ENGIE Gas Limited

Registered Number: 03814495

Report and Financial Statements

31 December 2017

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COMPANIES HOUSE

Directors

K A Dibble

N E A Lovett

R J Wells

Secretary

S J Gregory

Auditor

Ernst & Young LLP
2 St. Peter's Square
Manchester
M2 3EY

Bankers

Barclays Bank PLC
50 Pall Mall
London
SW1A 1QF

Registered Office

No 1 Leeds
26 Whitehall Road
Leeds
LS12 1BE

Directors' Report

The directors present their report and the company financial statements for the year ended 31 December 2017.

Principal activities

The principal activities of the company are the trading and marketing, of gas products to business supply customers.

Results and dividends

The results for the year, after taxation, amounted to a loss of £1,083,000 (2016: profit £15,582,000). Of this, all is attributable to the members of the company.

Dividends are recognised in the accounts in the year in which they are paid, or in the case of a final dividend when approved by the shareholders.

An interim dividend of £4,000,000 was paid on 14 June 2017 for the year (2016: £2,000,000).

Post Balance Sheet Events

There have been no Post Balance Sheet Events to report in the period.

Going concern

The directors have considered the going concern basis and concluded that it is appropriate. In performing this assessment the directors have considered the forecasts for the company alongside sensitivity analysis, the financial support from the Parent entity, together with the balance sheet strength of the company which includes cash held in an intercompany account of £1,199,000.

Directors

The directors who served during the year ended
31 December 2017 and subsequently were:

S D Pinnell	(Resigned 10 January 2018)
P E Rawson	(Appointed 1 January 2016, Resigned 9 January 2018)
K A Dibble	(Appointed 1 January 2018)
N E A Lovett	(Appointed 1 January 2018)
R J Wells	(Appointed 1 January 2018)

Directors' and officers' liability insurance

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, to indemnify them against certain liabilities which they may incur in their capacity as directors or officers of the Company, including liabilities in respect of which the Company is itself unable to provide an indemnity by virtue of Section 232 of the Companies Act 2006. These arrangements were in place in the previous reporting year.

Employees

The company has no employees. Activities of the company are performed by employees of sister company ENGIE Power Limited and the costs of such activities are recharged to ENGIE Gas Limited. These arrangements were in place in the previous reporting year.

Directors' Report (continued)

Financial instruments

The Company finances its activities using its own working capital. Overdrafts are used to satisfy short term cash flow requirements. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative energy transactions. The purpose is to manage the energy market price risk arising from the Company's energy purchasing for its Customer base.

Environmental policy

The company is committed to reducing its impact on the environment. As part of this commitment the company actively promotes and encourages energy efficiency and recycling wherever possible.

Auditor

The auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the board at the time of approving the directors' report are listed on page 2.

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/she ought to have taken as a director in order to make himself/herself 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 s418 of the Companies Act 2006.

By order of the Board,

R J Wells
Director
18 October 2018

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has 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.

Strategic Report

The directors present their Strategic Report for the year ending 31 December 2017.

Business Review

ENGIE Gas Limited is a supplier of gas to industrial and commercial end-users.

The business aims to operate a friendly, customer-focused service, with a transparent approach to build commercial relationships that last. The business offers a portfolio of products suitable for all businesses, large and small.

	Units	2017	2016	Movement
Revenue	£'000	312,063	286,396	9%
Reported Gross Margin	£'000	8,287	24,895	-67%
Reported Gross Margin Percentage	%	2.7	8.7	

In order to understand the movements seen in Gross profit margin, it is important to consider the strategy of the business and the part it plays in the overall ENGIE Retail supply business within the UK. ENGIE Gas Limited, currently holds the supply licence for the provision of gas to the ENGIE UK customer base.

ENGIE Gas Limited plays a significant part in the "Duel Fuel offering" provided to both Business and Corporate customers, and the domestic home market within the UK. To this extent the results should be considered in association with those reported by its fellow subsidiary Company ENGIE Power Limited – who provide the electricity element of the "ENGIE Duel Fuel offering".

Despite the overall loss generated in the year the company has continued to see growth in revenues generated in the period increasing from £286.4 million in the year ending 31 December 2016 to over £312 million in the year ending 31 December 2017, an increase of 9% on the prior year reported revenues.

The company's underlying cost base has however been distorted by three major items during the year:

Despite the increase in revenues the company has seen its gross reported margin fall from 8.7% in 2016 to only 2.6% in 2017. However, this needs to be considered in the context of two major factors which have distorted the margins in both periods.

One-off Margin accrual releases

The first of these is the larger than anticipated gross margin in 2016. During the prior period the company undertook a significant review of its historic accrual position, along with the accounting and business procedures that gave rise to these balances – the impact of which was a one-off credit to the Profit and Loss account of £10.8 million – which had the impact of boosting gross margin by 4% in the year.

Extended write off incurred in 2016

In addition, one of the major contributing factors in the release to the Profit and Loss account, outline above, was due to the change in accounting policies regarding the provision of costs relating to the transportation of gas, and the timing of the audit which gave rise to the change in accounting policy.

This resulted in a larger than anticipated accrual release in 2016 – due to the review being undertaken a full 16 months after the year end. This gave rise to a large accumulated hindsight accounting adjustment at the end of 2016 – where it would have been anticipated to have been staggered over a 2-year period. Thereby creating a larger increase in gross margin in 2016 than expected, in addition to reducing the gross margin reported in 2017.

Bad Debt release impact on to Admin expenses

In addition to the above gross margin accrual releases the business also benefited in the prior year from a change in the way that it calculated its bad debt provision. Following the change in methodology in accounting for its bad debt provision the company released £2.1 million to the Profit and Loss account in 2016 as a one-off adjustment.

In the current year as the businesses Small and Medium Sized (SME's) customer base has increased, the company has seen an increase in the amount of bad debt provision it is required to hold on the balance sheet. The impact of these two changes has resulted in a swing in the expenses incurred over the year of £3.5 million, accounting for 81% of the £4.3 million increase in administration expenses encountered in the year.

The delivering portfolio of gas customers remains strong and provides a firm foundation for the forthcoming year. When considered at a group retail level the business is in a strong position moving forward.

The net assets of the company at the end of 2017 were £20,905,000 (2016: £25,988,000).

Future Developments

Based on the results achieved this year, the directors are confident that the future prospects of the company are good.

The business is constantly developing the services and products to meet the changing needs of our customers and the evolving energy environment.

Principal Risks and Uncertainties

The key risks are energy price volatility, credit risk, non-performance of information systems, political or regulatory change, reputation risk, business disruption, project risk and non-compliance.

Exposure to energy price risk is minimised by restricting quotation validity to limited underlying market price movements and by hedging sales with purchases at the point of contract acceptance. Gas forward contracts are used to fix the price of future physical flows and thus provide greater certainty on future revenues and costs.

The company's credit risk is attributable to its trade debtors, accrued income, and derivatives. The risk is controlled by review of customer creditworthiness and is mitigated through the use of credit insurance, customer prepayments, letters of credit and customer deposits.

The impact of systems failure is mitigated by ensuring system and application requirements are approved and managed in an appropriate manner and maintaining a disaster recovery solution. The ENGIE group's Regulatory Affairs team monitor and provide active participation in consultation on legislative changes within the industry and the company ensures compliance with all relevant legislation.

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

The company has a business continuity plan ready to be implemented in response to a critical business event.

An Internal Control Review Project combined with a Continuous Improvement Programme was in place throughout the year. The combination of these two initiatives is the documentation of policies, procedures and key processes throughout the business with the objective of achieving a greater level of control, process consistency, efficiency and improvement.

The company's treasury policies seek to reduce and minimise financial risk and ensure sufficient liquidity for foreseeable needs. The majority of transactions are in £ sterling, however where appropriate the ENGIE group hedges foreign exchange transactions to minimise exposure to foreign exchange movements.

There is a comprehensive budgeting system in place with an annual budget approved locally by the leadership team and also centrally by ENGIE SA. Management information systems provide the leadership team and directors with relevant and timely reports that identify significant deviations from approved plans and include regular re-forecasts for the year, in order to facilitate timely analysis and appropriate decisions and actions.

ENGIE SA group instruction manuals set out the policies and procedures with which the UK subsidiaries are required to comply. The leadership team are responsible for ensuring that the UK companies observe and implement the policies and procedures set out in the manual which is regularly reviewed and updated.

By order of the Board,

R J Wells

Director

18 October 2018

Independent Auditor's Report

to the members of ENGIE Gas Limited

We have audited the financial statements of ENGIE Gas Limited for the year ended 31 December 2017 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes1 to 21, 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 applicable in the UK and Republic of Ireland" and 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 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

Independent Auditor's Report (continued)

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 Directors' Responsibilities Statement set out on page 5, 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

Ernst + Young LLP

Jennifer Hazlehurst (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Liverpool
18 October 2018

Profit and Loss Account

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Turnover	3	312,063	286,396
Cost of sales		(307,283)	(260,466)
Fair value gain/(loss) on commodity contracts	16	3,507	(1,035)
Gross profit		8,287	24,895
Administrative expenses		(9,695)	(5,426)
Operating (Loss)/profit	4	(1,408)	19,469
Interest receivable and similar income	7	178	218
Interest payable and similar charges	8	(143)	(109)
(Loss)/Profit before taxation		(1,373)	19,578
Tax credit/(charge)	9	290	(3,996)
(Loss)/Profit for the financial year after tax		(1,083)	15,582

All amounts relate to continuing activities.

Statement of Comprehensive Income

at 31 December 2017

There was no other comprehensive income attributable to the shareholders of the company other than the loss for the year ended 31 December 2017 of £1,083,000 (2016:Profit £15,582,000).

Balance Sheet

at 31 December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Debtors greater than one year	11	7,858	6,243
Derivative financial assets	16	8,074	16,069
		15,932	22,312
Current assets			
Debtors due within one year	11	82,471	64,459
Cash at Bank and in Hand		2	-
Intercompany Cash Sweep		1,199	9,542
Derivative financial assets	16	18,945	25,707
		102,617	99,708
Total assets		118,549	122,020
Current liabilities			
Creditors due within one year	12	63,658	53,726
Borrowings	13	11,233	1,933
Deferred tax liability	15	964	333
Derivative financial liabilities	16	15,332	24,893
Total current liabilities		91,187	80,885
NET CURRENT ASSETS		11,430	18,823
Total assets less current liabilities		27,362	41,135
Provisions	14	127	114
Non-current liabilities			
Derivative financial liabilities	16	6,330	15,033
Total liabilities		97,644	96,032
NET ASSETS		20,905	25,988
Capital and reserves			
Called up share capital	19	-	-
Profit and loss account		20,905	25,988
TOTAL SHAREHOLDERS' FUNDS		20,905	25,988

The financial statements with registration number 03814495 were approved by the board of directors and authorised for issue on 24 September 2018. They were signed on its behalf by:

R J Wells
Director
18 October 2018

Statement of Changes in Equity

for the year ended 31 December 2017

	Share Capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2016	-	12,406	12,406
Profit for the year	-	15,582	15,582
Dividend paid (note 10)	-	(2,000)	(2,000)
At 31 December 2016	-	25,988	25,988
At 1 January 2017	-	25,988	25,988
Profit for the year	-	(1,083)	(1,083)
Dividend paid (note 10)	-	(4,000)	(4,000)
At 31 December 2017	-	20,905	20,905

Notes to the Financial Statements (continued)
at 31 December 2017

1. Authorisation of financial statements and statement of compliance

The financial statements of ENGIE Gas Limited (the 'Company') for the year ended 31 December 2017 were authorised for issue by the board of the directors on 24 September 2018 and the balance sheet was signed on the board's behalf. ENGIE Gas Limited is a private limited company incorporated and domiciled in England & Wales.

Basis of Preparation

No new and revised Standards and Interpretations have had a significant impact on the accounts during the current year.

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2012 the company underwent transition from reporting under IFRSs adopted by the European Union to FRS 101 as issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

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

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment, because:

(i) the share based payment arrangement concerns the instruments of another group entity;

(b) the requirements of IFRS 7 Financial Instruments: Disclosures;

(c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

(iii) paragraph 118(e) of IAS 38 Intangible Assets;

(e) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(f) the requirements of IAS 7 Statement of Cash Flows;

(g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and

(i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Where required, equivalent disclosures are given in the group accounts of ENGIE SA (formerly GDF SUEZ SA). The group accounts of ENGIE SA are available to the public and can be obtained as set out in note 21.

The principal accounting policies adopted by the company are set out in note 2.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The company financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the company operates and all values are rounded to the nearest thousand Pounds Sterling (£'000) except when otherwise indicated.

Going concern

The directors have considered the going concern basis and concluded that it is appropriate. In performing this assessment the directors have considered the forecasts for the company alongside sensitivity analysis, the financial support from the parent entity, together with the balance sheet strength of the company which includes cash held in an intercompany account of £1,199,000.

Notes to the Financial Statements (continued)

2. **Accounting policies**

Critical Accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, 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 critical judgments, 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 amount recognised in the financial statements.

Commodity Contracts in scope of IAS 39

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

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

Management has assessed that retail contracts are also viewed as net settled (and therefore in scope of IAS 39) since the criteria of 'net settlement' were met for similar contracts.

Hence all of the Company's gas purchase and sale contacts are accounted for as derivatives.

Unobservable valuation inputs in the fair value determination

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

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.

Fair value of financial instruments

Financial instruments are recognised and measured in accordance with IAS 39 Financial Instruments Recognition and Measurement. The fair value of financial instruments is where possible, calculated based on prices quoted on active markets. Where active markets don't exist, there is some degree of estimation in deriving these prices, however industry data and external benchmarking is used where relevant

Accrued Income & Costs

In assessment of the accrued income and costs, commercial assumptions and market data are used to estimate future billed consumption, and price outturn. This data is a combination of historical observations and energy industry provided information. This includes energy, transportation, metering, and intermediary fees.

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

However, in respect of certain accruals, there is an industry reconciliation process of gas purchase costs which can typically take 3-4 years from the date of supply to be finalised due to the processes that the energy market has to complete in order to finalise consumption data for any particular month. Therefore, there is an element of gas purchase costs that needs to be estimated based on a combination of in-house and industry data that is available.

Bad Debt Provision

In assessment of the bad debt provision, assumptions are applied to categorise debt into risk profiles based on the nature of the transactions. These assumptions form the basis of an estimated expected percentage loss on outstanding debtor balances.

Taxation

The company is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned.

Significant accounting policies

Financial Assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss. The company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade i.e., the date that the company commits to purchase or sell the asset. The subsequent measurement of financial assets depends on their classification, and is accounted for as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the company that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments (no hedge is currently in place). Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised or finance expense in the income statement.

The company evaluates its financial assets at fair value through profit and loss (held for trading) and whether the intent in the near term is still appropriate. When the company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation. The company did not reclassify any financial assets in the current period.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through the profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the profit and loss net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Debtors due within one year

Trade debtors are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Intercompany cash sweep

Cash is placed within an intercompany account on an overnight sweep basis. It is readily available for use by the company with an automated arrangement in place to return cash outflows to the company's bank account.

De-recognition of financial assets and liabilities

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where 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 a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Purchases or sales of financial liabilities that require delivery of liabilities within a time frame established by regulation or convention in the marketplace are recognised on the trade i.e., the date that the company commits to purchase or sell the liabilities.

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments (no hedge is currently in place). Gains or losses on liabilities held for trading are recognised in profit or loss.

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in the profit and loss.

Offsetting of financial instruments

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

2. Accounting policies (continued)

Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length transactions: reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis in other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 16.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

Income Taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss.

2. Accounting policies (continued)

Sales tax

Turnover, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Debtors and creditors are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of debtors or creditors in the balance sheet.

Revenue recognition

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and turnover can be reliably measured. Turnover is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. Revenue is recognised on the basis of energy supplied during the year.

Revenue for Supply activities includes an assessment of energy supplied to end consumers between the last meter read and an estimated year end read. Meters with unread and invalidated reads are estimated using historical consumption patterns, based on industry asset data, and is included within accrued income.

Cost of sales

Cost of sales includes the cost of retail gas purchased during the period and related transportation, distribution costs, balancing charges, and services.

Finance Income

Interest income is recognised as interest accrued using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Notes to the Financial Statements (continued)

3. Turnover

All turnover was generated in the UK from the supply and management of natural gas to industrial and commercial customers.

4. Operating Loss

This is stated after charging/(crediting):

	2017 £'000	2016 £'000
Admin Cost recharge from ENGIE Power Limited	6,702	6,939
Impairment loss/(gain) recognised on debtors	1,349	(2,145)

5. Auditor's Remuneration

Fees payable to Ernst & Young LLP and their associates for the audit of the company's annual accounts were £123,241 (2016: 103,000).

There were no fees payable by ENGIE Gas Limited to Ernst & Young LLP for non-audit services (2016: £nil).

6. Staff costs

Staff who perform services for the Company are employed by ENGIE Power Limited and their costs are recharged to the company.

7. Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable from customers for late payment	159	181
Inter-company loan interest	19	37
	178	218

8. Interest payable and similar charges

	2017 £'000	2016 £'000
Other Interest paid	143	109
	143	109

Notes to the Financial Statements (continued)

9. Taxation

	2017 £'000	2016 £'000
Current income tax:		
UK corporation tax on profits of the year	-	-
Group relief (receivable) payable	(939)	3,955
Adjustments in respect of previous periods	18	76
Total current income tax	(921)	4,031
Deferred tax:		
Deferred tax expense relating to the origination and reversal of temporary differences (note 15)	631	(35)
Tax credit in the profit and loss	(290)	3,996

Reconciliation of tax charge

	2017 £'000	2016 £'000
(Loss)/Profit before tax	(1,373)	19,578
(Loss)/Profit multiplied by rate of corporation tax of 19.25% (2016: 20.00%)	(264)	3,916
Adjustments in respect of prior periods – current tax	18	76
Change in deferred tax rate and rate differentials	(44)	4
Tax (credit)/charge in the profit and loss	(290)	3,996

The standard rate of UK corporation tax for the period was 19.25% (2016: 20.00%). A reduction in the rate to 19% from 1 April 2017 and a further reduction to 17% from 1 April 2020 were substantively enacted prior to the balance sheet date and have been applied to the company's deferred tax balance at the balance sheet date.

10. Dividends

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2015 (equivalent to £2,000,000 per share)	-	2,000
Interim dividend for the year ended 31 December 2016 (equivalent to £2,000,000 per share)	4,000	-

An interim dividend of £4,000,000, for the year ended 31 December 2016, was declared on 13 June 2017 and paid on 14 June 2017 for the year.

Notes to the Financial Statements (continued)

11. Debtors

Debtors due within one year

	2017 £'000	2016 £'000
Trade Debtors	43,875	18,525
Amounts owed by fellow subsidiary undertakings	1,909	14,390
Prepayments	3,610	3,008
Accrued income	33,077	28,536
	82,471	64,459

Debtors greater than one year

	2017 £'000	2016 £'000
Prepayments	7,858	6,243
	7,858	6,243

12. Creditors due within one year

	2017 £'000	2016 £'000
Trade creditors	5,475	4,049
Amounts owed to fellow subsidiary undertakings	138	-
Amounts owed to group undertakings	14,045	12,668
Other creditors	1,718	253
Other taxation and social security	2,306	2,223
Accruals	38,012	30,014
Current tax liabilities	1,964	4,519
	63,658	53,726

13. Borrowings

	2017 £'000	2016 £'000
Receivables financing due for settlement within one year	11,233	1,933
Total Borrowings	11,233	1,933

The company operates a receivables financing arrangement, whereby certain trade debtors are assigned to a third party ahead of the contractual due date. This is settled with the third party when payment is received from the customer.

Notes to the Financial Statements (continued)

14. Provisions

Contract Levelisation

	2017 £'000	2016 £'000
At 1 January	114	82
Arising during the year	129	107
Utilised during the year	(116)	(75)
At 31 December	127	114

Provision is made to account for seasonality on contracts, where contract profits to date exceed overall forecast profitability on those contracts. This involves comparing the contract price with the expected weighted average purchase price.

The utilisation of the provision aligns with the expiry of the relevant contracts through 2018 to 2022.

15. Deferred tax

	2017 £'000	2016 £'000
Deferred tax liability at 1 January	333	368
Deferred tax charge/(credit) in profit and loss account (note 10)	631	(35)
Deferred tax liability at 31 December	964	333

Analysed as:

	2017 £'000	2016 £'000
Other short-term temporary differences	964	333
	964	333

Notes to the Financial Statements (continued)

16. Derivative Financial Instruments

Fair values

Set out below is an analysis by category of the company's financial instruments that are carried at fair value in the financial statements. Note that in all cases the fair value is equal to the carrying value of those assets and liabilities.

	2017 £'000	2016 £'000
Financial assets at fair value		
Fair value through profit and loss (FVTPL) > 1 Year*	8,074	16,069
Fair value through profit and loss (FVTPL) < 1 Year*	18,945	25,707
Financial liabilities at fair value		
Fair value through profit and loss (FVTPL) > 1 Year*	6,330	15,033
Fair value through profit and loss (FVTPL) < 1 Year*	15,332	24,893

*see note on economic hedges below

Changes in value of financial instruments at fair value

Profit for the year has been arrived at after (charging)/crediting:

	Year ended 2017 £'000	Year ended 2016 £'000
Financial assets at fair value		
Fair value through profit and loss (FVTPL)	(14,757)	(23,670)
Financial Liabilities at fair value		
Fair value through profit and loss (FVTPL)	18,264	22,635
Gain/(Loss) through profit and loss	**3,507**	**(1,035)**

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

The fair values of derivative instruments are calculated using prices derived from observable macroeconomic data and are provided by the ENGIE group. Where active markets don't exist, there is some degree of estimation in deriving these prices, however industry data and external benchmarking is used where relevant.

Hedging activities

Economic hedges

The company enters into wholesale purchase commitments to cover future contracted supplies, subject to market liquidity, availability of products and compliance with risk policies and limits set down by management.

The purchase commitments related to supply contracts have been fair valued through the profit and loss. The supply contracts with customers are designated as derivatives and these supply contracts are also fair valued through the profit and loss (see note 2). Hedge accounting is not applied.

Notes to the Financial Statements (continued)

17. Financial Risk Management

As a participant in the energy market, the company is exposed to a number of financial risks. To manage these risks the company operates an enterprise risk management framework, in which all key risks are assessed each year.

Credit Risk

All new customers and suppliers are credit checked, and all supply contacts are insured via a full turnover credit insurance policy, with each customer insured for 4 months' worth of energy consumption. Security from the Customer is obtained if credit insurance cannot be secured. The company works closely with a debt collection company and a disconnections agent to minimise its exposure.

Liquidity Risk

The company funds most investment from its own working capital. It offers fifteen-day payment terms and uses a receivables financing product to offer extended payment terms to its customer base. There is a £20m unutilised loan facility from its Parent Company.

The company has to closely monitor its debtor recoveries, supplier payments, green certificate purchasing, and intermediary payments, when forecasting future cash flows.

Market Risk

The company is exposed to commodity price fluctuations. It has an established demand forecasting system, and applies a 'back to back' hedging strategy, with limits to minimise open positions. It also has a number of products that can be used to minimise the impact of unexpected market demand and supply.

System Risk

The company manages a significant number of applications and data transfer. It has a robust change management, and system delivery process, with established supply partners.

18. Capital Management

With the exception of derivatives the company has no long term liabilities. All profits are paid to the Parent Entity, in return for a licence to operate in the UK market, and future capital investment.

Notes to the Financial Statements (continued)

19. Share capital

	2017 £	2016 £
Authorised		
100 ordinary shares of £1 each	100	100
Called up, allotted and fully paid		
1 ordinary share of £1 each	1	1

20. Related party transactions

Directors' Remuneration

The directors of the company are employees of the ENGIE SA group and receive no remuneration for their qualifying services as directors of this company. They have not exercised any group share options.

21. Controlling Party

The company's immediate parent undertaking is ENGIE Supply Holding UK Limited, a company registered in England and Wales.

The company's ultimate parent company and ultimate controlling party is ENGIE SA a company incorporated and registered in France. This is the smallest and largest group which consolidates this company's financial statements. Copies of ENGIE SA's group financial statements can be obtained from ENGIE SA, Tour T1, 1 place Samuel de Champlain, Faubourg de l'Arche, 92930 Paris La Défense, France.