

First Hydro Company

Company No: 2444277

ANNUAL REPORTS AND FINANCIAL STATEMENTS

For the year ended 31 December 2018



Strategic report

The Directors present the Strategic report of First Hydro Company (the Company) for the year ended 31 December 2018.

Principal activities

The principal activities of the Company are the generation of electricity and the provision of services to the British transmission network operator. The directors do not expect the current activities of the Company to change in the future.

Business review

The accompanying financial statements have been prepared in accordance with Financial Reporting Standard 101-Reduced Disclosure Framework (FRS 101) for both periods presented. The Company has taken advantage of the disclosure exemptions allowed under this standard.

Q1 2018 was not as strong as Q1 2017 due to lower traded margins. Spreads were high for Q1 2017 driven largely by issues with the French nuclear fleet in September 2016 - November 2016. Traded margins for storage plant delivering in late February and March 2018 however were high, largely driven by the Beast from the East increasing demand across the system. Increased renewable output continued to suppress prices over the Summer leading to weaker traded margins with an additional ~1GW of solar and ~1GW of wind connected to the distribution network in comparison to the previous year. During Q4, demand was lower than the previous year. This was particularly noticeable in December. System balancing requirements remained high throughout 2018 and, whilst supply has increased, First Hydro saw continued strong performance focussed around the provision of reliable, fast response products.

The suspension of the Capacity Market has had a negative impact on 2018 revenue and earnings. As a result of the Capacity Market suspension in 2018 the total amount of £5.3m of accrued revenue has not been recognised. This is expected to continue to adversely affect revenue and earnings during 2019 until the Capacity Market is reinstated. The Directors are aware that the Government continues to believe the Capacity Market is the right mechanism for delivering security of supply and that it is working closely with the European Commission to ensure that the Capacity Market can be reinstated. The Directors also believe that a positive final outcome will be delivered by the Government and the Commission, which would result in the Company receiving the Capacity Market payments currently suspended and that there will be no obligations to refund the amount received in this respect prior to the suspension of the mechanism.

The T-4 GB capacity market auction for the delivery year October 2021 to September 2022 took place in February 2018 and cleared at £8.40/kW, with all units securing contracts except for two at Ffestiniog which will be undergoing refurbishment work. It has been noted that the Capacity Market payments for delivery year 2018/2019 have been suspended. The T-1 and T-4 capacity auctions which were scheduled to take place in January and February 2019 have been halted but a T-1 capacity market "top-up" auction is expected to take place in Summer 2019 and Ffestiniog unit 4 can bid into this auction. The new T-1 agreements would be conditional on the outcome of the European Commission's formal investigation. Pre-qualification to allow participation in the T-4 auction in Q1 2020 for Delivery Year 2023/24 is expected to take place as planned this summer.

During the year the Group generated 2.1 TWh of power (2017 - 2.3 TWh). The Company's KPIs include maximising availability and reliability to maximise gross margin. Technical availability in 2018 was 88.2% (target 90.25%) and plant despatch accuracy 99.41% (target 99.3%), compared to 2017: technical availability 92.62% (target 88.5%) and plant despatch accuracy 99.07% (target 99.3%).

The results of the Company are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'000	£'000
Profit for the financial year	64,404	81,658

As shown in the profit and loss account on page 9, the profit for the financial year ended 31 December 2018 has decreased in comparison to the prior year reflecting market conditions. The balance sheet on page 11 of the financial statements show the Company's financial position at the end of the current and preceding financial year. The net assets have increased from £444m to £463m reflecting the results for the year and the movement in the pension scheme valuation.

The Directors approved payment of interim dividends as shown in note 14.

Strategic report (continued)**Principal risks and uncertainties****Finance instruments risk management objectives and policies**

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by ENGIE S.A.'s financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The financial risk committee provides assurance to the Company's senior management that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives. The Company manages risk arising out of energy price volatility by entering into physical energy commodity contracts to hedge the electricity inputs and outputs requirements of the power stations. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

The key business risks faced by the Company are volatility in its markets (balancing services and wholesale markets), and plant reliability. These risks are mitigated by trading the plant's generating capacity across a mixture of long term and short term markets, and by pursuing a vigorous asset management and maintenance programme to protect plant integrity.

Credit-risk

The credit risk of counter-parties is assessed by a credit management department which, where appropriate, will obtain credit support from counter-parties, usually taking the form of bank letters of credit. The electricity trading activities are monitored by a dedicated ENGIE risk management department, responsible for monitoring adherence to company procedures, thereby controlling the risk of fraudulent or erroneous activity.

Currency risk

No direct currency risk results from the Company's principle activities, as it only operates in the UK market and has no material foreign currency denominated payables or receivables.

Interest rate risk

The Company receives interest income on cash placed on deposit. This income is affected by changes in general interest rates. As this risk is not considered significant the Company does not enter into hedging arrangements in respect of interest rate fluctuations.

Liquidity risk

The Group has a defined benefit pension scheme which is currently in surplus. If this was to move to a deficit there could be an impact on the ability of the Company to pay dividends, and the ability of the Group to meet its obligations under the £400m 9% Guaranteed secured bonds. The Directors have agreed with the Trustees of the pension scheme a plan which would mitigate any risks to the Company. The Company expects to make contributions of approximately £2.1m to the Scheme during 2019.

Employees

Details of the number of employees and related costs can be found in Note 4 to the financial statements.

Events after the end of the reporting period

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Future developments


The Company has no significant future developments to report.

Strategic report (continued)

Brexit

In the UK, the economic climate continues to be dominated by the potential impact of Brexit, leading to expectations of an overall economic slowdown within the UK. However, the Board remains confident that there will be no disruption to the business, regardless of the outcome of negotiations, and at this time no risk factors have been identified. Uncertainties remain, and the directors continue to monitor risk and to prepare for all potential outcomes.

By order of the Board



**A Garner
Director**

8 March 2019

Directors' report

The Directors present their report and audited financial statements of First Hydro Company (the Company) for the year ended 31 December 2018.

Information disclosed in the Strategic report

The following information has been disclosed in the Strategic report:

- Principal activities
- Business review
- Principal risks and uncertainties
- Employees
- Events after the end of the reporting period
- Future developments

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The Strategic report also considers the principal risks and uncertainties facing the Company and its policies and processes for managing these. The Directors have prepared a cash flow forecast which, taking into account all reasonably possible changes in trading performance, shows that the Company should be able to meet its liabilities as they fall due. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facilities.

Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

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

D. Alcock
K. Dibble (Resigned 1 January 2018)
A. Garner (Appointed 1 January 2018)
T. O'Brien
S. Pinnell

S. Gregory was Company Secretary during the financial year and up to the date of this report.

Directors' indemnity provision

During the year and the prior year the Company has made qualifying third party indemnity provisions for the benefit of its Directors, which remain in force at the date of this report.

Share capital

The Company's share capital comprises ordinary shares of 25p each which rank pari passu with each other in respect of all rights, including dividend, voting and return of capital.

Dividends

Interim dividends of £52.7m (2017: £111.5m), approved by the Board, were paid during the year in respect of the year ended 31 December 2018.

Directors' report (continued)

Disclosure of information to the auditor

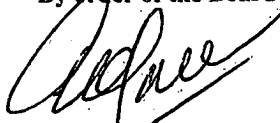
Ernst & Young LLP was the Company's statutory auditor for the year ended 31 December 2018. The Directors who held office at the date of approval of this Directors' report confirms that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director 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.

Auditor

Pursuant to Section 485 of the Companies Act 2006, the auditor will be deemed to be re-appointed and Ernst & Young LLP will therefore continue in office.

By order of the Board



**A Garner
Director
8 March 2019**

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report, 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).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 its 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.

Independent auditor's report to the members of First Hydro Company

Opinion

We have audited the financial statements of First Hydro Company for the year ended 31 December 2018 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 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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



Jennifer Hazlehurst (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Liverpool
March 2019

Profit and loss account
For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Turnover	3	266,482	270,881
Cost of sales		(134,271)	(119,604)
Fair value movement on unrealised energy trading commodities		(5,223)	(503)
Gross profit		126,988	150,774
Administrative expenses		(54,881)	(55,256)
Operating profit	4	72,107	95,518
Profit before interest and taxation		72,107	95,518
Finance costs (net)	7	59	(172)
Profit before taxation		72,166	95,346
Tax charge on profit on ordinary activities	8	(7,762)	(13,688)
Profit for the financial year		64,404	81,658

All results in the current and preceding year were derived from continuing activities.

The notes on pages 13 to 36 form part of these financial statements.

**Statement of comprehensive income
for the year ended 31 December 2018**

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit for the financial year		64,404	81,658
<i>Non-recyclable items:</i>			
Actuarial gains	16	8,312	3,253
Deferred tax on actuarial gains	8	(1,413)	(553)
Total non-recyclable items		6,899	2,700
Other comprehensive income for the year net of tax		6,899	2,700
Total comprehensive income for the financial year		71,303	84,358

Balance sheet
as at 31 December 2018

	Note	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Fixed assets			
Property, plant and equipment	9	399,899	389,809
		399,899	389,809
Current assets			
Debtors	10	55,369	68,442
Investments – money market deposits		35,093	30,025
Cash at bank and in hand		3,282	3,270
		93,744	101,737
Creditors: amounts falling due within one year			
- due within one year	11	(35,207)	(44,493)
Deferred tax liability	8	(3,332)	(1,373)
Net current assets		55,205	55,871
Total assets less current liabilities			
		455,104	445,680
Retirement Benefits	12,16	7,608	(1,570)
Net assets		462,712	444,110
Capital and reserves			
Called up share capital	13	87,346	87,346
Share premium account		295,741	295,741
Revaluation reserve		41,833	42,768
Profit and loss account		37,793	18,255
Equity shareholder's funds		462,713	444,110

The notes on pages 13 to 36 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 8 March 2019 and signed on its behalf by:



A Garner - Director

**Statement of changes in equity
for the year ended 31 December 2018**

	Note	Called up share capital £'000	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
Equity shareholder's funds at 31 December 2016		87,346	295,741	43,704	44,461	471,252
Profit for the financial year		-	-	-	81,658	81,658
Other comprehensive expense		-	-	-	2,700	2,700
Total comprehensive income for the financial year		-	-	-	84,358	84,358
Dividends	14	-	-	-	(111,500)	(111,500)
Other changes		-	-	(936)	936	-
Equity shareholder's funds at 31 December 2017		87,346	295,741	42,768	18,255	444,110
Profit for the financial year		-	-	-	64,404	64,404
Other comprehensive income		-	-	-	6,899	6,899
Total comprehensive income for the financial year		-	-	-	71,303	71,303
Dividends	14	-	-	-	(52,700)	(52,700)
Other changes		-	-	(935)	935	-
Equity shareholder's funds at 31 December 2018		87,346	295,741	41,833	37,793	462,713

The notes on pages 13 to 36 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2018

1. General information

First Hydro Company (the Company) is a private unlimited company incorporated and domiciled in England and Wales. The address of its registered office is Level 20, 25 Canada Square, London E14 5LQ, United Kingdom. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 1 to 3.

These financial statements are separate financial statements. The Company's results are included in the group accounts of First Hydro Holdings Company. The group accounts of First Hydro Holdings Company are available to the public and can be obtained as set out in Note 18.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

a. Basis of preparation

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The Strategic report also considers the principal risks and uncertainties facing the Company and its policies and processes for managing these. The Directors have prepared a cash flow forecast which, taking into account all reasonably possible changes in trading performance, shows that the Company should be able to meet its liabilities as they fall due. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Company meets the definition of a qualifying entity under FRS (Financial Reporting Standard) 100 issued by the Financial Reporting Council. The financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council and in accordance with applicable accounting standards. These financial statements have also been prepared on the going concern basis, and under the historical cost-convention, except for certain financial instruments that are measured at fair value as explained in the accounting policy below.

New and revised IFRSs applied

During the year, the Company applied IFRS 15 and IFRS 9 for the first time. The nature and the effect of the changes as a result of the adoption of these new standards are listed below.

• IFRS 15 revenue from Contracts with Customers (effective date 1 January 2018)

IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue and related interpretations and applies, with limited exceptions, to all revenue arising from contracts with customers. The Company has adopted IFRS 15 using a modified retrospective approach of adoption with the date of initial application being 1 January 2018.

The Company's revenue streams are not considered particularly complex in nature and revenue will continue to be recognised once the control of goods and services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange of the goods provided. The adoption of this standard has not resulted in any material effect to these financial statements due to there being no differences in performance obligations, timing of recognition or measurement, and there is no restatement of the comparative information.

• IFRS 9 Financial Instruments recognition and measurement (effective date 1 January 2018)

IFRS 9 Financial Instruments replaces IAS 39 Financial instruments: Recognition and Measurement. The Company has applied IFRS 9 prospectively, with an initial application date of 1 January 2018. Management have completed an exercise for the ENGIE group, which has not identified any significant differences. A separate exercise has been performed from a statutory perspective in order to assess any expected credit losses. The adoption of this standard has not resulted in material effect to these financial statements due to there being no difference in the timing of recognition or measurement, and there is no restatement of the comparative information.

New and revised IFRSs in issue but not yet effective

• IFRS 16 Leases (effective date 1 January 2019) - Management do not expect this to have a material impact but an exercise is ongoing to quantify the impact. To date no material leases have been identified.

Notes to the financial statements (continued)
for the year ended 31 December 2018**2. Accounting policies (continued)**
a) Basis of preparation (continued)

At the date of authorisation of these financial statements, the Company has not applied new and revised IFRSs that have been issued but are not yet effective and had not yet been adopted by the EU.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to:

- financial instruments as required by IFRS 7 Financial Instruments: Disclosures;
- financial instrument valuation techniques and inputs used for fair value measurement as required by paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of property, plant and equipment (paragraph 73(e) of IAS 16 Property, Plant and Equipment);
- the requirements of IAS 7 Statement of Cash Flows to present a statement of cash-flows for the period and the disclosure of cash flow information;
- the IAS 1 paragraph 16 requirement to state compliance with all the requirements of IFRSs;
- the IAS 1 paragraphs 134 to 136 requirement to disclose the entity's objectives, policies and processes for managing capital;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors, to disclose when an entity has not applied a new IFRS that has been issued but is not yet effective; and
- the requirements in IAS 24 Related Party Disclosures for related party transactions entered into between two or more members of a group, and the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures (key management compensation).

At the date of authorisation of these financial statements, the Company has not applied new and revised IFRSs that have been issued but are not yet effective and have not yet been adopted by the EU.

b) Critical accounting estimates and judgements

The preparation of the financial statements requires the use of estimates and assumptions to determine the value of assets and liabilities, and contingent assets and liabilities at the balance sheet date, as well as income and expenses reported during the period.

The Company regularly revises its estimates in light of currently available information because of uncertainties inherent in the estimation process. Final outcomes could differ from those estimates.

The key estimates used in preparing the Company's financial statements predominately relate to the measurement of:

- power generation revenue under bilateral contracts recognised under IFRS 9
- property, plant and equipment, and investments, where the recognised book value is assessed for impairment considering the net present value of future cash flows based on the future technical availability of the power station, electricity prices and the UK inflationary environment which directly impact the future economic benefits to be derived from the tangible fixed assets.
- retirement benefits based on actuarial advice in relation to retirement ages, life expectancy, salary increases and discount rates, see Note 16.
- fair value of financial instruments based on forward price curves, see Note 15.
- taxation and the appropriate rates of corporation tax and deferred tax to apply to estimate of profit chargeable to corporation tax see Note 8.

Key sources of estimation uncertainty

There are no 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. There is some degree of estimation involved in the area explained below:

Fair value of Financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9 Financial Instruments: Recognition and Measurement. The fair value of Financial instruments is calculated based on prices quoted on active markets. There is some degree of estimation in deriving these prices as explained in Note 15.

Notes to the financial statements (continued)
for the year ended 31 December 2018

2. Accounting policies (continued)

c. Foreign currencies

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

d. Interest income

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

e. Interest expense

Interest expense 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 payments through the expected life of the financial liability to that liability's net carrying amount.

f. Tangible assets

Tangible fixed assets are initially recognised at cost. They are then subsequently recognised in the balance sheet at cost or valuation less accumulated depreciation. Strategic spares are capitalised and depreciated over the same period as plant and machinery.

No depreciation is provided on freehold land and assets in the course of construction. Other tangible fixed assets are depreciated on a straight line basis, at rates estimated to write off their book values over their estimated useful lives. In assessing estimated useful lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The depreciation periods for the principal categories of assets are as follows:

	Years
Civil engineering works	40-115
Plant and machinery	40-60
Freehold properties	20 to 40
Fixtures and fittings	3 to 10

An item of property, plant and equipment and any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. Civil engineering works are included within freehold land and buildings.

Tangible fixed assets are stated at cost less provision for any impairment. At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the asset's recoverable amount (greater of fair value less costs to sell and value in use). Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment provision is reversed to the extent that the asset's recoverable amount is greater than the carrying value of the tangible fixed asset.

Notes to the financial statements (continued)
for the year ended 31 December 2018**2. Accounting policies (continued)****g. Impairment of tangible assets**

In accordance with IAS 36, impairment tests are carried out on tangible assets where there is an indication that the assets may be impaired. Such indications may be based on events or changes in the market environment, or on internal sources of information.

h. Taxation

Current income tax assets and liabilities 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 in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or as asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associate and interest in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probably that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

i. Pension costs

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. If the Group has an unconditional right to a refund of a surplus, either on an on-going or wind up basis, then the surplus is recognised on the Balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Notes to the financial statements (continued)
for the year ended 31 December 2018**2. Accounting policies (continued)****1. Pension costs (continued)**

The Company participates in a group defined benefit scheme which is the legal responsibility of the Company as the sponsoring employer. There is no contractual agreement or stated policy for charging of the net defined benefit cost and, therefore, as the sponsoring employer of the scheme, the Company recognises the whole of the scheme surplus or deficit in its financial statements.

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

j. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term treasury deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

k. Dividends on shares presented within shareholder's funds

The Company recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of England and Wales, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

l. Financial instruments**(i) Derivative financial instruments*****Initial recognition and measurement***

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI) or fair value through profit and loss. In order for a financial asset to be classified as measured at amortised cost or of fair value through OCI it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is performed at the instrument level.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Notes to the financial statements (continued)
for the year ended 31 December 2018

2. Accounting policies (continued)

1. Financial instruments (continued)

(i) Derivative financial instruments (continued)

Subsequent measurement

For the purpose of subsequent measurement, financial assets are classified into four different categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated as fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit and loss.

Financial assets at amortised cost (debt instruments)

The Company measures its financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial asset in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise to cash flows on specified dates that are solely principal and interest of principal outstanding.

Financial assets measured at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in income statement when the asset is derecognised, modified or repaired. The Company's financial assets at amortised cost include trade receivables and loans.

Financial assets at fair value through OCI (debt instruments)

The Company measures its financial assets at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective to both holding financial asset in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise to cash flows on specified dates that are solely principal and interest of principal outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for the financial assets measured at amortised cost. The remaining fair value changes are recognised through OCI.

Financial instrument designated as fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investment as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument by instrument basis.

Gains and losses on these assets are never recycled through profit and loss. Dividends are recognised as other income in the statement of profit and loss when the right of payment has been established, except when the Company benefits from such proceeds are recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI.

Financial assets at fair value through profit or loss

Financial Assets at fair value through profit and loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit and loss, or financial assets mandatory required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging documents. Financial assets with the cash flows that are not solely payments if principal or interest are classified as measured at fair value through profit and loss, irrespective of the business model.

Financial Assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit and loss.

Notes to the financial statements (continued)
for the year ended 31 December 2018

2. Accounting policies (continued)

1. Financial instruments (continued)

(i) Derivative financial instruments (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities at fair value through profit or loss

Financial liabilities designated upon initial recognition at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose or repurchasing in the near term. This category also includes derivative financial instruments entered into by Company that are not designated as hedging instrument in hedge relationships as defined by IFRS 9. Gains or losses on liabilities held for trading are recognised in the statement of profit and loss.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit and loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities designated upon initial recognition at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose or repurchasing in the near term. This category also includes derivative financial instruments entered into by Company that are not designated as hedging instrument in hedge relationships as defined by IFRS 9. Gains or losses on liabilities held for trading are recognised in the statement of profit and loss.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Notes to the financial statements (continued)
for the year ended 31 December 2018**2. Accounting policies (continued)****I. Financial instruments (continued)****(ii) Financial liabilities (continued)*****Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

m. Turnover

Turnover represents the amounts derived within the UK from the supply of electricity, net of exchange fees, ancillary services and participation in the UK Capacity Mechanism. This is considered by the directors to represent a single class of business. The Company has concluded that it is the principal in its revenue arrangements, because it controls the goods or services before transferring them to the customer. Turnover is recognised as the electricity is generated and it is at this point control is passed to the electricity consumers.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2.

The Company is in the business of generating power and supplying this into the grid. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration, net of VAT, to which the Company expects to be entitled in exchange for those goods or services. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable.

Revenue from Bi-lateral sales is recognised in accordance with IFRS 9, and not IFRS15. The Company buys and sells electricity from the market through another Group entity. This results in significant gross sales and purchase transactions on a half hourly level which are not representative of real power flows for corresponding periods. Considering that the generation asset is expected to be either generating or producing power in a given time frame, half hourly netting is performed to disclose all transactions for the relevant period as either revenue or cost of sales. Management is of the view that derivative commodity contracts should be presented on a gross basis if they involve physical flow of underlying commodities and net to the extent of revenue generated from trading activities.

n. Contract balances**Contract assets**

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section 2 I) Financial instruments.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

Notes to the financial statements (continued)
for the year ended 31 December 2018

c) Turnover

An analysis of the Company's turnover by class of business is set out below.

	2018 £'000	2017 £'000
Turnover:		
Electricity generation:		
Recognised under IFRS 9	110,771	113,080
Recognised under IFRS 15	155,415	157,388
	<u>266,186</u>	<u>270,468</u>
Tourist attraction	296	413
	<u>266,482</u>	<u>270,881</u>

An analysis of the Company's turnover by geographical market is set out below.

	2018 £'000	2017 £'000
Turnover:		
United Kingdom	<u>266,482</u>	<u>270,881</u>

d) Operating profit

This is stated after charging/(crediting):

	2018 £'000	2017 £'000
Depreciation of tangible fixed assets (Note 9)	6,617	6,621
Insurance receipt – property damage	(2,380)	-
Operating lease rentals		4
		<u>4</u>

e) Directors' and employees' remuneration

Particulars of employees (including executive directors) are as shown below:

	2018 £'000	2017 £'000
Employee costs during the year amounted to:		
Wages and salaries	9,374	9,129
Social security costs	1,120	1,060
Apprentice levy	46	28
Pension costs (see note 16) defined benefit scheme	2,946	2,853
Pension costs defined contribution scheme	228	167
	<u>13,714</u>	<u>13,237</u>

Other pension costs on defined benefit schemes include those items included within operating costs i.e. the Current service cost as disclosed in Note 16.

The average monthly number of persons employed by the Company during the year, excluding Executive Directors, is set out below:

	2018 Number	2017 Number
Production	116	116
Administration	48	51
	<u>164</u>	<u>167</u>

Notes to the financial statements (continued)
for the year ended 31 December 2018

5. Directors' and employees' remuneration (continued)

The Directors did not receive any fees or emoluments from the Company during the year (2017: £nil) directly attributable to their position within the Company. In both 2018 and 2017 all Directors' fees or emoluments were paid but not recharged, by International Power Limited and the amount attributable to the qualifying services provided by the Directors to the Company cannot be reliably estimated.

Pensions

The number of directors who were members of the pension scheme by virtue of their employment by other International Power Ltd. group entities was as follows:

	2018 Number	2017 Number
Defined Benefit schemes	3	3

Share Options

The number of directors who exercised share options in ENGIE S.A. or International Power Ltd.: nil. (2017: nil).

6. Auditor's remuneration

The auditor's remuneration in respect of the statutory audit for the years ended 31 December 2018 and 31 December 2017 was borne by First Hydro Company.

The auditor's remuneration was as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Auditor's remuneration for the financial year	129	89

No services were provided pursuant to contingent fee arrangements, and no non-audit services were provided in 2018 or 2017.

7. Finance Costs (net)

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest receivable and similar income	7a	4,050	3,840
Less: Interest payable and similar charges	7b	(3,991)	(4,012)
		59	(172)

7a. Interest receivable and similar income

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Total interest income on financial assets measured at amortised cost – bank interest	236	168
Pension scheme interest – see Note 16	3,814	3,672
Total interest income	4,050	3,840

Notes to the financial statements (continued)
for the year ended 31 December 2018

7b. Interest payable and similar charges

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Bank interest payable	107	63
Total interest expense for financial liabilities measured at amortised cost	107	63
Pension scheme interest – see Note 16	3,884	3,949
Total interest expense	3,991	4,012

8. Tax (charge) on profit

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Analysis of (charge) in the year:		
Current tax charge		
UK corporation tax	(7,216)	(11,715)
Prior year tax adjustment	-	-
Total current tax (charge)	(7,216)	(11,715)
Deferred tax charge		
Origination and reversal of timing differences	(546)	(1,973)
Impact of change in tax rate	-	-
Total deferred tax credit/(charge)	(546)	(1,973)
Tax (charge) on profit	(7,762)	(13,688)

Deferred tax charge on other comprehensive income

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Pension scheme costs	(1,413)	(553)

Notes to the financial statements (continued)
for the year ended 31 December 2018

8. Tax (charge) on profit (continued)

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Reconciliation of the total tax charge		
Profit before taxation	72,166	95,346
Current tax (charge) at 19% (2017: 19.25%)	(13,711)	(18,354)
Prior year tax adjustment	-	-
Items non-deductible for tax purposes	(1,092)	(952)
Impact of rate change	131	-
Defined benefit pension scheme (actuarial movements)	-	-
Other deferred tax movements	(42)	(1,345)
Group relief at nil charge	6,952	6,963
Tax (charge) on profit	(7,762)	(13,688)

The applicable statutory tax rate for the period was 19%. The prior year applicable statutory tax rate was 19.25% and represents a weighted average rate based on 20% applicable for the three months to 31 March 2017, and 19% applicable from 1 April 2017.

Deferred tax

The deferred tax balance included in the Company balance sheet is as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<i>Deferred tax (liability)/asset</i>		
At beginning of year	(1,373)	1,153
Current year deferred tax charge	(546)	(1,973)
Other comprehensive income current year deferred tax	(1,413)	(553)
At end of year	(3,332)	(1,373)
Analysed as:	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Accelerated capital allowances	(2,902)	(1,914)
Pension deficit repair payments	800	1,217
Deferred tax arising in relation to retirement benefit obligations (Note 16)	(1,292)	267
Electricity commodities	62	(943)
Deferred tax	(3,332)	(1,373)

Notes to the financial statements (continued)
for the year ended 31 December 2018

8. Tax (charge) on profit (continued)

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<i>Deferred tax in the income statement</i>		
Timing difference in relation to derivatives	1,005	97
Timing difference in relation to capital allowances	(987)	(1,951)
Defined benefit pension scheme (deficit repair)	(417)	1,217
Defined benefit pension scheme (actuarial movements)	(147)	(1,336)
Impact of UK tax rate change from 20% to 17%	-	-
Deferred tax charge	<u>(546)</u>	<u>(1,973)</u>

9. Property, plant and equipment

	Freehold Land & buildings £'000	Plant & machinery £'000	Fixtures & fittings £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation					
At 1 January 2018	414,618	110,883	7,181	14,430	547,112
Additions	-	999	238	15,470	16,707
Disposals	-	-	(241)	-	(241)
At 31 December 2018	<u>414,618</u>	<u>111,882</u>	<u>7,178</u>	<u>29,900</u>	<u>563,578</u>
Depreciation					
At 1 January 2018	105,686	44,954	6,663	-	157,303
Depreciation charge for the year	3,978	2,395	244	-	6,617
Disposals	-	-	(241)	-	(241)
At 31 December 2018	<u>109,664</u>	<u>47,349</u>	<u>6,666</u>	<u>-</u>	<u>163,679</u>
Net book value					
At 31 December 2018	<u>304,954</u>	<u>64,533</u>	<u>512</u>	<u>29,900</u>	<u>399,899</u>

Notes to the financial statements (continued)
for the year ended 31 December 2018

9. Property, plant and equipment (continued)

	Freehold Land & buildings £'000	Plant & machinery £'000	Fixtures & fittings £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation					
At 1 January 2017	414,618	109,525	6,947	1,900	532,990
Additions	-	1,476	250	12,530	14,256
Disposals	-	(118)	(16)	-	(134)
At 31 December 2017	414,618	110,883	7,181	14,430	547,112
Depreciation					
At 1 January 2017	101,708	42,702	6,406	-	150,816
Depreciation charge for the year	3,978	2,370	273	-	6,621
Disposals	-	(118)	(16)	-	(134)
At 31 December 2017	105,686	44,954	6,663	-	157,303
Net book value					
At 31 December 2017	308,932	65,929	518	14,430	389,809

At 31 December 2018 the carrying value of tangible fixed assets that are pledged as security for liabilities is £399.9m (2017: £389.8m).

Freehold land amounting to £975,000 (2017 - £975,000) is not being depreciated.

First Hydro Company has not adopted a policy of ongoing asset revaluations under IAS 16. The carrying value of its civil works and plant does reflect previous revaluations. However, in accordance with IAS 16 these valuations will not be updated in subsequent periods.

The historical cost of fixed assets amounts to £500.5m (2017 - £484.2m), historical cumulative depreciation £140.3m (2017 - £137.5m), and net book value £360.2m (2017 - £346.7m). No statement of historical cost profit and loss has been prepared as there is no material difference between the results as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

Included within the fixed asset balance is £2.1m (2017 - £1.9m) of non-depreciable consumable stock items. The company had capital commitments of £21.0m as at 31 December 2018 (2017: £26.1m).

Notes to the financial statements (continued)
for the year ended 31 December 2018

10. Debtors

	31 December 2018	31 December 2017
	£'000	£'000
Due within one year:		
Trade debtors – under IFRS 15	13,644	11,875
Accrued income – under IFRS 15	10,439	16,612
Amounts owed by group undertakings – under IFRS 9	19,367	23,543
Financial instruments with related parties (Note 15)	157	5,071
Prepayments and accrued income	3,006	2,585
Amounts owed by group undertaking - loan	8,756	8,756
	<u>55,369</u>	<u>68,442</u>

In both periods, "Amounts owed by group undertakings – loan" are repayable at the discretion of the other group undertaking's directors and carry interest at the appropriate rate, and are currently agreed to be non-interest bearing. For the above financial instruments, held with related parties, the book value is considered to be equivalent to the fair value (See Note 15).

There has been no provision provided in relation to Trade debtors and accrued income, as due to the quality of the counterparties there is an immaterial expected credit loss impact.

11. Creditors: amounts falling due within one year

	31 December 2018	31 December 2017
	£'000	£'000
Due within one year:		
Trade creditors	1,823	1,826
Amounts owed to group undertakings	22,192	25,898
Corporation tax	2,619	5,703
Other taxation and social security	1,066	1,269
Financial instruments with related parties (Note 15)	483	174
Accruals	7,024	9,623
	<u>35,207</u>	<u>44,493</u>

Amounts owed to group undertakings in both periods are unsecured and repayable on demand. For the above financial instruments, held with related parties, the book value is considered to be equivalent to the fair value, (see Note 15).

12. Retirement benefits

	31 December 2018	31 December 2017
	£'000	£'000
Defined benefit pension scheme:		
Fair value of plan assets	152,355	152,084
Defined benefit obligation (Note 16)	(144,747)	(153,654)
	<u>7,608</u>	<u>(1,570)</u>

Notes to the financial statements (continued)
for the year ended 31 December 2018

13. Called up share capital

	31 December 2018 £'000	31 December 2017 £'000
Authorised, issued and called up share capital		
349,382,331 ordinary shares of 25p each	<u>87,346</u>	<u>87,346</u>

Ordinary shares rank equally between each other with regard to voting rights, the right to receive dividends and also in a distribution of assets or the winding up of a Company. The Company is neither limited by share capital nor limited by guarantee (i.e. its liability is unlimited).

14. Dividends

Interim dividends were paid in relation to the year and the prior year as follows:

Date paid	Dividend per share (p)	Total dividend (£)	Year
30 January 2018	5.15p	18,000,000	2018
29 March 2018	1.43p	5,000,000	2018
30 July 2018	5.15p	18,000,000	2018
20 December 2018	3.35p	11,700,000	2018
		<u>52,700,000</u>	
Date paid	Dividend per share (p)	Total dividend (£)	Year
30 January 2017	5.15p	18,000,000	2017
30 July 2017	5.15p	18,000,000	2017
30 October 2017	18.75p	65,500,000	2017
20 December 2017	2.86p	10,000,000	2017
		<u>111,500,000</u>	

15. Financial Instruments

The Company's financial instruments comprise cash and liquid resources, and various other items, such as trade debtors and trade creditors, which arise directly from its operations. The main purpose of these financial instruments is to finance the normal operating activities of the Company.

The main risks arising from the Company's financial instruments are electricity price risk and credit risk. The Group manages risk arising out of energy price volatility by entering into physical energy commodity contracts to hedge the electricity inputs and outputs requirements of the power stations. Active steps have been taken to manage risk by the management of the portfolio of instruments themselves. The main business is based in the UK and transactions are denominated in sterling. The Company monitors risk on a regular basis and the directors regularly review the position and take appropriate measures to ensure risks are managed in a controlled manner. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken.

Electricity price risk and credit risk

BETTA arrangements are based on contracts for physical delivery of electricity. Trading bi-lateral contracts involves a degree of credit risk in that the counterparty may default on settlement. The Company controls credit risk arising from entering into bi-lateral contracts through credit approvals, limits and monitoring procedures. Energy contracts entered into under BETTA can be considered to be financial instruments. Although these contracts are back to back with IPM Energy Trading Limited there is a pass through credit risk under the Trading Service Agreement.

15. Financial instruments (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair value measurements for derivatives have been calculated using a fair value hierarchy that reflects the significance of the inputs used in making the assessments. All the fair value measurements for derivatives fall into level 2 in the categories below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments. The models used to evaluate such instruments take into account observable market inputs.

The Fair Value of energy contracts in place at the date of the balance sheet was:

	Movement		Movement		
	2018	in 2018	2017	in 2017	2016
	£'000	£'000	£'000	£'000	£'000
Fair value through profit and loss (FVTPL)					
Energy contracts financial assets	157	(4,914)	5,071	(619)	5,690
Energy contract financial liabilities	(483)	(309)	(174)	116	(290)
	(326)	(5,223)	4,897	(503)	5,400

The above derivative asset relates to forward and future contracts to sell 394,117 MWh (2017: 1,402,100MWh) and to purchase 547,442 MWh (2017: 1,629,702MWh) of power.

The movement in the fair value in each year is included in the Gross profit in the Profit and loss account.

Sensitivity analysis

The following sensitivity analysis shows the impact on the Company's results of changes in market prices as a result of entering into financial instruments including derivatives. This sensitivity shows the impact on this Company's profit after tax (PAT) for the year-end and equity at the year-end arising from changes in the fair value of forward contracts which would have been entered into to hedge risks arising in other members of the Group.

Fair value through profit and loss (FVTPL)	(Decrease)/ increase in PAT £'000	(Decrease)/ increase in Equity £'000
2018		
20% increase in forward price curves for electricity	127	127
20% decrease in forward price curves for electricity	(127)	(127)
2017		
20% increase in forward price curves for electricity	(75)	(75)
20% decrease in forward price curves for electricity	75	75

Notes to the financial statements (continued)
for the year ended 31 December 2018

15. Financial instruments (continued)

Changes in value of financial instruments at fair value

	2018	2017
	£'000	£'000
Financial assets at fair value through Gross profit	157	5,071
Financial liabilities at fair value through Gross profit	(483)	(174)
	<u>(326)</u>	<u>4,897</u>
Of which:		
Gains expected to be recognised in the year ended December 2018.	-	4,868
Gains expected to be recognised in the year ended December 2019	<u>(326)</u>	<u>29</u>

The counterparty for all financial instrument trading is IPM Energy Trading Limited.

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2018	On demand	Less than 3 months	3 to 12 months	1 to five years	Total
	£'000	£'000	£'000	£'000	£'000
Trade creditors	-	1,823	-	-	1,823
Amounts owed to Group undertakings	-	22,129	-	-	22,129
Energy Contracts	-	466	17	-	483
Total	-	24,418	17	-	24,435
Year ended 31 December 2017	On demand	Less than 3 months	3 to 12 months	1 to five years	Total
	£'000	£'000	£'000	£'000	£'000
Trade creditors	-	1,826	-	-	1,826
Amounts owed to Group undertakings	-	25,898	-	-	25,898
Energy Contracts	-	-	171	3	174
Total	-	27,724	171	3	27,898

The disclosed energy contracts in the above table are the gross undiscounted cash flows.

Financial assets

The Company held the following financial assets as at 31 December 2018:

Sterling money market deposits	£35,093,000	(2017 - £30,025,000).
Cash at bank and in hand	£3,282,000	(2017 - £3,270,000).
Trade debtors and accrued income	£24,083,000	(2017 - £28,487,000).
Derivative financial assets	£157,000	(2017 - £5,071,000).
Inter-company debtors	£19,367,000	(2017 - £23,543,000)
Inter-company loan	£8,756,000	(2017 - £8,756,000)

The sterling cash deposits comprise short fixed term deposits of less than three months duration, placed on money markets and bank deposits at the prevailing floating rate of bank interest.

Notes to the financial statements (continued)
for the year ended 31 December 2018

15. Financial instruments (continued)

Fair values

Set out below is a comparison, by class, of the carrying amounts and fair value of the Company's financial instruments:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Energy contracts	157	157	5,071	5,071
Total	157	157	5,071	5,071

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities				
Energy contracts	(483)	(483)	(174)	(174)
Total	(483)	(483)	(174)	(174)

The following table provide the fair value measurement hierarchy of the Company's assets and liabilities:

Date of valuation	£	Fair value measurement using		
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)
		£'000	£'000	£'000
Assets measured at fair value:				
Energy contracts financial assets	31 December 2018	157	-	157
		157	-	157

Date of valuation	£	Fair value measurement using		
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)
		£'000	£'000	£'000
Liabilities measured at fair value:				
Energy contract financial liabilities	31 December 2018	(483)	-	(483)
		(483)	-	(483)

Date of valuation	£	Fair value measurement using		
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)
		£'000	£'000	£'000
Assets measured at fair value:				
Energy contracts financial assets	31 December 2017	5,071	-	5,071
		5,071	-	5,071

Notes to the financial statements (continued)
for the year ended 31 December 2017

15. Financial instruments (continued)

Fair values (continued)

	Date of valuation	Fair value measurement using		
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)
Liabilities measured at fair value:		£'000	£'000	£'000
Energy contract financial liabilities	31 December 2017	(174)	-	(174)
		(174)	-	(174)

16. Employee benefits

Defined contribution schemes

The Group operates a defined contribution retirement benefit schemes for all qualifying employees of First Hydro Company. The total expense charged to profit or loss in the period ended 31 December 2018 was £228k (2017: £167k).

Defined benefit schemes

The Company's defined benefit pension scheme (the Scheme) is part of the industry-wide pension scheme, the Electricity Supply Pension Scheme (ESPS), which is a defined benefit scheme with assets invested in separate trustee administered funds. There are no defined benefit obligations relating to plans which are unfunded.

The First Hydro Company Group section of the ESPS in the UK has six Group Trustees, two of which are Company representatives and four of which are members' representatives.

Following a strategic review of the exposure to pension risk over the long-term and a period of consultation with employees and their representatives, the First Hydro Company Group of the ESPS in the UK was closed to new members effective from 1 June 2008. Existing members continue to accrue future service benefits under this Scheme. Since 1 June 2008 all new UK employees have been eligible to become members of a defined contribution plan.

Through its defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The Scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if Scheme assets underperform this yield, this will create a deficit. The Scheme hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

As the Scheme matures, the Group Trustees intend to reduce the level of investment risk by investing more in assets that better match the liabilities. The Group Trustees are consulting with the Employer over these changes. However, the Group Trustees believe that due to the long-term nature of the Scheme liabilities and the strength of the employer covenant, (which is reviewed annually), a level of continuing equity investment is an appropriate element of the long term strategy to manage the Scheme efficiently.

Inflation risk

The Scheme obligations are linked to inflation, and higher inflation will lead to higher liabilities, although caps on the level of inflationary increases are in place to protect the Scheme against extreme inflation.

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant because inflationary increases result in higher sensitivity to changes in life expectancy.

Valuation

The valuation used for the IAS 19 disclosure at 31 December 2018 has been based on a full assessment of the liabilities of the Scheme at 31 March 2016, updated by independent qualified actuaries to reflect the requirements of IAS 19.

Notes to the financial statements (continued)
for the year ended 31 December 2018

16. Employee benefits (continued)

	Valuation at 2018 (% p.a.)	2017 (% p.a.)
Key assumptions used:		
Discount rate	2.85	2.5
Rate of increase of pensions in payment	3.0	3.0
Inflation	3.2	3.2
Rate of increase in salaries	3.7	3.7
Rate of increase in deferred pensions	3.2	3.0

The discount rate applied is determined based on the yield, at the date of the calculation, on high quality corporate bonds with maturities mirroring the likely maturity of the Scheme.

Mortality assumptions:

The UK mortality assumptions at 31 December 2018 are based on a standard table derived from 2000-2006 occupational pension scheme data. The mortality tables allow for additional longevity improvements reflecting specific trends in the UK population regarding certain age groups.

	Valuation at 2018 years	2017 Years
Retiring today:		
Males	23.2	23.2
Females	24.1	24.1
Retiring in 20 years:		
Males	25.4	25.4
Females	27.5	27.5

Sensitivities

The sensitivities regarding the principal assumptions used to measure Scheme liabilities are:

Assumption	Change in assumption	Increase effect on Scheme liabilities 31 December 2018 %	Increase effect on Scheme liabilities 31 December 2017 %
Discount rate	Decrease by 1%	2.30	2.88
Rate of inflation	Increase by 1%	1.48	2.04
Rate of mortality	Life expectancy increase by one year	5.59	0.78

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the define benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the project unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis have not changed compared to the previous period.

Notes to the financial statements (continued)
for the year ended 31 December 2018

16. Employee benefits (continued)

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

	2018 £'000	2017 £'000
Current service cost	2,946	2,853
Interest income	3,814	3,672
Interest expense	(3,884)	(3,949)
	(70)	(277)

Amounts recognised in the OCI in respect of the defined benefit scheme are as follows:

	2018 £'000	2017 £'000
Actuarial gains/(losses)	12,847	(4,851)
Return on plan assets (excluding amounts included in interest income)	(4,535)	8,104
	8,312	3,253

GMP Equalisation

The Directors have assessed the financial impact of equalising the cost under GMP equalisation and estimated that the amount of the one-off past service cost in this respect is not material to the financial statements. As such a charge has not been made in the financial statements at this point in time and an adjustment is expected to be posted in 2019 once a more accurate figure is calculated.

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2018	152,084	(153,654)	(1,570)
Current service cost	-	(2,946)	(2,946)
Interest income/(expense)	3,814	(3,884)	(70)
Actuarial gain – experience adjustments	-	-	-
Actuarial gain – financial assumptions	-	12,847	12,847
Return on plan assets (excluding amounts included in interest income)	(4,535)	-	(4,535)
Employer contributions	3,882	-	3,882
Scheme participant contributions	381	(381)	-
Benefits paid, net of transfers in	(3,271)	3,271	-
At 31 December 2018	152,355	(144,747)	7,608

Notes to the financial statements (continued)
for the year ended 31 December 2018

16. Employee benefits (continued)

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2017	131,741	(144,420)	(12,679)
Current service cost	-	(2,853)	(2,853)
Interest income/(expense)	3,672	(3,949)	(277)
Actuarial gain – experience adjustments	-	(4,851)	(4,851)
Actuarial gain – financial assumptions	-	-	-
Return on plan assets (excluding amounts included in interest income)	8,104	-	8,104
Employer contributions	10,986	-	10,986
Scheme participant contributions	382	(382)	-
Benefits paid, net of transfers in	(2,801)	2,801	-
At 31 December 2017	152,084	(153,654)	(1,570)

At 31 December 2018, the pension liability of the Scheme related to the following types of member:

	2018 %	2017 %
Active members	39	38
Deferred members	14	13
Pensioners	47	49
Total	100	100

The analysis of the scheme assets at the balance sheet date was as follows:

	Fair value of assets	
	2018 £'000	2017 £'000
Equity instruments	71,871	71,743
Debt instruments	45,204	45,124
Real estate	11,418	11,398
Other assets	23,862	23,819
	152,355	152,084

Contributions

The Company expects to make contributions of approximately £2.1m to the Scheme during 2019 (2018 - £2.5m).

The estimated weighted average duration of the defined benefit obligation of the Scheme is 20 years.

Notes to the financial statements (continued)
for the year ended 31 December 2018

17. Related party disclosures

As at 31 December 2018 and 31 December 2017, the Company was a wholly owned subsidiary of First Hydro Holdings Company. First Hydro Holdings Company has an intermediate parent, FHH (Guernsey) Limited, that was a 75% owned subsidiary of IP Karugamo Holdings (UK) Limited, which is wholly owned by ENGIE S.A., and a 25% owned subsidiary of Brookfield Renewables UK Hydro Limited.

The Company undertakes various transactions with other companies within the IP Karugamo Holdings (UK) Limited group of companies. All of the companies are registered in England and Wales and are subsidiary of the ENGIE group and its ultimate parent undertaking, ENGIE SA.

2018	Sales	Purchases	Amount owed from	Amount owed to
	£'000	£'000	£'000	£'000
IPM Energy Trading Limited	110,770	(119,002)	19,347	(20,600)
International Power Limited	61	(4,813)	20	(1,529)
Brookfield Renewables UK Hydro Limited	-	(180)	-	(42)
First Hydro Holdings Company	-	-	8,756	-
Engie	-	(92)	-	(21)

2017	Sales	Purchases	Amount owed from	Amount owed to
	£'000	£'000	£'000	£'000
IPM Energy Trading Limited	113,080	(103,157)	23,533	(24,791)
IPM Energy Limited	16	-	-	-
International Power Limited	43	(913)	11	(1,107)
Brookfield Renewables UK Hydro Limited	-	(40)	-	(40)
First Hydro Holdings Company	-	-	8,756	-

In addition to the above there are derivative financial assets of £157k (2017 - £5,071k) and liabilities of £483k (2017 - £174k) which are in respect of open trades held with IPM Energy Trading Limited.

Terms and conditions of transactions

Transactions with IPM Energy Trading Limited represent sales and purchases of electricity for onward sale to customers. All transactions are made under terms and conditions comparable with those of an arm's length transaction.

Purchases from International Power Limited represent employee recharges and the provision of other services. All transactions are made under terms and conditions comparable with those of an arm's length transaction.

Purchases from Brookfield Renewables UK Hydro Limited represent recharges of other services. All transactions are made under terms and conditions comparable with those of an arm's length transaction.

Interim dividends of £52,700,000 (2017: £111,500,000) were paid to First Hydro Holdings Company.

18. Controlling party and ultimate parent undertaking

The Company's immediate parent undertaking is First Hydro Holdings Company, the registered address of which is Level 20, 25 Canada Square, London E14 5LQ, United Kingdom.

The Directors consider the Company's ultimate parent undertaking and controlling party to be ENGIE S.A. which was incorporated in France and is headquartered in Paris, France and which is the parent undertaking of the largest and smallest group in which the results of the Company are consolidated for the year ended 31 December 2018 and the year ended 31 December 2017. The consolidated financial statements of ENGIE S.A. may be obtained from its registered office at 1 Place Samuel de Champlain, 92400 Courbevoie, Paris, France.

19. Subsequent events

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements. The Company has no significant future developments to report.