during the current or preceding financial year.

7. Net finance income/costs

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Finance income		
Interest income from amounts owed by Group undertakings	-	-
Interest income on bank and other short-term deposits	-	-
Total finance income	-	-
Finance costs		
Interest on bank overdrafts and borrowings	-	-
Total finance costs	-	-
Net finance (costs) / income	-	-

8. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements provided to the Company.

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Audit of the financial statements	10	10

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 *(continued)*

9. Tax

Tax charged in the income statement:

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Current taxation		
UK corporation tax at 19.00% (2017: 19.25%)	108	649
UK corporation tax adjustment to prior periods	694	1
Total current tax	802	650
Deferred taxation		
Arising from origination and reversal of temporary differences - UK	289	(112)
Arising from changes in tax rates and laws	-	2
Total deferred taxation	289	(110)
Tax charge in the income statement	1,091	540

Factors that may affect future tax charges

The main rate of corporation tax for the year to 31 December 2018 was 19% (2017: 19.25%). The corporation tax rate will reduce to 17% with effect from 1 April 2020. The deferred tax assets and liabilities included in these financial statements are based on tax rates having regard to their reversal profiles.

The differences between the taxes shown above and the amounts calculated by applying the standard rate of UK corporation tax rate to the profit before tax are reconciled below:

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Profit before tax at 19.00% (2017: 19.25%)	2,066	2,770
Tax expense at standard UK rate	393	533
<i>Effects of:</i>		
Net expenses non-deductible for tax purposes	4	4
Transfer pricing adjustments	114	18
Changes to tax rates	-	1
Effects of group relief	(114)	(18)
Adjustments in respect of previous years	694	2
Total tax charge	1,091	540

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 *(continued)*

9. Tax (continued)

The movements in respect of the deferred tax liabilities that occurred during the financial year are as follows:

	Accelerated tax depreciation (corporation tax) £ 000	Other timing differences £ 000	Total £ 000
1 January 2017	1,158	125	1,283
Credited to the income statement	(110)	-	(110)
31 December 2017	1,048	125	1,173
Charged to the income statement	289	-	289
31 December 2018	1,337	125	1,462

Unrecognised tax losses

The Company has no unrecognised tax losses (2017: £nil).

The deferred tax liability of £1,462k (2017: £1,173k) is shown as a non-current liability in the Statement of Financial Position. Of this balance, £94k (2017: £153k) is expected to be payable within 12 months.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 *(continued)*

10. Property, plant and equipment

	Plant & Machinery £ 000
Cost	
At 1 January 2018	21,162
Additions	2,866
Disposals	<u>(1,121)</u>
At 31 December 2018	<u>22,907</u>
Depreciation	
At 1 January 2018	(15,561)
Depreciation charge for the year	(1,342)
Disposals	<u>1,093</u>
At 31 December 2018	<u>(15,810)</u>
Net book value	
At 31 December 2018	<u>7,097</u>
At 31 December 2017	<u>5,601</u>

There were no impairment losses recognised in the current or prior year, and no impairment indicators identified.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

11. Trade and other receivables

	Year Ended 31 December 2018		Year Ended 31 December 2017	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Financial assets:				
Trade receivables	527	-	406	-
Provision for impairment of trade receivables	(85)	-	(88)	-
Net trade receivables	442	-	318	-
Amounts owed by Group undertakings	12,428	-	3,216	-
Corporation tax	1	-	1	-
Accrued income	574	-	663	-
	13,445	-	4,198	-
Non-financial assets:				
Prepayments	8	-	8	-
Other receivables	-	-	-	-
Total trade and other receivables	13,453	-	4,206	-

The amounts owed by Group undertakings have been presented on a net basis as there is a right of offset against certain amounts. Included within the net amounts owed by Group undertakings disclosed above is £nil (2017: £nil) that bears interest at a quarterly rate determined by Group Treasury and linked to the Group cost of funds. The quarterly rates ranged between 3.72% and 4.13% per annum during 2018 (2017: 3.66% and 3.86%). The other net amounts owed by Group undertakings are interest-free. All amounts owed by Group undertakings are unsecured and repayable on demand.

Trade and other receivables represent the contractual right to receive cash from business customers.

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Current financial assets within trade and other receivables net of provision on an undiscounted basis		
Balances that are not past due	13,445	4,198
Balances that are past due but not considered to be individually impaired	-	-
Balances with customers that are considered to be individually impaired	-	-
	13,445	4,198

There are no financial assets within trade and other receivables that are beyond the due date (2017: £nil).

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

12. Trade and other payables

	Year Ended 31 December 2018		Year Ended 31 December 2017	
	Current £ 000	Non-current £ 000	Current £ 000	Non-current £ 000
Financial liabilities:				
Bank overdraft	-	-	-	-
Trade payables	(15)	-	(15)	-
Accrued expenses and deferred income	(126)	-	(10)	-
Amounts owed to Group undertakings	(443)	-	(1,050)	-
Social security and other taxes	(111)	-	(116)	-
Other payables	(19)	-	(18)	-
	(714)	-	(1,209)	-
Non-financial liabilities:				
Accrued expenses and deferred income	-	-	(29)	-
	(714)	-	(1,238)	-

Financial liabilities within trade and other payables are all due within 90 days.

Amounts owed to Group undertakings include £108k (2017: £650k) for group relief claimed. All amounts owed to Group undertakings are interest free, unsecured and repayable on demand.

13. Provisions for liabilities and charges

	Other Provisions £ 000
1 January 2017	576
Provided during the year	6
Released during the year	-
31 December 2017	582
Provided during the year	45
Released during the year	(42)
31 December 2018	585

Other provisions include decommissioning costs and contributions to CHP units in accordance with the accounting policies. Decommissioning costs are expected to be utilised at the end of the contract life, which is typically up to 15 years.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

14. Capital and retained earnings

Share capital

Allotted, called up and fully paid shares

	Year Ended 31 December 2018		Year Ended 31 December 2017	
	No.	£ 000	No.	£ 000
Ordinary shares of £1 each	200,001	200	200,000	200

During the year, 1 x ordinary share was issued to ENER-G Power2 Limited at a premium of £9,999,999 (2017: nil)

Share Premium

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Share premium on ordinary share of £1 each	10,000	-

Retained earnings

The balance classified as retained earnings includes the profits and losses realised by the Company in previous periods that were not distributed to the shareholders of the Company at the balance sheet date.

15. Dividends paid and proposed

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
<i>Declared and paid during the year</i>		
Interim dividend of £nil (2017: £nil) per ordinary share	-	-

16. Commitments and contingencies

	Year Ended 31 December 2018 £ 000	Year Ended 31 December 2017 £ 000
Commitments in relation to the acquisition of property, plant and equipment:		
Authorised and committed	1,937	4,102

17. Related party transactions

The Company has claimed the exemption contained in IAS 24, which is available to wholly-owned subsidiaries, not to disclose related party transactions with other members of the Group.

Centrica Business Solutions (Generation) Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 *(continued)*

18. Directors' remuneration

The Directors who served during the period were remunerated by the companies in which they were employed. It is not practicable to allocate the remuneration between their services as directors of various Group companies.

19. Parent and ultimate parent undertaking

The immediate parent undertaking is ENER-G Power2 Limited, a company registered in England and Wales.

The ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales, which is the only company to include these financial statements in its consolidated financial statements, and whose registered office is Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD. Copies of the Centrica plc consolidated financial statements may be obtained from www.centrica.com.