

# **SmartestEnergy Limited**

## **Annual Report and Financial Statements**

Registered No. 3994598

31 March 2017

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COMPANIES HOUSE

**Directors**

R. Groves  
H. Sawada  
N. Ito  
R. Noyama  
S. Harada (appointed 1 April 2016)  
T. Hirano (appointed 1 April 2017)

**Auditors**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**Bankers**

Mizuho Corporate Bank Ltd  
Bracken House  
1 Friday Street  
London EC4M 9JA

**Registered Office**

2nd Floor  
Dashwood House  
69 Old Broad Street  
London EC2M 1QS

## Strategic report

The Directors present their strategic report for the year ended 31 March 2017.

### Principal activities

SmartestEnergy's strategy continues to be to grow our asset light, vertically integrated electricity company using the UK's wholesale electricity market to procure and sell our electricity volumes: this is opposed to procuring our power from a portfolio of owned, generation plants as a traditional vertically integrated electricity company does.

Within this model, our main activity continues to be the B2B provision of route to market services whereby we provide electricity purchase agreements to customers in the UK's independent and renewable, generation sector and electricity supply contracts to large, business consumers.

As a provider of power purchase agreements to generators, SmartestEnergy agrees to purchase the power (as well as the renewable benefits and any benefits that might be associated with being distribution connected) generated by our customers. In this niche market, we have established a unique service proposition as the UK's leading expert in the provision of route to market services for small to medium sized, distribution connected, renewable generators. With industry leading levels of customer satisfaction, this business is now the UK's largest aggregator of power from renewable and distribution connected generators.

The Company's supply business continues to support our strategy to become one of the UK's largest independent suppliers providing strong synergies to our generation business activities. With its focus on supplying large, commercial customers with a bespoke supply, SmartestEnergy's supply business has established a unique service proposition as a provider of a non-premium priced, largely renewable energy with industry leading levels of customer service. With a new product development pipeline focused on building on our unique renewable credentials, our supply business is well positioned to continue to grow successfully and is an essential element of our asset light, vertically integrated strategy.

### Business review

The Company's core activities have performed strongly this year and this has been achieved from an increase in the supply and generation customer bases and volumes. This enabled a gross profit of £37,737,072 (2016: £39,425,482) on a turnover of £438,732,141 (2016: £387,334,314) with a resultant profit after tax for the year ending 31 March 2017 of £12,575,589 (2016: £14,549,467).

|                                   | 2017<br>£000 | 2016<br>£000 | Change<br>% |
|-----------------------------------|--------------|--------------|-------------|
| Gross profit                      | 37,737       | 39,425       | -4.3%       |
| Profit after tax                  | 12,576       | 14,549       | -13.6%      |
| Return on capital employed (ROCE) | 27.5%        | 33.0%        | -16.8%      |
| Return on assets (ROA)            | 3.5%         | 4.4%         | -19.3%      |

## Strategic report

### Business review (continued)

With the above success, the Company was able to pay a total dividend of £7,274,566 to our shareholders: an interim dividend of £7,274,566 and no final dividend in respect of the financial year 2015/16 (2014/15: £14,921,670) and the Directors of the Company continue to believe the Company well positioned to maintain its continued dividend payout policy and a significant investment programme from cashflow.

### Principal risks and uncertainties

The Company hedges its commodity price exposure in the wholesale electricity forward market through the over-the-counter derivatives market and commodity exchanges. With this dependency on an external traded market (rather than an internal position generated through vertical integration), the Company's business model is at risk from any regulatory change that might endanger that ability to trade in liquid markets. The Company has implemented a regular review of these risks.

#### Sales risk

Sales risk emerges from the Company's inability to renew annual sales agreements with existing generation business customers and supply business customers. Sales risk is monitored using a suite of sales related performance indicators that are reported to the monthly Executive Committee. A Pricing Group oversees the Company's price competitiveness in accordance with the Company's Pricing Policy. The Company monitors customer satisfaction via a suite of third party provided customer satisfaction surveys that externally benchmark the Company's performance.

#### Volume risk

The Company transacts with a number of generators and supply customers on the basis of their forecast gross volume, which is the volume the customer expects to generate or consume including adjustment for losses during transmission and distribution. Ahead of delivery these volumes are not known with certainty, given that the generators may generate more or less and consumers demand more or less than these forecasted and hedged volumes. Therefore, whilst the Company can fix the unit price at which it buys or sells with a customer, the realised gain or loss from managing this position is only known once the final metered volumes are determined upon physical settlement and the gain/loss of any difference between the hedged and delivered volumes is known.

As a result, the Company could be at risk of being unable to manage the under/over delivery of power and renewable volumes between its offtake business customers and business customers. A failure to successfully manage this risk could lead to imbalance costs in the physically settled electricity and renewable energy markets and a market price risk created by the difference between the hedged and delivered portfolio positions.

The Company manages this risk in manner akin to an insurer by charging its offtake customers a risk premium in the form of a per unit fee for taking on the uncertainty produced by each transaction. In addition, the Company is able to smooth or offset the incremental impact any one customer can have on the Company's cost base, by managing these volumes on a portfolio basis across all the customer volumes delivered.

## Strategic report

### Principal risks and uncertainties (continued)

#### **Regulatory risk**

Regulatory change continues to be the principle risk to the Company's business model in the wake of recent significant changes to GB legislation, alongside far reaching changes to EU regulations and the recent BREXIT decision. The Company's Regulatory Teams continually review and monitor the impact of regulatory change in order to apprise the Executive Committee of impending risk and to implement any necessary operational changes arising from the BREXIT decision but with the Company's UK focused business model, the Company's core businesses are expected to be largely unaffected.

The Company's daily operations are also subject to credit risk, market risk and liquidity risk that the Company takes in the course of its daily activities. A review of each is included in Note 20 to the financial statements.

On behalf of the Board



Robert Groves  
Chief Executive Officer and Director  
11 December 2017



Naoki Ito  
Chief Operating Officer and Director  
11 December 2017

## Directors' report

### Registered No. 3994598

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

### Directors

The directors and officers who served during the year were as follows:

R Groves  
H Sawada  
N Ito  
R Noyama  
S Harada (appointed 1 April 2016)  
T Hirano (appointed 1 April 2017)  
N. Iwashita (resigned 1 April 2017)  
M. Omoto (resigned 1 April 2016)  
J Clarke (resigned 30 April 2017)  
K. Yamasaki acted as Company Secretary (resigned 1 April 2017)

### Future developments

Looking to the future, the continued repositioning of the Company as a one stop service provider for all route to market needs that a flexible generator and business consumer might have continues and the Company is well positioned to benefit from the disruption expected from new technologies and the growing impact of intermittent, renewable generation.

### Financial risk management

The Company finances its activities with a combination of third party working capital facilities, cash and deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative transactions, including energy forwards and energy futures to manage the price and volume risks arising from the Company's operations.

Financial instruments give rise to credit, commodity price, volume and liquidity risks. Details on how these risks arise is set out in Note 20, as are the objectives, policies and processes for their management and the methods used to measure each risk.

The Company hedges its electricity and gas price exposure in the wholesale electricity and gas forward markets using over-the-counter and exchange traded derivatives such as forwards and futures contracts.

### Events since the balance sheet date

On 1 April 2017 Mr Naoya Iwashita resigned as a director of the Company. Mr Tomohiko Hirano was appointed as a new director with immediate effect. On 30 April 2017 Mr James Clarke resigned as a director of the Company.

## **Directors' report**

### **Disabled employees**

The Company gives full consideration when shortlisting and interviewing to include all disabled applicants when they meet the minimum requirements for the job.

The Company ensures that staff with protected characteristics (under the Equality Act 2010) has equal opportunities for training, career development and promotion. Staff will be supported on a case by case basis by their line manager and Human Resources.

Where existing employees become disabled, the company will support wherever practicable, continuous employment in the same or an alternative position. Training and equipment will be provided if appropriate and reasonable under the Equality Act to achieve this aim.

### **Employee involvement**

The Company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2005. During the year, the policy of providing employees with data, including information relating to the economic and financial factors affecting the performance of the company, has been continued through the quarterly business reviews (QBR). Employees are encouraged to present their suggestions, questions and views on the Company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through the appraisal system, whereby group strategic objectives are cascaded down to each individual employee, as appropriate to their job role, and which are also shared on the Company's intranet site.

The Company embraces the standards in people management outlined by the Investors In People organisation with Employee Engagement a Board Reporting Scorecard KPI. With this focus, the Company in 2017 met the Investors In People Gold accreditation standard.

### **Directors' liabilities**

The Company has granted an indemnity to its directors and officers against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report.

## Directors' report

### Going concern

SmartestEnergy's business activities are set out in the principal activities and review of the business. The notes to the financial statements also include the Company's policies with respect to the management of the principal risks facing the Company. SmartestEnergy meets its day to day working capital requirements through several committed and uncommitted loan facilities.

In accordance with the Marubeni Group policy from April 2014 the Company joined the Cash Management System of Marubeni Finance Europe ("MAFE"), a Marubeni Group company. MAFE made available a committed loan facility to the Company of up to £40 million to the end of June 2019.

The Company also has access to up to £60 million of uncommitted facilities arranged with Sumitomo Mitsui Trust, Tokyo Mitsubishi UFJ and Mizuho.

These financial resources, together with the Company's long-term agreements with its customers and suppliers, mean the Directors believe that the Company is well placed to manage its business risk in case of an unexpected downturn or an immediate requirement to access these facilities. Otherwise, these facilities are not expected to be utilised in the next 12 months.

After making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the signing of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Environment

The Company is committed to pursuing sound environmental policies in all aspects of its business, and seeks to encourage and promote good environmental practice amongst its employees and within the communities in which it operates.

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.



## Directors' report

### Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors.

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

### Information in strategic report

Information on principal activities, business review, dividends and principal risks & uncertainties of the Company not shown in the directors' report is instead disclosed in the strategic report.

On behalf of the Board



Robert Groves  
Chief Executive Officer and Director  
11 December 2017



Naoki Ito  
Chief Operating Officer and Director  
11 December 2017

## Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 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 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

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# Independent auditors' report

To the members of SmartestEnergy Limited

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMARTESTENERGY LIMITED

We have audited the financial statements of SmartestEnergy Limited for the year ended 31 March 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, Statements of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including 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 set out on page 10, 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 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 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 – Reduced Disclosures Framework; and

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## **Independent auditors' report**

**To the members of SmartestEnergy Limited**

- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

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

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

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



Alistair Denton

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

14 December 2017

## Statement of Comprehensive Income

for the year ended 31 March 2017

Registered No. 3994598

|                                      | Notes | 2017<br>£000  | 2016<br>£000  |
|--------------------------------------|-------|---------------|---------------|
| Revenue                              | 2     | 438,732       | 387,335       |
| Cost of sales                        |       | (400,995)     | (347,910)     |
| <b>Gross Profit</b>                  |       | <b>37,737</b> | <b>39,425</b> |
| Administrative expenses              | 3     | (21,786)      | (21,163)      |
| <b>Operating Profit</b>              |       | <b>15,951</b> | <b>18,262</b> |
| Interest income                      | 6     | 116           | 303           |
| Interest expense                     | 6     | (189)         | (303)         |
| <b>Profit before taxation</b>        |       | <b>15,878</b> | <b>18,262</b> |
| Income taxes                         | 7     | (3,303)       | (3,713)       |
| <b>Profit for the financial year</b> |       | <b>12,575</b> | <b>14,549</b> |
| Other comprehensive income           |       | -             | -             |
| <b>Total comprehensive income</b>    |       | <b>12,575</b> | <b>14,549</b> |

The accompanying notes form an integral part of the financial statements.

## Statement of Financial Position

as at 31 March 2017

Registered No. 3994598

|  | Notes | 2017<br>£000   | 2016<br>£000   |
|--|-------|----------------|----------------|
| <b>Non-current assets</b>                    |       |                |                |
| Property, plant and equipment                | 8     | 1,030          | 871            |
| Intangible assets                            | 9     | 4,203          | 2,235          |
| Non-current derivative financial assets      | 12    | 18,117         | 22,575         |
| Deferred tax asset                           | 7     | 444            | 672            |
|  |       | <u>23,794</u>  | <u>26,353</u>  |
| <b>Current assets</b>                        |       |                |                |
| Trade and other receivables                  | 11    | 173,125        | 181,955        |
| Other current assets                         | 10    | 127,480        | 105,305        |
| Current derivative financial assets          | 12    | 21,509         | 44,925         |
| Cash and cash equivalents                    |       | 2,528          | 3,351          |
|  |       | <u>324,642</u> | <u>335,536</u> |
| <b>Total assets</b>                          |       | <u>348,436</u> | <u>361,889</u> |
| <b>Non-current liabilities</b>               |       |                |                |
| Non-current derivative financial liabilities | 12    | 8,235          | 19,900         |
| Non-current provisions                       | 15    | 200            | 200            |
|  |       | <u>8,435</u>   | <u>20,100</u>  |
| <b>Current liabilities</b>                   |       |                |                |
| Trade and other payables                     | 13    | 133,999        | 146,914        |
| Income tax payable                           | 7     | 1,569          | 2,317          |
| Current derivative financial liabilities     | 12    | 17,344         | 41,165         |
| Current other liabilities                    | 14    | 125,875        | 95,488         |
| Current provisions                           | 15    | 800            | 791            |
|  |       | <u>279,587</u> | <u>286,675</u> |
| <b>Equity</b>                                |       |                |                |
| Share capital                                | 16    | 6,667          | 6,667          |
| Share premium                                |       | 2,600          | 2,600          |
| Retained earnings                            |       | 51,147         | 45,847         |
|  |       | <u>60,414</u>  | <u>55,114</u>  |
| <b>Total liabilities and equity</b>          |       | <u>348,436</u> | <u>361,889</u> |

The accompanying notes form an integral part of the financial statements.

## Statement of Changes in Equity

as at 31 March 2017

|  | Notes | Share capital<br>£000 | Share premium<br>£000 | Retained earnings<br>£000 | Total<br>£000 |
|--|-------|-----------------------|-----------------------|---------------------------|---------------|
| At 1 April 2015  |       | 6,667                 | 2,600                 | 46,220                    | 55,487        |
| Profit for the financial year  |       | -                     | -                     | 14,549                    | 14,549        |
| Other comprehensive income   |       | -                     | -                     | -                         | -             |
| Total comprehensive income for the year  |       | -                     | -                     | 14,549                    | 14,549        |
| <i>Transactions with owners of the Company – Contributions and distributions</i> |       |                       |                       |                           |               |
| Dividend paid  | 16    | -                     | -                     | (14,922)                  | (14,992)      |
| <b>At 31 March 2016</b>  |       | <b>6,667</b>          | <b>2,600</b>          | <b>45,847</b>             | <b>55,114</b> |
| At 1 April 2016  |       | 6,667                 | 2,600                 | 45,847                    | 55,114        |
| Profit for the financial year  |       | -                     | -                     | 12,575                    | 12,575        |
| Other comprehensive income   |       | -                     | -                     | -                         | -             |
| Total comprehensive income for the year  |       | -                     | -                     | 12,575                    | 12,575        |
| <i>Transactions with owners of the Company – Contributions and distributions</i> |       |                       |                       |                           |               |
| Dividend paid  | 16    | -                     | -                     | (7,275)                   | (7,275)       |
| <b>At 31 March 2017</b>  |       | <b>6,667</b>          | <b>2,600</b>          | <b>51,147</b>             | <b>60,414</b> |

The financial statements were approved and authorised by the board of directors on 11 December 2017, and were signed on its behalf by:



Robert Groves  
Chief Executive Officer and Director  
11 December 2017



Naoki Ito  
Chief Operating Officer and Director  
11 December 2017

## Notes to the financial statements

as at 31 March 2017

SmartestEnergy Limited ('the Company') is a vertically integrated electricity company using the UK's wholesale electricity market to procure and sell electricity volumes.

The Company is a limited liability company, with liability limited by shares. It is incorporated and domiciled in UK. The address of its registered office is 2nd Floor, Dashwood House, 69 Old Broad Street, London EC2M 1QS, UK.

### 1. Accounting policies

#### **Basis of preparation**

In its financial statements for the year ending 31 March 2017, the Company has applied FRS 101 accounting framework as issued by the Financial Reporting Council.

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

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to prepare comparative information in respect of:
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d) of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'; and
- 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.

The Company has not made use of disclosure exemptions for IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurement'. Financial institutions are not entitled to claim these disclosure exemptions. Management has not concluded whether the Company should be viewed similar to a financial institution as defined in FRS 101. Since these disclosures were viewed by management as very relevant for the Company and its stakeholders most of these disclosures have been presented.

The financial statements are prepared on a going concern basis and under the historical cost convention, except for derivative financial instruments that have been measured at fair value.



## Notes to the financial statements

as at 31 March 2017

### 1. Accounting policies (continued)

#### *Significant accounting judgements, estimates and assumptions*

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

#### *Judgements*

In the process of applying the Company's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

#### Commodity contracts in scope of IAS 39

The Company routinely enters into generation contracts, retail and wholesale contracts, including contracts for physical delivery of gas and electricity, which are not stacked against each other.

Wholesale contracts are for proprietary energy trading purpose and hence clearly in scope of IAS 39.

Management has assessed that generation and retail contracts are also to be viewed as net settled (and therefore in scope of IAS 39) since the criteria of 'taking delivery and sale within short period' or 'practise of net settlement' were met for similar contracts.

Accordingly all of the Company's electricity purchase and sales contracts are accounted for as derivatives (forwards with energy as underlying).

#### Significance of unobservable valuation inputs in the fair value determination

When determining whether day one gains should be recognised immediately in profit or loss or deferred, management assesses whether unobservable inputs were significant to the initial fair value measurement. When its contribution is viewed as significant then the entire day one gain of the contract is deferred.

## Notes to the financial statements

as at 31 March 2017

### 1. Accounting policies (continued)

#### *Presentation of realised derivative gains/losses in profit or loss*

Management note that IFRS has limited guidance (IAS 1.35) and industry practise under IFRS varies on how realised derivative gains/losses for commodity contracts are presented in profit or loss, e.g. on a gross or net basis.

Management is of the view that derivative commodity contracts should be presented on a gross basis under IFRS if these were physically settled and were not held for trading.

It was assessed that the Company does not meet these criteria and accordingly, such realised derivative gains/losses are presented net, unless these relate to realised separately identifiable sales positions which have a corresponding separately identifiable non-derivative purchase cost, where they are then reported gross.

#### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### *Fair value determination of derivative commodity contracts*

The Company's valuation of energy derivatives is based on valuation techniques (see Note 12 for details). Particularly judgemental assumptions include:

- inputs to fair value non-observable (e.g. not based on or derived from observable markets) contract components of its forward contracts
- determination of credit valuation adjustments on derivatives

#### *Other*

Uncertainty on other balance sheet items (incl. accrued income, accruals, renewable obligation), is mitigated by the long period between balance sheet date and the date when the financial statements are authorised for issue. Relevant information obtained by the Company subsequent to balance sheet date, if material, is adjusted in amounts recognised in the financial statements as far as these provide evidence of conditions that existed at balance sheet date.

However, in respect of certain accruals, there is an industry reconciliation process of power purchase costs which can typically take 14 months from the date of supply to be finalised due to the processes that the energy market has to complete in order to finalise generation and consumption data for any one particular month. Therefore there is an element of power purchase costs that needs to be estimated based on a combination of in-house and industry data that is available.

## Notes to the financial statements

as at 31 March 2017

### 1. Accounting policies (continued)

#### **Equipment**

Equipment is stated at cost less accumulated depreciation and/or accumulated impairment losses, if any. Useful lives are re-assessed annually and if necessary changes are accounted for prospectively.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation is provided on a straight line basis over its expected useful life and is as follows:

|                     |                                    |
|---------------------|------------------------------------|
| Office equipment    | 3 years                            |
| IT hardware         | 3 years                            |
| Fixtures & fittings | Over the lease term up to 10 years |

#### **Intangible assets**

Intangible assets consist of software applications, licences and IT software projects under development. Projects under development are in the work in progress stage and are thus not yet amortised.

Intangible assets are capitalised and stated at cost (whether purchased or internally generated), amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete.

Amortisation commences at the point of commercial deployment when the asset is capable of operating in a manner intended by management. Intangible assets are amortised on a straight line basis. Useful lives are re-assessed annually and if necessary changes are accounted for prospectively.

IT software that does not form integral part of hardware is classified as an intangible asset. Such intangible assets are amortised on a straight line basis over 3-5 years.

#### **Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment losses been recognised for the asset in prior years.

## Notes to the financial statements

as at 31 March 2017

### *Financial Instruments*

#### Non-derivative financial assets

The Company's non-derivative financial assets are solely 'loans and receivables'.

These assets are initially recognised on the date when they are originated and measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less impairment.

Impairment provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

#### Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

#### Offsetting

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Commodity contracts within the scope of IAS 39

A contract to buy or sell a non-financial item is not in scope of IAS 39, unless it can be net settled, including the following ways:

- a) Taking delivery and sale within short period, or
- b) Practise of net settlement, or
- c) Underlying readily convertible to cash, or
- d) Terms of contract allow net settlement.

If criteria c) or d) is met, and the contract is not a written option, the contract is also not in scope of IAS 39 if it is entered into for own use purpose.

A commodity contract that is outside the scope of IAS 39 will not be recognised in the financial statements until delivery.

A commodity contract within IAS 39's scope is treated as a derivative and is accounted for at fair value through profit or loss.

#### Derivative financial instruments

All derivatives are initially recognised at fair value on the date on which the derivative is entered into and are subsequently re-measured to fair value at each reporting date.

Initial recognition as well as subsequent changes in assets and liabilities from these activities (resulting primarily from newly originated transactions and the impact of price movements) is generally recognised in profit or loss – subject to day one gains below.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

## Notes to the financial statements

as at 31 March 2017

### 1. Accounting policies (continued)

#### Day-one gains

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price.

However if the Company determines that the fair value on initial recognition differs from the transaction price, the difference is recognised as a gain (or loss) in profit or loss only if the fair value is based on a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets (i.e. a Level 2 input). Otherwise, the entire difference is deferred and recognised as a gain (or loss) in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability. Any deferred gain is a separate item, not part of the derivative fair value but presented within the carrying amount of the derivative asset/liability.

#### Fair value measurement

The Company measures financial instruments such as derivatives, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For contracts that are not collateralised, the Company also takes into account the counterparties credit risks (for derivative assets) or the Company's own non-performance risk (for derivative liabilities) and includes a credit valuation adjustment or debit valuation adjustment, as appropriate, by assessing the maximum credit exposure and taking into account market-based inputs concerning probabilities of default and loss given default.

#### **Renewable energy certificates**

The Company measures purchased renewable energy certificates similar to inventory.

These certificates are measured at cost upon acquisition, and subsequently measured on a first in, first out basis at the lower of cost and net realisable value.

The net realisable is based on estimated selling price less any further costs expected to be incurred on disposal.

## Notes to the financial statements

as at 31 March 2017

### 1. Accounting policies (continued)

#### **Current income tax**

Current tax liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### **Deferred tax**

Deferred taxation is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

#### **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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

For a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. A contract is onerous if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. This policy does not apply to derivative financial instruments that are within the scope of *IAS 39 Financial Instruments: Recognition and Measurement*.

#### **Renewable obligation**

A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

#### **Employee benefits - Profit-sharing and bonus plans**

The Company recognises the expected cost of profit-sharing and bonus payment when the Company has a present legal or constructive obligation to make such payment as a result of past events and a reliable estimate of the obligation can be made.

## Notes to the financial statements

as at 31 March 2017

### 1. Accounting policies (continued)

#### **Revenue**

##### Revenue under IAS 18

Revenue is recognised to the extent that it is probable those economic benefits will flow to the Company and that the revenue can be reliably measured.

The Company has concluded that under IAS 18 it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

Energy supply: revenue is recognised on the basis of energy supplied during the year. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued income within trade and other receivables.

Power generation: revenue is recognised on the basis of power supplied during the period.

Renewable energy certificates: Revenue is recognised when the significant risks and rewards of ownership of the certificates have passed to the buyer.

##### Revenue under IAS 39

Energy supply, power generation and energy (wholesale) trading contracts falling in scope of IAS 39 are accounted as follows:

Both unrealised (fair value changes) gains and losses on open financial and physical energy contract positions and realised (settled) gains and losses on liquidated positions are included on a net basis within revenue. However, if realised separately identifiable sales components relate to separately identifiable purchase costs which are non-derivative, then such are reported gross.

#### **Foreign currencies**

The Company's financial statements are presented in Pound Sterling (£), which is also the Company's functional currency.

#### **Cash dividend distribution to members**

The Company recognises a liability to make cash distributions to members when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the UK company law, a distribution is authorised when it is approved by the members. A corresponding amount is recognised directly in equity.

## Notes to the financial statements

as at 31 March 2017

### 1. Accounting policies (continued)

#### **Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash received for collateral purpose is assessed whether attached restrictions preclude it to meet these criteria – if that is the case, then such cash balances are shown within trade collateral asset.

#### **Current versus non-current classification**

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Company classifies all other liabilities as non-current.



## Notes to the financial statements

as at 31 March 2017

### 2. Revenue

|  | 2017           | 2016           |
|--|----------------|----------------|
|  | £000           | £000           |
| Revenue under IAS 18 – sale of goods (presented gross)           | 72,088         | 68,291         |
| Revenue under IAS 39 – (presented gross – realised)              | 335,550        | 293,399        |
| Revenue under IAS 39 – (presented net – unrealised and realised) | 31,094         | 25,645         |
|  | <u>438,732</u> | <u>387,335</u> |

The Company's revenue is represented by two classes of business, generation and retail supply; however such disclosure has not been quantified as in the opinion of the directors its disclosure would be seriously prejudicial to the interests of the Company.

The Company's business operations are carried out wholly within the United Kingdom.

Electricity purchase and sale contracts in the Company's business fall within the scope of IAS 39 and are accounted at fair value through profit or loss – these are reported net within revenue, unless their realised separately identifiable sales components relate to separately identifiable purchase cost which are non-derivative, then such are reported gross. IAS 39 revenue also represents the Company's net gain on financial instruments at fair value through profit or loss (realised and unrealised).

### 3. Expense by nature

Operating profit stated after charging the following items:

|  | 2017           | 2016           |
|--|----------------|----------------|
|  | £000           | £000           |
| Commodity purchase costs                               | 400,995        | 347,910        |
| Depreciation on property, plant and equipment (note 8) | 465            | 449            |
| Amortisation of intangible assets (note 9)             | 603            | 1,212          |
| <i>Auditors' remuneration:</i>                         |                |                |
| Audit of the financial statements                      | 300            | 313            |
| Taxation services                                      | –              | 20             |
| Other services   | –              | 20             |
| Staff costs (note 5)                                   | 11,335         | 10,101         |
| Operating lease expense                                | 500            | 324            |
| Other  | 8,583          | 8,723          |
|  | <u>422,781</u> | <u>369,072</u> |

## Notes to the financial statements

as at 31 March 2017

### 4. Directors' remuneration

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Aggregate emoluments in respect of qualifying services | 910          | 1,103        |

The aggregate emoluments of the highest paid director were £ 323,791 (2016: £313,476).

In 2012/13 a Long Term-Incentive Plan (LTIP) was introduced running from April 2012 to March 2015. Under the LTIP eligible payments were due in year ending 31 March 2016 and year ending 31 March 2017 based on certain business and individual performance targets. These targets were not met.

The number of directors eligible to receive remuneration under the LTIP in 2015/16 was Nil (2016: Nil).

Details of pension-related payments and loans are disclosed in Note 10 and Note 5, respectively.

### 5. Staff costs

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| Wages and salaries                          | 9,447         | 8,648         |
| Social security costs                       | 1,126         | 795           |
| Pension costs (defined contribution scheme) | 762           | 658           |
|   | <u>11,335</u> | <u>10,101</u> |

The Company has established a Stakeholder Personal Pension Plan and makes defined contributions on behalf of eligible employees to their own stakeholder funds within the scheme. There were no outstanding contributions payable to the pension scheme as at 31 March 2017 (2016: Nil). There was a pension accrual of £Nil at the year-end (2016: Nil).

There are two directors participating in the pension scheme. The total contribution for all directors was £ 39,175 (2016: £ 38,121), of which £ 21,094 (2016: £ 20,422) related to the highest paid director.

The average number of employees during the year was as follows:

|               | No.        | No.        |
|---------------|------------|------------|
| Management    | 18         | 18         |
| Front Office  | 64         | 57         |
| Middle Office | 12         | 13         |
| Back Office   | 90         | 74         |
|               | <u>184</u> | <u>162</u> |

## Notes to the financial statements

as at 31 March 2017

### 6. Interest income and interest expense

#### *Interest and similar income*

|                       | 2017<br>£000 | 2016<br>£000 |
|-----------------------|--------------|--------------|
| Bank interest         | 7            | 7            |
| Other interest income | 109          | 296          |
|                       | <u>116</u>   | <u>303</u>   |

#### *Interest and similar expenses*

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Letter of credit charges – group companies | 86           | 167          |
| Other finance charges                      | 103          | 136          |
|  | <u>189</u>   | <u>303</u>   |

### 7. Income tax

#### (a) Analysis of tax in the year

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| <i>Current tax</i>                            |              |              |
| UK corporation tax payable at 20% (2016: 20%) | 3,067        | 3,643        |
| Adjustments in respect of prior periods       | 8            | (8)          |
| Total current tax                             | <u>3,075</u> | <u>3,635</u> |
| <i>Deferred tax</i>                           |              |              |
| Current year                                  | 116          | 3            |
| Adjustments in respect of prior periods       | 79           | –            |
| Effect of changes in tax rates                | 33           | 75           |
| Total deferred tax                            | <u>228</u>   | <u>78</u>    |
| Tax on profit on ordinary activities          | <u>3,303</u> | <u>3,713</u> |

## Notes to the financial statements

as at 31 March 2017

### 7. Income tax (continued)

(b) Factors affecting tax expense for the year

The tax assessed on the profit on ordinary activities for the period is different from the standard rate of corporation tax in the UK of 20% (2016: 20%).

The differences are reconciled below:

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Profit on ordinary activities before tax  | 15,878       | 18,262       |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%) | 3,176        | 3,652        |
| Effects of:   |              |              |
| Expenses not deductible for tax purposes  | 28           | 23           |
| Adjustment in respect of prior periods  | 87           | (8)          |
| Impact of rate change   | 12           | 75           |
| Effects of group relief/other reliefs   | –            | (29)         |
| Total tax charge  | 3,303        | 3,713        |

(c) Deferred tax

The deferred tax included in the statement of financial position is as follows:

|                                       | 2017<br>£000 | 2016<br>£000 |
|---------------------------------------|--------------|--------------|
| Decelerated capital allowances        | 444          | 666          |
| Other timing differences              | –            | 6            |
| Total deferred tax asset              | 444          | 672          |
| Deferred tax asset at 1 April         | 672          | 750          |
| Profit and loss account               | (149)        | (78)         |
| Adjustments in respect of prior years | (79)         | –            |
| Deferred tax asset at 31 March        | 444          | 672          |

## Notes to the financial statements

as at 31 March 2017

### 7. Income Tax (continued)

The Summer Budget 2015 was substantively enacted 26 October 2015, and reduced the main rate of UK corporation tax to 19% from 1 April 2017, with a further reduction from 19% to 18% for the year beginning in 1 April 2020. This was substantively enacted at the prior year balance sheet date and is the rate at which the brought forward deferred tax is valued.

The Finance Act 2016 was substantively enacted on 6 September 2016, and reduced the main rate of UK corporation tax to 17% from 1 April 2020. This change was substantively enacted as at 31 March 2017 and therefore the deferred tax balances have been revalued at 17% as at 31 March 2017. The effect of the reduction to 17% reduced the deferred tax asset by approximately £33k.

Deferred tax is recognised on assets at the rate at which the assets are expected to reverse. This is based on the substantively enacted rate at the balance sheet date, which for this period is 17%.

### 8. Property, plant and equipment

|                  | Office<br>equipment | Fixtures<br>& fittings | Hardware | Work in<br>Progress | Total |
|------------------|---------------------|------------------------|----------|---------------------|-------|
|                  | £000                | £000                   | £000     | £000                | £000  |
| Cost:            |                     |                        |          |                     |       |
| At 1 April 2016  | 462                 | 874                    | 2,577    | 109                 | 4,022 |
| Additions        | 26                  | 17                     | 567      | 29                  | 639   |
| Retirements      | –                   | –                      | –        | (15)                | (15)  |
| Transfers        | 6                   | –                      | 117      | (123)               | –     |
| At 31 March 2017 | 494                 | 891                    | 3,261    | –                   | 4,646 |
| Depreciation:    |                     |                        |          |                     |       |
| At 1 April 2016  | 449                 | 527                    | 2,175    | –                   | 3,151 |
| Charge for year  | 8                   | 95                     | 362      | –                   | 465   |
| At 31 March 2017 | 457                 | 622                    | 2,537    | –                   | 3,616 |
| Net book value:  |                     |                        |          |                     |       |
| At 31 March 2016 | 13                  | 347                    | 402      | 109                 | 871   |
| At 31 March 2017 | 37                  | 269                    | 724      | –                   | 1,030 |

## Notes to the financial statements

as at 31 March 2017

### 9. Intangible assets

|                              | Software     | Work in Progress | Total         |
|------------------------------|--------------|------------------|---------------|
|                              | £000         | £000             | £000          |
| Cost:                        |              |                  |               |
| At 1 April 2016              | 8,427        | 584              | 9,011         |
| Additions                    | 801          | 1,770            | 2,571         |
|                              | <u>9,228</u> | <u>2,354</u>     | <u>11,582</u> |
| At 31 March 2017             |              |                  |               |
| Amortisation and impairment: |              |                  |               |
| At 1 April 2016              | 6,776        | –                | 6,776         |
| Amortisation charge for year | 603          | –                | 603           |
|                              | <u>7,379</u> | <u>–</u>         | <u>7,379</u>  |
| At 31 March 2017             |              |                  |               |
| Net book value:              |              |                  |               |
| At 31 March 2016             | 1,651        | 584              | 2,235         |
|                              | <u>1,849</u> | <u>2,354</u>     | <u>4,203</u>  |
| At 31 March 2017             |              |                  |               |

### 10. Other current assets

|                               | 2017           | 2016           |
|-------------------------------|----------------|----------------|
|                               | £000           | £000           |
| Renewable energy certificates | 123,177        | 101,339        |
| Prepayments                   | 2,637          | 2,168          |
| Advance payments              | 595            | 939            |
| Other                         | 1,071          | 859            |
|                               | <u>127,480</u> | <u>105,305</u> |

Renewable energy certificates comprise of Renewable Obligation Certificates (ROCs), Levy Exemption Certificates (LECs), Renewable Energy Guarantees of Origin (REGOs) and Guarantees of Origin (GoOs).

The Company provides Season Ticket and Cycle to Work loans to its staff and directors, the amount receivable from these parties was £37,323 (2016: £19,043), these loans have been included under Other. During 2016/17 no payments were made to any directors (2015/16: £66).

## Notes to the financial statements

as at 31 March 2017

### 11. Trade and other receivables

|                              | 2017           | 2016           |
|------------------------------|----------------|----------------|
|                              | £000           | £000           |
| Trade receivables            | 30,270         | 34,237         |
| Accrued income               | 85,014         | 101,043        |
| Loan due from parent company | 48,366         | 28,835         |
| Trade collateral asset       | 9,475          | 17,840         |
|                              | <u>173,125</u> | <u>181,955</u> |

Trade debtors have payments terms ranging 5-90 days.

Accrued income represents unbilled balances receivable for energy supplied to customers during the year, wholesale energy trades, ROC processing fees and income from industry related charges.

Trade collateral comprises of moneys placed with trading counterparties to cover the Company's credit exposure as well as enabling the Company to access the trading exchange.

Trade receivables are stated net of bad debt provision of £579,957 (2016: £369,000). Within trade receivables are receivables of £3,290,708 which at 31 March 2017 were past due but not impaired (2016: 2,533,635). As at 31 March, the ageing analysis of trade receivables is as follows:

|      |        |          | Past due but not impaired              |              |               |               |                |               |
|------|--------|----------|--|--------------|---------------|---------------|----------------|---------------|
|      |        |          | Neither<br>past<br>due nor<br>impaired | < 30<br>days | 31-60<br>days | 61-90<br>days | 91-120<br>days | > 121<br>days |
|      | Total  | Impaired |  |              |               |               |                |               |
|      | £000   | £000     | £000                                   | £000         | £000          | £000          | £000           | £000          |
| 2017 | 30,270 | 580      | 26,400                                 | 2,135        | 132           | 492           | 43             | 488           |
| 2016 | 34,237 | 369      | 31,335                                 | 1,303        | 318           | 243           | 637            | 32            |

All other receivables within 'Trade and other receivables' are neither impaired nor past due.

Refer to Note 20 on credit risk of trade receivables to understand how the Company manages and measures credit quality of its trade receivables and other receivables.

## Notes to the financial statements

as at 31 March 2017

### 12. Financial instruments

The year-end position of the Company comprises the following classes of financial assets and liabilities:

|   | 2017<br>£000   | 2016<br>£000   |
|---|----------------|----------------|
| <b>Financial assets</b>                                       |                |                |
| <i>Financial assets at cost</i>                               |                |                |
| Cash and cash equivalents                                     | 2,528          | 3,351          |
| Trade and other receivables (Note 11)                         | 173,125        | 181,955        |
|   | <u>175,653</u> | <u>185,306</u> |
| <i>Financial assets at fair value (held for trading)</i>      |                |                |
| Energy derivatives  | 39,626         | 67,500         |
|   | <u>39,626</u>  | <u>67,500</u>  |
| <b>Total financial assets</b>                                 | <u>215,279</u> | <u>252,806</u> |
|   |                |                |
|   | 2017<br>£000   | 2016<br>£000   |
| <b>Financial liabilities</b>                                  |                |                |
| <i>Financial liabilities at amortised cost</i>                |                |                |
| Trade and other payables (Note 13)                            | <u>133,999</u> | <u>146,914</u> |
| <i>Financial liabilities at fair value (held for trading)</i> |                |                |
| Energy derivatives  | 25,579         | 61,065         |
|   | <u>25,579</u>  | <u>61,065</u>  |
| <b>Total financial liabilities</b>                            | <u>159,578</u> | <u>207,979</u> |

Trade and other payables are due within 3 months and the carrying amount corresponds to the contractual undiscounted payments.



## Notes to the financial statements

as at 31 March 2017

### 12. Financial instruments (continued)

#### Derivative financial instruments

Derivative financial assets and liabilities comprise of energy derivatives, primarily in the form of forward contracts, and have the following fair values and maturities:

|   | Financial Assets |        | Financial Liabilities |        |
|---|------------------|--------|-----------------------|--------|
|   | 2017             | 2016   | 2017                  | 2016   |
|   | £000             | £000   | £000                  | £000   |
| <b>Fair values of energy derivative contracts which expire:</b> |                  |        |                       |        |
| Within 3 months   | 7,994            | 18,056 | 4,685                 | 14,032 |
| In 3 to 12 months   | 13,515           | 26,869 | 12,659                | 27,133 |
| More than 1 year  | 18,117           | 22,575 | 8,235                 | 19,900 |
| Total derivative financial instruments                          | 39,626           | 67,500 | 25,579                | 61,065 |

The energy derivative contracts are net settled derivatives for which the contractual maturity is essential to understand the timing of the cash flows; accordingly, in respect of liquidity risk, net cash flows disclosed in the above table are based on contractual maturity.

The total gross amount related to these energy derivative contracts consisted of:

|                    | Buy     | Sell    | Buy     | Sell    |
|--------------------|---------|---------|---------|---------|
|                    | 2017    | 2017    | 2016    | 2016    |
|                    | £000    | £000    | £000    | £000    |
| Energy derivatives | 966,223 | 952,212 | 576,409 | 573,673 |

The Company presents its financial assets and financial liabilities gross on the statement of financial position even where express written agreements exist between the parties to a transaction that provide for their settlement on a net basis and this agreement is deemed legally enforceable, unless it is the practice and intention to settle net.

A net gain of £7,575,411 (2016: loss of £1,621,134) has arisen from recognising unrealised held for trading derivative contracts at fair value through profit or loss, of which £7,575,411 (2016: loss of £1,621,056) is included in revenue, in relation to energy derivatives.

## Notes to the financial statements

as at 31 March 2017

### 12. Financial instruments (continued)

#### *Financial instruments recorded at fair value*

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

#### *Energy Derivatives*

The Company holds energy derivatives. The fair values of energy derivatives are determined using valuation techniques based in part on observable market data and in part on internal models.

In the case of forwards, the Company uses a method of linear interpolation. This is done by using a mixture of data from the 'Argus Index', extrapolating data from the APX spot market and the correlation between the gas and power prices, the 'spark spread', as the gas market is more heavily traded. A half hourly curve is used to reflect this interpolation at a more granular level. The prices used to value these transactions reflect the Company's best estimate, considering various factors including closing commodity exchange and over-the-counter quotations. Estimates of the volumes to be delivered by generators are used when the volumes are not fixed contractually. In determining the fair value of derivative positions, appropriate credit risk adjustments are made in accordance with IFRS 13.

The valuation of certain generation purchase forward contracts considers the suppliers right to opt for a regulated price in relation to feed-in tariffs. The Company uses a Black-Scholes option model by contract applied to a sequence of rolling 12 month underlying positions. The inputs to that model are the contractual position by contract, the fixed FiT export price by contract, the equivalent weighted market price, the respective interest rate, and the implied volatility derived from a scaling of historical volatility and applied to published gas options. The total option exposure is the aggregate of the individual contractual option exposures. The FiT option has been unwound as at the end of the financial year ended 31 March 2017 as a result of exiting the scheme.

The fair values of energy derivatives within the scope of IAS 39 are discounted at an average rate of 0.70% per annum (2016: 1.33%).

#### *Deferred day one gains*

Where the fair value at initial recognition for energy derivatives differs from the transaction price, a day-one gain or loss will arise. Whilst the entire contract is designated as a derivative, only part of the contract value, i.e. the energy component of the contract price is based on observable quoted market data, whereas other elements are based on unobservable market data. If such unobservable data, other than pass-through cost, materially contributes to the contract's fair value, the day one gains of the entire contract is not recognised immediately in profit or loss but deferred and amortised to profit and loss based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note 1 for further detail).

## Notes to the financial statements

as at 31 March 2017

### 12. Financial instruments (continued)

The amount that has yet to be recognised in the profit and loss account relating to day one gains is as follows:

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Deferred day one gains at 1 April (net liability)  | 2,857        | 2,905        |
| New deferred day one gains during the year         | 2,321        | 3,325        |
| Amortised to profit and loss during the year       | (2,806)      | (3,373)      |
| Deferred day one gains at 31 March (net liability) | <u>2,372</u> | <u>2,857</u> |

#### Determination of fair value and fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

#### At 31 March 2017

|                              | Level 2<br>£000 | Level 3<br>£000 | Total<br>£000 |
|------------------------------|-----------------|-----------------|---------------|
| <b>Financial assets</b>      |                 |                 |               |
| Energy derivatives           | 34,438          | 5,188           | 39,626        |
|                              | <u>34,438</u>   | <u>5,188</u>    | <u>39,626</u> |
| <b>Financial liabilities</b> |                 |                 |               |
| Energy derivatives           | 23,246          | 2,333           | 25,579        |
|                              | <u>23,246</u>   | <u>2,333</u>    | <u>25,579</u> |

#### At 31 March 2016

|                              | Level 2<br>£000 | Level 3<br>£000 | Total<br>£000 |
|------------------------------|-----------------|-----------------|---------------|
| <b>Financial assets</b>      |                 |                 |               |
| Energy derivatives           | 36,068          | 31,432          | 67,500        |
|                              | <u>36,068</u>   | <u>31,432</u>   | <u>67,500</u> |
| <b>Financial liabilities</b> |                 |                 |               |
| Energy derivatives           | 50,709          | 10,356          | 61,065        |
|                              | <u>50,709</u>   | <u>10,356</u>   | <u>61,065</u> |

## Notes to the financial statements

as at 31 March 2017

### 13. Trade and other payables

|                              | 2017<br>£000   | 2016<br>£000   |
|------------------------------|----------------|----------------|
| Trade payables               | 17,679         | 25,538         |
| Accruals                     | 104,977        | 113,458        |
| Trade collateral liabilities | 11,343         | 7,918          |
|                              | <u>133,999</u> | <u>146,914</u> |

Trade collateral is comprised of moneys and ROCs received from higher risk trading counterparties.

### 14. Other current liabilities

|                      | 2017<br>£000   | 2016<br>£000  |
|----------------------|----------------|---------------|
| Renewable obligation | 105,121        | 83,151        |
| Climate Change levy  | 5,808          | 5,879         |
| VAT                  | 14,946         | 6,458         |
|                      | <u>125,875</u> | <u>95,488</u> |

### 15. Provisions

|                         | Restructuring<br>£000 | Legal<br>costs<br>£000 | Dilapidation<br>costs<br>£000 | Total<br>£000 |
|-------------------------|-----------------------|------------------------|-------------------------------|---------------|
| At 1 April 2016         | –                     | 791                    | 200                           | 991           |
| Arising during the year | 170                   | –                      | –                             | 170           |
| Utilised                | –                     | (161)                  | –                             | (161)         |
| Expected reimbursements | –                     | –                      | –                             | –             |
|                         | <u>170</u>            | <u>630</u>             | <u>200</u>                    | <u>1,000</u>  |
| At 31 March 2017        | 170                   | 630                    | 200                           | 1,000         |
| -current                | 170                   | 630                    | –                             | 800           |
| -non-current            | –                     | –                      | 200                           | 200           |

## Notes to the financial statements

as at 31 March 2017

### 16. Share capital, share premium, dividends

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| <b>Authorised share capital</b>                 |              |              |
| Ordinary shares of £1 each                      | 14,000       | 14,000       |
| <b>Allotted and fully paid up share capital</b> |              |              |
| Ordinary shares of £1 each                      | 6,667        | 6,667        |

All shares rank pari passu in all respects;

The share premium account is the amount above the nominal value received for shares sold, less transaction costs.

In the year, the Company paid an interim dividend of £7,274,566 (2016: £8,380,000), representing £1.09 (2016: £1.26) per share and no final dividend (2016: £6,541,670 representing £0.98 per share), in respect of the financial year 2015/16.

### 17. Lease commitments – the Company as lessee

Commitments under non-cancellable operating leases are as follows:

|                                | Office buildings |              | Office equipment |           |
|--------------------------------|------------------|--------------|------------------|-----------|
|                                | 2017             | 2016         | 2017             | 2016      |
|                                | £000             | £000         | £000             | £000      |
| Operating leases which expire: |                  |              |                  |           |
| Within 1 year                  | 807              | 730          | 10               | 10        |
| In two to five years           | 1,530            | 2,043        | 25               | 25        |
| In over 5 years                | 46               | 218          | –                | –         |
|                                | <u>2,383</u>     | <u>2,991</u> | <u>35</u>        | <u>35</u> |

### 18. Capital commitments

At 31 March 2017, amounts contracted for but not provided in the financial statements for the development of IT software amounted to £5,431,216 (2016: £4,519,492).

## Notes to the financial statements

as at 31 March 2017

### 19. Management of capital

The Company considers equity to be its capital. A minimum of 50% of the distributable profits of the preceding year are paid out to members on an annual basis in the form of a dividend.

The Company is not subject to any externally imposed capital requirements and there have been no changes in capital structure strategy during the financial year.

The return on capital is measured as Return on Capital Employed (ROCE), measured as profit before tax divided by equity and long-term loans; and, Return on Assets (ROA), measured as profit before tax divided by total assets. At 31 March 2017 ROCE was 27.5% (2016: 33.0%) and ROA was 3.5% (2016: 4.4%).

### 20. Financial risk management

As a participant in the energy market, the Company is exposed to a variety of financial risks including credit risk, liquidity risk and market risk. In order to manage these risks, the Company has put in a place a risk management framework to facilitate an integrated approach which links the Company's appetite for risk to the detailed risk controls employed at the operational level.

Certain risks and the respective management framework have been re-evaluated since the last financial statements, in light of the continued expansion and diversification of the business.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company manages the following credit risks:

##### *Offtake credit risk*

In offtake, credit exposure arises from the delivered unpaid amount owed by offtake customers for power delivered to them by the Company (import power). The majority of offtake customers are signed up to contracts that allow the Company to net cash payments upon settlement. This netting, combined with the fact that the Company purchases far more power than it delivers to these customers, means the Company's offtake customers generally have a net exposure to the Company thereby mitigating any credit risk. Offtake credit risk exposure can also arise from the forward fixing of power prices which can result in a derivative financial asset position. In the event of an Offtake customer credit default, the credit exposure on a derivative asset would be mitigated by the net exposure of the customer to the Company.

## Notes to the financial statements

as at 31 March 2017

### 20. Financial risk management (continued)

#### Credit risk (continued)

##### *Wholesale trading credit risk*

In wholesale trading, the credit exposure is the delivered but unpaid amount for: Grid Trade Master Agreement (GTMA); Short Term Flat National Balancing Point (NBP) Trading Terms and Conditions trades; and, the derivative financial assets for the forward position of such trades. It is the market practice in Britain's wholesale electricity and gas markets to settle the delivered but unpaid amount through netting on the 10<sup>th</sup> banking day and the 20<sup>th</sup> calendar day of every month. In the last fiscal year, low levels of price volatility have meant that the amount of derivative financial assets has continued to remain in the range of £40-90m, except in October 2016 where there was a spike in the derivative asset value due to large upwards market price movements driven by unplanned maintenance of the French nuclear power plants. The Company trades with international banks, large utilities or independent suppliers and regularly reviews the credit worthiness of those trading counterparties. For those where the credit worthiness is below an acceptable level, the Company puts in place margin facilities that allow it to make margin calls to limit the Company's exposure. The Company therefore considers the credit risk associated with the wholesale trading counterparties to be low.

##### *Supply credit risk*

In supply, credit exposure arises from the delivered unpaid amount owed by supply customers for power supplied to them by the Company and the present value of any derivatives related to the forward fixing of power prices. The Company applies a credit policy under which the Company will supply power to any supply customer who passed the quantitative and qualitative credit assessment process.

Since the start of the supply business in Q2 2008, the supply customer base has risen steadily and totalled 1929 as at 31 March 2017 (2016: 1226). During the financial year 0.04% of receivable balances as a percentage of supply business' total turnover were written off (2016: 0.09%). The Company has applied the same methodology of credit assessment and scoring as used by Marubeni Corporation, supplemented with further enhancements by the Company's own credit approval process and procedures so that underlying credit risk is properly assessed before a contractual commitment is undertaken.

The Company's policy for supply credit risk is to apply for credit insurance from a credit insurance company (currently Atradius N.V.) for all supply sales opportunities and, if such application is not accepted by the credit insurance company, the Company further assesses the credit worthiness of the customer to determine if the credit risk can be mitigated by additional collateral.

## Notes to the financial statements

as at 31 March 2017

### 20. Financial Risk Management (continued)

The credit quality of market counterparties, offtake and supply customers is analysed using credit ratings published by Bureau Van Dijk (and S&P for large counterparties outside UK and Ireland) and is as follows:

| Rating    | Credit quality                     | 2017<br>£000   | 2016<br>£000   |
|-----------|------------------------------------|----------------|----------------|
| Secure    | Minimal risk                       | 119,343        | 170,327        |
| Stable    | Low risk                           | 62,741         | 24,383         |
| Normal    | Average risk                       | 13,400         | 14,255         |
| Caution   | Slightly greater than average risk | 2,091          | 2,795          |
| High risk | High risk                          | 627            | -              |
| Unrated   | Unrated                            | 17,077         | 41,633         |
|           |                                    | <u>215,279</u> | <u>253,393</u> |

Unrated category relates to an accumulation of balances from counterparties without publicly available credit ratings. Such exposure historically generated insignificant bad debts.

Overall, the Company's low or well mitigated exposure to credit risk is further illustrated by the fact that the Company has historically experienced very low levels of bad debts.

The risk is further mitigated by the Company such that where an express written agreement exists, and this agreement is deemed legally enforceable, the Company manages its credit exposures net by counterparty. Where such an agreement is not in place, or where there is a debate as to the enforceability of the terms of the agreement that is in place, the credit exposure is managed gross.

#### Liquidity risk

Liquidity risk arises from the general funding requirements of the Company and its management of assets and liabilities. A maturity analysis of financial liabilities and derivatives is in note 12. The Company uses a combination of third party working capital facilities and cash to provide funding to support its business activities.

The Company's main funding needs during the current year were met by loan facility obtained from Marubeni Finance Europe. The Company drew £1.6m from this facility during the year (2016: Nil) and had no drawings as at 31 March 2017 (2016: Nil).

Unutilised loan facilities from group and external sources of £100m (2016: £100m) were available to the Company as at 31 March 2017.



## Notes to the financial statements

as at 31 March 2017

### 20. Financial Risk Management (continued)

#### Market risk

Market risk is the risk that the Company is unable to manage the price exposure in the electricity, gas and renewable markets of its open positions. A failure to manage this risk will then lead to gross margin loss on any such un-hedged positions. The risk is also arising from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Company's market risk is managed as follows:

#### *Commodity price risk*

The Company is affected by commodity price volatility of its fair valued gas and electricity derivative contracts.

The Company's commodity price risk is monitored through the application of a Risk Management Committee approved Value at Risk (VaR) limit and daily loss limit. Operational reports are made to management on a daily basis and reports confirming compliance with the Company's Risk Policy to the monthly Risk Management Committee. The Company uses VaR as the basis for monitoring and controlling its commodity price risk. VaR is managed using the variance covariance model (VCV) on a 95% confidence interval, 5 day holding period.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR calculation; these include:

- Risk factors which are not fully addressed by the VaR methodology. These are addressed either by sensitivity or position limits or by stress testing scenarios;
- Changes in risk factors may not follow the assumed distribution. In particular, the normal distribution assumption may underestimate the probability of large market moves;
- Historical data may not be a good estimate of the potential changes to risk factors observed in the future and any modifications to that data may not be adequate; and
- VaR based on 95% confidence level does not reflect potential losses beyond that percentile.

VaR should not be viewed as a guarantee of the maximum daily loss that can be experienced by the Company on its portfolio. Nor can the Company be certain that losses will not exceed the VaR more frequently than five times in every one hundred days.

The Company accounts all of its generation and retail contracts at fair value and economically hedges its commodity price exposure in the wholesale electricity forward market through the over-the-counter derivatives market and commodity exchanges and therefore does not consider the commodity price risk on its net open derivative position to be material

## Notes to the financial statements

as at 31 March 2017

### 21. Ultimate parent undertaking and controlling party

The immediate and ultimate parent company and controlling party is Marubeni Corporation, a company incorporated in Japan. The results of the Company are consolidated in Marubeni Corporation's financial statements. Copies of Marubeni Corporation's financial statements can be obtained from its head office at 4-2, Ohtemachi 1-chome, Chiyoda-ku, Tokyo 100-8088, Japan.

### 22. Post balance sheet events

On 1 April 2017 Mr Naoya Iwashita resigned as a director of the Company. Mr Tomohiko Hirano was appointed as a new director with immediate effect. On 30 April 2017 Mr James Clarke resigned as a director of the Company.