First Utility Limited

Report and financial statements

For the year ended 31 December 2017

Company Registration No. 05070887

First Utility Limited
Report and financial statements
For the year ended 31 December 2017

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For the year ended 31 December 2017

Officers and professional advisers

Company Registration Number

05070887

Directors

B C Davis
S D Collier
C A Crooks
T P Stokes

Secretary

M V Henchley

Registered Office

Columbus House
Westwood Business Park
Coventry
CV4 8HS

Bankers

Barclays Bank Plc
1 Churchill Place
London
E14 5HP

Solicitors

Osborne Clarke
2 Temple Back East
Temple Quay
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Auditor

Deloitte LLP
Statutory Auditor
4 Brindleyplace
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United Kingdom

First Utility Limited
Strategic report
For the year ended 31 December 2017

Business review and future developments

The Company has had a successful year, returning to profit after a challenging 2016. The Company's profit after tax for the year was £23.9m (2016: loss of £9.6m). The Company experienced a small decline in its energy customer base in 2017 but has seen growth in other areas, namely its Broadband business which launched in 2016. The Company has continued to support its customers with improved service and product offerings, and it continues to create efficiencies in its operating model.

Annual revenue has reduced in the year to £858.3m (2016: £908.4m), reflecting the reduction in customer numbers during 2017 and the latter part of the previous year. Administrative expenses increased marginally during the year by 1.2% to £104.4m (2016: £103.2m).

In 2017 c. 290,000 smart meters were installed at the Company's customer sites. For every meter that was installed, the Company received a payment from the Meter Asset Provider which was recognised as revenue. This had a positive net impact on the financial results for the year which is reflected in the elevated gross margin reported relative to 2016. Going forward, it is unlikely that the net impact of such payments will be as significant as they will be offset by other costs incurred related to the rollout of the smart meter programme. In addition, while the Company will see a short term revenue increase, in return the Company will rent the installed smart meter from the Meter Asset Provider, increasing operating costs over the longer term.

The closing cash balance for the Company at 31 December 2017 was £67.5m (2016: £58.2m).

The Directors regard the continued future investment in effective customer service, marketing, sales and also software development across the customer care and billing platforms as necessary for continuing future success in customer growth and increased retention rates.

On 28 February 2018, The Shell Petroleum Company Limited (Shell) completed the acquisition of Impello Limited and its subsidiaries, including First Utility Limited. The Group became a wholly-owned subsidiary of Shell, within Shell's New Energies division.

Objectives and strategy

The objective of the Company is to deliver long term value to its shareholders. The Board's strategy to achieve this goal is embodied in the following key principles:

- to attract a strong customer base, the Company shall compete on price and offer innovative services supported by outstanding customer service; and
- to employ and develop highly motivated staff, knowledgeable about the services they provide and trained in selling skills and customer service.

Risks to achieving the Company's objectives

Risks are formally reviewed by the Board who ensure appropriate processes are in place to monitor and mitigate them. The Directors consider that the major risks to achieving the Company's objectives are as stated below. The use of financial derivatives is governed by the Company's policies approved by the Board, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes. The Board however recognises that the profile of risks changes constantly and additional risks not presently known, or that are currently deemed immaterial, may also impact on attainment of the Company's business objectives.

i) *Economic environment*

The economic environment impacts consumer spending in many ways. Unemployment levels, interest rates, consumer debt levels, taxation and many other factors influence consumers' spending decisions. The Company tries to mitigate this risk by undertaking a number of initiatives including strategic customer targeting and channel management, credit vetting and systems investment to manage outstanding customer debts.

ii) *Meeting customers' needs*

Customers expect competitive prices. What differentiates energy supply companies is the provision of services that customers want, along with staff that provide excellent service.

Regular surveys of customer satisfaction are conducted. The results are used to assess performance and to drive high standards. Customer feedback is used to understand where we can be more responsive to customers' needs.

Risks to achieving the Company's objectives (continued)

iii) *Seasonality*

The Company's business is highly seasonal, with a high proportion of its sales and operating profit generated in the first quarter and last quarter of each financial year.

iv) *Competition*

The Company operates in highly competitive environments in both the UK and Germany. Businesses join and leave the market and/or expand or reduce their product and service ranges in response to competitive forces. Different channels to market have different cost structures and different appeal to customers.

The Company continuously monitors the activities of its competitors and potential competitors and takes appropriate action in terms of, for example, its product and service offering and pricing, to maintain and strengthen its position.

v) *Margin erosion*

Consumer demand, market competition and regulation all impact the margins that are achievable for the Company. The Company is focused on generating sustainable margins and has rigorous processes in place to allow management to intensively manage its cost structures to optimise this.

vi) *Cash flow and liquidity risks*

Cash flow forecasts are produced on a weekly basis to ensure that both short and medium-term liquidity is optimised and maintained, and on a long term projection basis for the purpose of identifying long term strategic funding requirements. The Directors continually monitor the cash flow requirements of the business in order to ensure the Company is fully funded.

vii) *People*

All companies face the risk of failing to attract, develop and retain the right talent for their business. The Board actively encourages employee involvement at all levels throughout the organisation. Employee performance and development is reviewed continuously throughout the year to ensure it is in line with the overall objectives of the Company. Through development and training programmes the Board believes that the Company is well placed to build on its success to date.

viii) *Systems failures*

In common with other businesses, the Company is dependent on the suitability and reliability of its systems and procedures including its information technology systems. The Company has developed emergency procedures that are regularly tested. The Company carries out evaluation, planning and implementation analysis before updating or introducing new systems that have an impact on critical functions. This includes the restriction of access to systems and data by unauthorised parties.

ix) *Legislative, reputational and regulatory risks*

The Company's operations are subject to extensive regulatory requirements, particularly in relation to the products and services it sells, its advertising, marketing, sales practices, its employment and environmental issues. Changes in laws and regulations and their enforcement may impact on the Company's business in terms of costs, changes to business practices, restrictions on activities or, more importantly, lead to reputational damage to the Company and its brand.

The Company operates a strong compliance regime which monitors legal and regulatory developments to ensure the appropriate training and necessary modification to trading practices and policies. Regular reviews are conducted to ensure compliance with the increasing number of legal and regulatory developments.

Risks to achieving the Company's objectives (continued)

x) *Volume and commodity price risks*

For residential fixed price offers, the Company contracts to purchase fixed price energy to match the duration of the sale once a sales contract supply start date has been confirmed. At any point in time the Company will have energy purchases contracted for up to three years ahead matching the terms of its fixed price sales contracts, which therefore locks in the margin over the life of the contract. Energy is purchased to match customer demand for the duration of the contract in line with an agreed hedging strategy. For variable contracts, prices can be adjusted in line with costs over the life of the contract to maintain margin as the hedging strategy unwinds

xi) *Collections risk*

The Company limits its collection risk through a high direct debit take-up, and established credit checking and debt management procedures.

Performance monitoring - Key performance indicators ("KPI")

The successful delivery of the Company's objectives is monitored by the Board through tracking key performance indicators and regular review of the Company's operations.

KPI	**2017**	**2016**
Total sales	£858.3m	£908.4m
Gross profit	£133.5m	£90.1m
Gross margin %	15.6%	9.9%

The decrease in revenue in 2017 compared to 2016 is a result of the decrease in the Company's energy customer base during the year, with customers at the year-end decreasing by 8.5% to 808,000 compared to the same point in the prior year (2016: 883,000).

Within the gross profit for the year, the Company also absorbed additional cost of sales charges for a number of Government social and environmental obligations in relation to the Warm Home Discount and Energy Company Obligation schemes. The Company will continue to incur charges for these schemes on an ongoing basis as a result of the Company previously passing the customer number thresholds set by the Government.

The Board also considers the following measures to be important:

Other measures	**Definition**
Customer satisfaction	Results of telephone and email surveys to measure the effectiveness of customer service.
Complaint levels	Number of complaints per 1,000 customers which are published by the regulator, showing comparisons of performance against the rest of the industry.
Staff satisfaction	Results of staff surveys.

Approval

This report was approved by the Board of Directors and signed on its behalf by:

C Crooks
Director
28 September 2018

First Utility Limited
Directors' report
For the year ended 31 December 2017

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 December 2017.

Results and dividends

The profit and loss account is set out on page 11 and shows the result for the year.

The directors do not recommend the payment of a dividend for the year (2016: £nil).

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 2 and form part of this report by cross-reference.

Directors

The directors of the Company who served during the year and to the date of this report were as follows:

B C Davis (appointed 28 February 2018)
S D Collier (appointed 28 February 2018)
C A Crooks (appointed 28 February 2018)
T P Stokes (appointed 28 February 2018)
D S Braham (resigned 28 February 2018)
M W Daeche (resigned 28 February 2018)
T J Maguire (resigned 28 February 2018)
E J Kamm (resigned 28 February 2018)
M Moir (resigned 28 February 2018)
W Wilkins (resigned 28 February 2018)
I McCaig (resigned 5 October 2017)

B C Davis and S D Collier are directors of the parent company Impello Limited. Copies of the financial statements of Impello Limited can be obtained from the registered office shown on page 1.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political contributions

The Company does not make political donations nor incur political expenditure.

Going concern

The directors have taken account of the key risks to the Company's cash flow projections when considering the going concern status of the Company. These key risks include the working capital associated with faster or slower customer growth rates than forecast, lower or higher customer churn than forecast, variances in seasonality adjustments to consumption volumes, movements in energy prices and the timing of cash receipts from customers. The Company has ensured that credit terms are in place which enable it to manage its liquidity risks through the timing of cash payments. As a consequence, and based on their projections, the directors believe that the Company is well placed to successfully manage its business risks, which are discussed in the Strategic Report on page 2.

After making enquiries, and reviewing cashflow forecasts and available facilities for a period of at least 12 months from the date that these financial statements were approved, the Company's directors have a reasonable expectation at the time of approving the financial statements that the Company has adequate resources to continue in operational existence for the foreseeable future. The key assumptions in these forecasts have been sensitised and the directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

This judgement has been formed by taking into account the principal risks and uncertainties that the Company faces and the support provided by stakeholders. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Financial risk management objectives

The Company's activities expose it to a number of financial risks including credit risk, liquidity risk and commodity risk. The Company's policies, approved by the board of directors, provide written principles on these risks and the use of non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company, and arises principally from the Company's receivables from customers. The Company limits its collection risk through a high direct debit take-up, and established credit checking and debt management procedures.

The allowance account for trade debtors is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against trade debtors. The Company provides for impairment losses based on estimated irrecoverable amounts determined by reference to specific circumstances and the experience of management of receivable collectability in the energy sector.

The carrying amount of financial assets recorded in the financial statements, which is net of any impairment losses, represents the Company's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company maintains adequate reserves by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Commodity risk

Commodity risk is the exposure that the Company has to price movements in the wholesale electricity and gas markets. The risk is primarily that market prices for commodities will fluctuate between the time that tariffs are set and the time at which the corresponding procurement cost is fixed, which may result in lower than expected profit margins or unprofitable sales. The Company is also exposed to volumetric risk in the form of uncertain consumption profiles arising from a range of factors which include weather, economic climate and changes in energy consumption patterns. The Company manages this risk by entering into forward contracts to purchase fixed price energy for a period of up to three years ahead. Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Company's expected purchase and sale requirements.

Employees

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various financial and economic factors affecting the performance of the Company. This is achieved through regular briefings, where the latest customer number, volume and financial information is shared. The internal communications team also issues weekly updates on Company performance, along with a quarterly magazine.

The Company seeks to regularly consult with employees for views on matters affecting them through a number of channels such as consultation groups with employee representatives, drop-in sessions and employee surveys.

Employee performance and development is reviewed on a quarterly basis and ensured that it is aligned with the Company's overall objectives. Employees' participation in the Company's performance is encouraged by reward packages; for example employee share schemes.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate arrangements are made to facilitate this. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Research and development

The Company has continued to invest significant internal resource in developing its back office systems to enable it to efficiently address the expansion of its utility services. The Company invested £11,358,000 for the year to 31 December 2017 (2016: £10,905,000).

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board of Directors
and signed on behalf of the Board

C Crooks

C Crooks
Director

28 September 2018

Columbus House
Westwood Business Park
Coventry
CV4 8HS

First Utility Limited
Directors' responsibilities statement
For the year ended 31 December 2017

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report including 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 of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the member of First Utility Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of First Utility Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent auditor's report to the member of First Utility Limited (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Andrew Halls FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

Date 28/9/18

First Utility Limited
Profit and loss account
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Turnover	4	858,335	908,395
Cost of sales		(724,874)	(818,285)
Gross profit		133,461	90,110
Administrative expenses		(104,376)	(103,163)
Other operating income	6	85	136
Operating profit/(loss)	7	29,170	(12,917)
Interest receivable and similar income		53	281
Interest payable and similar charges	8	(76)	(33)
Profit/(loss) before taxation		29,147	(12,669)
Taxation (charge)/credit on profit/loss for the year	9	(5,198)	3,077
Profit/(loss) for the year after taxation	19	23,949	(9,592)

All amounts relate to continuing activities.

The notes on pages 15 to 32 form part of these financial statements.

First Utility Limited
Statement of comprehensive income
For the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit/(loss) for the year after taxation	23,949	(9,592)
Other comprehensive income for the year net of tax	-	-
Total comprehensive income/(loss) for the year attributable to the owners of the Company	23,949	(9,592)

The notes on pages 15 to 32 form part of these financial statements.

First Utility Limited
Balance sheet
As at 31 December 2017
Company number: 05070887

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	10	35,049	29,750
Tangible assets	11	3,097	4,010
Investments	12	9,448	1,984
		47,594	35,744
Current assets			
Stocks	13	25	629
Debtors – due within one year	14	111,585	100,286
Debtors – due after one year	14	7,863	10,557
Cash at bank and in hand		67,518	58,232
		186,991	169,704
Total assets		234,585	205,448
Creditors: amounts falling due within one year			
Trade and other creditors	15	(27,583)	(27,966)
Accruals and deferred income	15	(168,030)	(168,071)
Obligations under finance leases	15,16	-	(229)
		(195,613)	(196,266)
Net current liabilities		(8,622)	(26,562)
Total assets less current liabilities		38,972	9,182
Total liabilities		(195,613)	(196,266)
Net assets		38,972	9,182
Capital and reserves			
Share capital	18	-	-
Capital contribution	26	3,568	-
Profit and loss account	19	35,404	9,182
Total shareholders' funds		38,972	9,182

These financial statements were approved by the Board of Directors and authorised for issue on 28 September 2018.

Signed on behalf of the Board of Directors,

C Crooks

C Crooks
Director

The notes on pages 15 to 32 form part of these financial statements.

First Utility Limited
Statement of changes in equity
For the year ended 31 December 2017

	Share capital £'000	Capital contri-bution £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2016	-	-	18,774	18,774
Loss for the year	-	-	(9,592)	(9,592)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(9,592)	(9,592)
Balance at 31 December 2016	-	-	9,182	9,182
Profit for the year	-	-	23,949	23,949
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	23,949	23,949
Credit to equity for equity-settled share based payments	-	3,568	-	3,568
Deferred tax on share-based payment transactions	-	-	2,273	2,273
Balance at 31 December 2017	-	3,568	35,404	38,972

The notes on pages 15 to 32 form part of these financial statements.

1. General information

First Utility Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act. The address of the registered office is Columbus House, Westwood Business Park, Coventry, CV4 8HS. The Company's registration number is 05070887. The nature of the Company's operations and its principal activity continue to be that of the supply of electricity, gas and broadband services to domestic customers.

The Company is a subsidiary of Impello Limited. The group accounts of Impello Limited are available to the public and can be obtained as set out in note 23 of these financial statements.

2. Significant accounting policies

Basis of accounting

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been provided in the group accounts of Impello Limited which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, and in accordance with the Companies Act 2006, as explained in the accounting policies below. 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, regardless of whether that price is directly observable or estimated using another valuation technique. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The principal accounting policies adopted are set out below.

Going concern

The directors have taken account of the key risks to the Company's cash flow projections when considering the going concern status of the Company. These key risks include the working capital associated with faster or slower customer growth rates than forecast, lower or higher customer churn than forecast, variances in seasonality adjustments to consumption volumes, movements in energy prices and the timing of cash receipts from customers. The Company has ensured that credit terms are in place which enable it to manage its liquidity risks through the timing of cash payments. As a consequence, and based on their projections, the directors believe that the Company is well placed to successfully manage its business risks, which are discussed in the Strategic Report on page 2.

After making enquiries, and reviewing cashflow forecasts and available facilities for a period of at least 12 months from the date that these financial statements were approved, the Company's directors have a reasonable expectation at the time of approving the financial statements that the Company has adequate resources to continue in operational existence for the foreseeable future. The key assumptions in these forecasts have been sensitised and the directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern.

This judgement has been formed by taking into account the principal risks and uncertainties that the Company faces and the support provided by stakeholders. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

2. **Significant accounting policies (continued)**

Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Pound Sterling' (£), which is the Company's functional and presentation currency.

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

For energy supply, turnover is recognised on the basis of electricity and gas supplied during the period. For those customers awaiting a bill an estimate is made of the sales value of units and terms supplied between the last bill period date and the year-end date. Any unbilled amounts are included in trade debtors to the extent they are considered recoverable.

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired separately are amortised on the following basis;

Trademark and licences	-	20% to 50% per annum
Software	-	10% to 33% per annum

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Company's software development is recognised only if all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

2. Significant accounting policies (continued)

Intangible assets (continued)

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Internally generated intangible assets are amortised on the following basis;

Software development	-	10% to 33% per annum

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. 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 to write off the cost, less estimated residual values, of all tangible fixed assets, straight line over their expected useful lives. Depreciation is calculated at the following rates:

Leasehold improvements	-	over term of lease
Computer and telecom equipment	-	20% to 33% per annum
Fixtures and fittings	-	20% per annum
Meters	-	10% per annum

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated on the cost of purchase on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Stocks held at year end relate to metering equipment and smart thermostats.

2. Significant accounting policies (continued)

Impairment (excluding stocks and deferred tax assets)

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial instruments

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

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

Financial Assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Trade debtors, loans, and other debtors that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade debtors are provided against when objective evidence is received that the Company will not be able to collect all amounts due to it in accordance with the original terms of the debtor. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are recognised when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "interest payable" in the profit and loss account. Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivatives and other financial instruments

Commodity price risk arises from the forward purchases and forward sales of gas and electricity. When commodity contracts have been entered into as part of the Company's normal business activity, the Company seeks to classify them as 'own use' contracts and outside the scope of IAS 39. This is achieved when:

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

Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Company's expected purchase and sale requirements and are therefore out of scope of IAS 39 (the "own use" exemption).

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

Derivatives and other financial instruments are measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. Changes in the fair value of derivatives and other financial instruments are recognised in profit or loss as they arise.

Cash and cash equivalents

In the Balance Sheet, cash and cash equivalents include cash in hand and deposits held at call with banks.

2. Significant accounting policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

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

2. Significant accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised as borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

3. Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Recognition of deferred tax assets
The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet 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 discussed below.

Revenue recognition – unbilled amounts
It is the aim of the Company to generate a bill every month for all electricity and gas customers. Revenue is recognised on the basis of electricity and gas supplied during the accounting period using the monthly customer billed data where available. Unbilled amounts are recognised based on actual customer tariff rates and industry expected settlement data per customer for each customer from their last bill date to the period end date. The industry expected settlement data is the estimated quantity the industry system deems the individual suppliers, including the Company, to have supplied.

Amortisation of software development costs
The Company amortises its software and internally generated software development assets over a period of three to ten years. Assets amortised over a period of ten years relate predominantly to the Company's customer care and billing platform.

Fixed tariff acquisition costs
Fixed tariff acquisition costs are included in prepayments and accrued income and are charged to the profit and loss account over the average economic life of the customer base.

The estimated useful life principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. An increase in churn rates may lead to a reduction in the estimated useful life and an acceleration in the charge to profit or loss. It is impracticable to assess the impact on profit or loss as a result of the changes to the assessed average economic life of the customer base during 2017.

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

Impairment of trade debtors
Impairments against trade debtors are recognised where the loss is probable. The directors have based their assessment of the level of impairment on collection rates experienced by the Company to date. The estimates and assumptions used to determine the level of provision will continue to be reviewed periodically and could lead to changes in the impairment provision methodology which would impact the reported profit in future periods. Certain trade debtors were found to be impaired and an allowance for credit losses of £38,889,000 (2016: £29,933,000) has been recorded at the balance sheet date.

4. Turnover

Turnover is wholly attributable to the principal activity of the Company and arises solely within the United Kingdom.

5. Information regarding directors and employees

	2017 £'000	2016 £'000
Directors' remuneration		
Emoluments	1,327	1,413

	2017 £'000	2016 £'000
Remuneration of the highest paid director		
Emoluments	301	439

Pension contributions of £1,000 (2016: £1,000) were made on behalf of the directors and no other retirement benefits accrued to the directors during the year (2016: £nil). No pension contributions were made on behalf of the highest paid director (2016: none).

During the year, two directors exercised share options in First Utility Limited's parent company, Impello Limited. In aggregate, the options exercised were 31,930 options at an exercise price of £0.43 and 21,667 options at an exercise price of £0.01. None of the directors exercised any share options in 2016. No share options were exercised by the highest paid director in 2017 or 2016.

In addition to the amounts shown above, the portion of the share based payment charge recorded in the year (note 26) which related to directors who served during the year was £1,360,000 (2016: £nil).

	2017 No.	2016 No.
Monthly average number of persons employed (including directors)		
Administrative and Support	331	322
Operations	715	807
Sales	24	14
	1,070	1,143

	2017 £'000	2016 £'000
Staff costs during the year (including directors)		
Wages and salaries	38,739	37,285
Social security costs	3,906	3,954
Pension costs	263	252
Share-based payments (note 26)	3,568	-
	46,476	41,491

Included in the staff costs above is an amount of £9,024,000 (2016: £8,451,000) relating to costs that have been capitalised as intangible assets.

6. Other operating income

	2017 £'000	2016 £'000
Facilities and service charge to fellow subsidiary undertaking	85	136

7. Operating profit/(loss)

This is stated after charging:

	2017 £'000	2016 £'000
Depreciation of tangible fixed assets		
- owned assets	1,245	1,069
- held under finance leases	112	151
Impairment of intangible assets	326	-
Amortisation of intangible assets	5,733	4,378
Operating lease charges	1,515	1,413
Trade debtors and accrued income impairment charge	9,112	10,523
Auditor's remuneration		
- fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	107	99
- fees payable to the Company's auditor and their associates for the audit of other group companies	21	21

Auditor's remuneration for the parent company of £6,000 (2016: £6,000) is borne by First Utility Limited and is included above.

Fees payable to the Company's auditor and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements of the parent company are required to disclose such fees on a consolidated basis.

8. Interest payable and similar charges

	2017 £'000	2016 £'000
Finance leases	4	20
Other interest	72	13
	76	33

9. Taxation

	2017 £'000	2016 £'000
Corporation tax		
Current year	2,281	-
Deferred tax		
Origination and reversal of timing differences	2,917	(3,077)
Taxation charge/(credit) on profit/loss on ordinary activities	5,198	(3,077)

The tax assessed for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). At Summer Budget 2015, the UK government announced legislation setting the Corporation Tax main rate at 19% for the year commencing 1 April 2017 (year commencing 1 April 2016: 20%).

The charge for the year can be reconciled to the profit (2016: loss) on ordinary activities before tax as follows:

	2017 £'000	2016 £'000
Profit/(loss) before tax	29,147	(12,669)
Tax on profit/(loss) at the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	5,611	(2,534)
Effects of:		
Expenses not deductible in determining taxable profit	106	79
Depreciation on non-qualifying assets	209	85
Relief on exercise of share options	(244)	(106)
Research and development tax credit	(427)	(814)
Adjustment in respect of previous periods	(6)	16
Group relief surrendered	(7)	-
Effect of rate changes	(44)	197
Tax charge/(credit) for year	5,198	(3,077)

No amounts relating to tax have been recognised in other comprehensive income during the year (2016: £nil).

At 31 December 2017 the Company had tax losses of £nil (2016: £19,054,000) to offset against future profits within the United Kingdom. A deferred tax asset has been recognised in respect of £nil (2016: £3,620,000) of such losses. To date the Company has not submitted research and development tax credit claims as permitted for the years 2016 and 2017. No deferred tax asset has been recognised in respect of any such claims as the amounts of the claims have yet to be determined.

As deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, all deferred tax closing balances have been stated using a rate of 19% (2016: 19%).

Legislative changes reducing the main rate of corporation tax to 19% and 17% from April 2017 and April 2020 respectively had been substantively enacted by the balance sheet date.

10. Intangible fixed assets

	Software and software development £'000	Trademarks and licences £'000	Goodwill £'000	Total £'000
Cost				
At 1 January 2017	42,952	1,534	487	44,973
Additions	11,095	263	-	11,358
At 31 December 2017	54,047	1,797	487	56,331
Amortisation and impairment				
At 1 January 2017	13,799	937	487	15,223
Provided for in the year	5,484	249	-	5,733
Impairment loss	326	-	-	326
At 31 December 2017	19,609	1,186	487	21,282
Net book value				
At 31 December 2017	34,438	611	-	35,049
At 31 December 2016	29,153	597	-	29,750

All amortisation and impairment charges are included within administrative expenses.

Development costs have been capitalised in accordance with IAS 38 Intangible Assets and are therefore not treated, for dividend purposes, as a realised loss.

During the year, as the result of a change in CRM software, the Company recognised an impairment loss of £326,000 in profit or loss. The fair value less costs to sell is less than the value in use and hence the recoverable amount of the relevant assets has been determined on the basis of their value in use.

At 31 December 2017, software development costs included £6,896,000 (2016: £6,846,000) of assets under development.

11. Tangible fixed assets

	Leasehold improvements £'000	Computer and telecom equipment £'000	Meters £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2017	828	3,472	3,131	1,732	9,163
Additions	271	276	-	32	579
Disposals	-	-	(476)	(523)	(999)
At 31 December 2017	1,099	3,748	2,655	1,241	8,743
Depreciation					
At 1 January 2017	123	2,089	2,058	883	5,153
Provided for in the year	100	665	303	289	1,357
Disposals	-	-	(407)	(457)	(864)
At 31 December 2017	223	2,754	1,954	715	5,646
Net book value					
At 31 December 2017	876	994	701	526	3,097
At 31 December 2016	705	1,383	1,073	849	4,010

All of the Company's finance lease arrangements concluded during the year. Included in the net book value of meters above are assets held under finance leases with a net book value of £nil at 31 December 2017 (2016: £104,000) and depreciation charged in relation to these of £40,000 (2016: £43,000). Included in the net book value of computer and telecom equipment are assets held under finance leases with a net book value of £nil (2016: £189,000) and depreciation charged in relation to these of £72,000 (2016: £108,000).

12. Investments

Investments in subsidiaries	**£'000**
Cost and net book value	
At 1 January 2017	1,984
Additions	6,464
At 31 December 2017	8,448

During the year the Company increased its investment in its subsidiary company First Utility GmbH, by £6,464,000.

Details of the Company's subsidiaries at 31 December 2017 are as follows:

Name of subsidiary	Description of shares held	Country of incorporation	% held	Registered address
First Utility GmbH	Ordinary	Germany	100	Suhrenkamp 71 – 77, D-22335, Hamburg, Germany
First Utility Poland Sp. z o.o.	Ordinary	Poland	100	Aleja Pokoju 5, 31-548, Kraków, Poland

The investments in subsidiaries are all stated at cost less provision for impairment.

12. Investments (continued)

	2017 £'000	2016 £'000
Available-for-sale investments carried at fair value		
Shares	1,000	-

The shares included above represent investments in unquoted equity investments acquired during the year that present the group with opportunity for return through dividend income and trading gains. The Company holds a strategic non-controlling interest of 3% per cent in Bizzby Limited. These shares are not held for trading and accordingly are classified as available for sale. As the transaction took place during the current accounting period the transaction price is considered to represent fair value as at 31 December 2017.

13. Stocks

	2017 £'000	2016 £'000
Meters and other stocks	25	629

The amount of write down of stocks recognised as an expense for the year is £nil (2016: £nil), which is recognised in administrative expenses.

14. Debtors

Amounts falling due within one year:

	2017 £'000	2016 £'000
Trade debtors	43,772	29,764
Other debtors	3,122	2,919
Taxation and social security	8,124	12,197
Prepayments and accrued income	47,446	46,895
Corporation tax receivable	-	646
Amounts owed by fellow subsidiary undertakings	4,814	3,672
Amounts owed by parent company	4,307	4,193
	111,585	100,286

Amounts falling due after one year:

	2017 £'000	2016 £'000
Prepayments	4,772	6,822
Deferred tax asset (note 17)	3,091	3,735
	7,863	10,557

First Utility Limited
Notes to the financial statements
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15. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	25,251	26,282
Taxation and social security	996	1,065
Other creditors	759	619
Corporation tax payable	577	-
Total trade and other creditors	27,583	27,966
Accruals	131,404	119,692
Deferred income	36,626	48,379
Total accruals and deferred income	168,030	168,071
Obligations under finance leases (note 16)	-	229
	195,613	196,266

Deferred income balances represent the net credit position at the year-end of energy customers paying by a monthly fixed direct debit payment method. This is calculated after applying unbilled revenue to customer accounts.

16. Leases

Finance lease and hire purchase commitments

Finance lease liabilities are secured by the related assets held under finance leases. Future minimum finance lease payments at 31 December were as follows:

	2017		2016	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Within one year	-	-	233	229
After one year but not more than five years	-	-	-	-
Total minimum lease payments	-	-	233	229
Less amounts representing finance charges	-	-	(4)	-
Present value of minimum lease payments	-	-	229	229

16. Leases (continued)

Operating leases as lessee

The Company leases land and buildings under operating leases.

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Within one year	1,079	1,513
In the second to fifth years inclusive	583	1,662

Operating lease payments represent rentals payable by the Company for certain of its office properties. Leases are negotiated for an average term of eight years and rentals are fixed for an average of three years with an option to extend for an average of a further five years at the then prevailing market rate.

17. Deferred taxation

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

	Fixed asset timing differences £'000	Tax losses £'000	Other short term timing differences £'000	Share based payments £'000	Total £'000
At 1 January 2016	70	572	16	-	658
Credit to the profit and loss account	16	3,239	19	-	3,274
Effect of change in tax rate	(4)	(191)	(2)	-	(197)
At 31 December 2016	82	3,620	33	-	3,735
Credit/(charge) to the profit and loss account	41	(3,673)	(16)	687	(2,961)
Effect of change in tax rate	(1)	53	1	(9)	44
	40	(3,620)	(15)	678	(2,917)
Credit direct to equity	-	-	-	2,273	2,273
At 31 December 2017	122	-	18	2,951	3,091

At the balance sheet date, the Company has unused tax losses of £nil (2016: £19,054,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £nil (2016: £3,620,000) for these tax losses. There are no unused tax losses which are not recognised as deferred tax assets.

Finance (No.2) Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017. This rate reduction had been substantively enacted by the balance sheet date and is therefore included in these financial statements. As deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods of reversal, the closing balance has been stated using a rate of 19% (2016: 19%).

18. Share capital

	2017 £'000	2016 £'000
Authorised:		
100 (2016: 100) ordinary shares of £1 each	-	-
Issued and fully paid:		
2 (2016: 2) ordinary shares of £1 each	-	-

The Company has one class of ordinary shares which carry no right to fixed income.

19. Profit and loss account

	£'000
At 1 January 2016	18,774
Loss for the year	(9,592)
At 31 December 2016	9,182
Profit for the year	23,949
Deferred tax on share-based payment transactions credited direct to equity	2,273
At 31 December 2017	35,404

20. Financial commitments

At 31 December 2017, the Company had contractual commitments for the acquisition of property, plant and equipment of £188,000 (2016: £nil).

At 31 December 2017, the Company had no contractual commitments for the acquisition of intangible assets (2016: £nil).

21. Derivatives not included at fair value

The Company has derivatives which are not included at fair value in the financial statements. The difference between fair value and cost is as follows:

	2017 £'000	2016 £'000
Energy contracts	37,150	69,749

This fair value is based on information provided by the Company's supplier.

The Company uses the derivatives to hedge its exposures to changes in market prices arising from energy purchases. The change in the difference between fair value and cost at 31 December 2017 compared to the prior year is due to a decrease in wholesale energy prices during the year.

Energy procurement contracts are entered into and continue to be held for the purpose of the receipt of a non-financial item which is in accordance with the Company's expected purchase and sale requirements and are therefore out of scope of IAS 39.

22. Retirement benefit schemes

Defined contribution schemes

The Company provides a Group Personal Pension Plan for all qualifying employees. This scheme became active as of April 2014. The Plan is run and administered by Standard Life.

The total expense for the year was £263,000 (2016: £252,000).

23. Ultimate parent company

At 31 December 2017 the Company's ultimate parent company and controlling entity was Impello Limited, a company registered in England and Wales, which is the parent of both the smallest and largest groups of which the Company is a member. Copies of that company's consolidated financial statements may be obtained from the registered office shown on page 1 of these financial statements.

24. Related party transactions

During 2017 the Company was charged fees by Silo Investments Ltd, a company controlled by a significant shareholder of the Ultimate parent company Impello Limited, totalling £2,000 (2016: £nil) in respect of hospitality services. At 31 December 2017, £nil remained outstanding (2016: £nil).

During 2017 the Company was charged fees by Offworld Investments Ltd, a company controlled by a significant shareholder of the Ultimate parent company Impello Limited, totalling £nil (2016: £nil) in respect of marketing, strategic and financial services received. At 31 December 2017, £nil remained outstanding (2016: £38,000).

During the year the Company was charged fees by Tadsum Ltd, a company controlled by a Director of Impello Limited, totalling £8,000 (2016: £42,000) in respect of consultancy services received. At 31 December 2017, £nil remained outstanding (2016: £42,000).

The First Utility Foundation is a charitable trust funded and created by First Utility Limited. During the year the Company made a donation of £nil to the charitable trust (2016: £100,000).

The Company has taken advantage of the exemption under FRS 101 para 8(k) from the requirement to disclose related party transactions with other group companies, on the grounds that they are wholly owned subsidiaries of Impello Limited.

25. Cash flow statement

The Company has taken advantage of the exemption under FRS 101 para 8(h) from the requirement to present a cash flow statement.

26. Share-based payment schemes

The Company operates an Enterprise Management Incentive (EMI) Scheme and a Company Share Option Plan (CSOP). Both schemes will be settled in equity issued by Impello Limited, the Company's parent company.

At 31 December 2017, the fair value of these equity-settled share based payment schemes is estimated to be £3,568,000 (2016: £1,596,000).

Under the schemes, the options are exercisable on a public offering of the shares or upon the completion of a sale of Impello Limited, if the participant remains employed by the Company at this time.

In total for the year, a share based payment charge of £3,568,000 (2016: £nil) has been included in profit or loss on the basis than an exit event was considered probable at the balance sheet date. An equal amount has been credited to the Capital contribution reserve to reflect the fact that Impello Limited has made share based payments on behalf of the Company.

The weighted average exercise price of outstanding share options at 31 December 2017 was £1.55 (2016: £3.34).

The Company has taken advantage of the disclosure exemptions available under FRS 101 para 8(a) as permitted where IFRS 2 'Share-based Payment' is applied.

27. Post balance sheet events

On 28 February 2018, The Shell Petroleum Company Limited (Shell) completed the acquisition of Impello Limited and its subsidiaries, including First Utility Limited. The Group became a wholly-owned subsidiary of Shell, within Shell's New Energies division.