First Hydro Company

Registered number: 2444277

ANNUAL REPORTS AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

Strategic report

The Directors present the Strategic report of First Hydro Company (the Company) for the year ended 31 December 2019.

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.

Balancing service products were a key contributor to overall gross margin in 2019 despite contract fees falling in the tendered markets. Higher competition in these markets suppressed prices, resulting in fewer contracts for the Company in addition to lower option fees. However, system balancing requirements remained high throughout 2019 and the Company saw continued strong performance focussed around the provision of reliable, fast response products. The Company provided strong system support during the 9th August black out, demonstrating the plant's reliability and speed.

The market continued to be oversupplied and comfortable with renewables continuing to grow and demand continuing to fall. Trading prices remained low, though lower overnight prices and more consecutive periods of negative pricing were observed, increasing margins for pumped storage units.

The Capacity Market reinstatement had a positive impact on 2019 revenues with the suspended Quarter 4 2018 payments also being accounted for in 2019. The T-1 GB capacity market auction for delivery year October 2019 to September 2020 took place in June 2019 and cleared at a record low of £0.77/kW. Ffestiniog Unit 4 participated in this auction but was unsuccessful in obtaining a contract. All other First Hydro units had previously already obtained a CM contract for this period in the T-4 auction and therefore did not participate. Given the suspension of the capacity mechanism, the T-4 auction scheduled for early in 2019 was cancelled and a T-3 and T-4 auction were scheduled for Q1 2020. All First Hydro units which did not have pre-existing capacity mechanism contracts for the relevant periods prequalified successfully to participate in these auctions. The T-3 auction was held in January 2020 and cleared at £6.44/kW. All six Dinorwig units and one Ffestiniog unit successfully obtained a contract. The T-4 auction is due to take place in early March 2020.

Ffestiniog Units 1 and 2 started their refurbishment outages in February 2019 and are expected to return to service in Summer 2020.

During the year the Group generated 1.3 TWh of power (2018 – 2.1 TWh), a reduction due to over supply and the growth of renewables across the grid system, and the expiration of the Firm Frequency Response contracts reducing generation by 3GWh per day.

The Company's KPIs include maximising availability and reliability to maximise gross margin. Technical availability in 2019 was 83.73% (target 85.50%) and plant despatch accuracy 99.13% (target 99.50%), compared to 2018: technical availability 88.22% (target 90.25%) and plant despatch accuracy 99.41% (target 99.30%).

Availability during the year was affected by maintenance outages associated with shaft seal, service seal and M0 circuit breaker changes, together with a number of high impact, low probability events involving rotor and other earth faults requiring in-depth fault finding. Plant despatch accuracy missed target by 175 operations, in 30,809 instructions.

The results of the Company are as follows:	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit for the financial year	102,384	64,404

Strategic report (continued)

As shown in the profit and loss account on page 12, the profit for the financial year ended 31 December 2019 has increased in comparison to the prior year reflecting market conditions and inclusion of Capacity Mechanism income for Quarter 4, 2018. The balance sheet on page 14 of the financial statements shows the Company's financial position at the end of the current and preceding financial year. The net assets have increased from £463m to £493m reflecting the results for the year offset by the movement in the pension scheme valuation and dividends.

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

Principal risks and uncertainties

Financial 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, currency risk, interest rate 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 input and output requirements of the power stations. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Use of derivatives

The Company also enters into derivative transactions, more specifically cash flow hedges and physical energy commodity contracts. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken.

The purpose of the cash flow hedges is to manage the foreign exchange risks arising from the Company's operations and specific contracts for the acquisition of spare parts from European suppliers. The Company applies cash flow hedge accounting when certain criteria are met as explained in the accounting policy Note 2. n.

The physical energy commodity hedging contracts are used to manage the risks arising out of energy price volatility as explained in Note 18.

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 S.A.'s risk management department, responsible for monitoring adherence to company procedures, thereby controlling the risk of fraudulent or erroneous activity.

Currency risk

Foreign currency risk is the risk that the fair value, or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities when operating expenses are denominated in a different currency from the Company's functional currency. No direct currency risk results from the Company's principal activities, as it only operates in the UK electricity market. The Company mitigates exposure to currency risk on the purchase of plant and equipment through the use of cash flow hedges for any material foreign currency denominated payables.

Strategic report (continued)

Principal risks and uncertainties (continued)

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 deficit. If this deficit were to worsen 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 £2.4m to the Scheme during 2020.

Employees

Details of the number of employees and related costs can be found in Note 5 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.

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.

Statement of corporate governance arrangements

The Company is part of the UK Business unit (UK BU) of the ENGIE Group, and reports to the ENGIE UK Management team and Board.

Purpose and leadership
All ENGIE Group companies share the common purpose of 'harmonious progress', under the leadership of ENGIE Group Executive Committee. ENGIE's ambition is to become the world leader in the zero-carbon transition "as a service" for our customers. In the UK, this purpose and ambition is articulated as 'making zero carbon happen' for customers which is achieved through combining energy, services and regeneration activities for the benefit of individuals, businesses and communities.

Directors responsibilities
Across the UK BU, the Boards of Directors do not apply any specific code of corporate governance, the directors are confident that the alternative arrangements, which have been in place and are operational throughout the financial year, are sufficient to ensure effective management of the Company and interaction with its members and stakeholders. These alternative arrangements consist of a combination of the following:

- a board of Directors, composed of Directors with in-depth knowledge of the Company and the sectors it operates in;
- clearly documented delegations of authorities governing the performance of both day to day and key activities;
- oversight and guidance by an "Executive Board" of which all the officers of the Company form part, that oversees ENGIE's activities in the UK and which sets the strategy for the long-term success of the group;

Strategic report (continued)

Statement of corporate governance arrangements (continued)

- guidance by an independent Advisory Board composed of external experts, who have extensive links to ENGIE's customer-base and the communities in which the Company operates; and finally
- an independent Scrutiny Board (of which the independence is verified by the Centre for Public Scrutiny), which assesses the Company's activities (as part of an UK group of companies) against its Responsible Business Charter and specific KPIs set therein. The Responsible Business Charter aims to ensure that the Company operates to the highest economic, social and environmental standards while building and maintaining public trust.

Opportunity and risk
Risk and opportunity management is owned at the highest level of the business; the UK Board has a risk management committee which reviews UK risks and the measures taken to mitigation these. The committee identifies environmental and societal issues and transforms them into opportunities for the business as well as managing environmental, social and governance (ESG) risks associated with the Company's activities that relate to the environment, local and international acceptability, health and safety, human resources management, ethics and governance.

Within the Company, individual contracts are required to produce contract-specific aspects and impacts registers which identify risks and opportunities and include mitigation measures. Any activities that are deemed significant post-mitigation must have further actions identified and implemented to manage the associated risks.

Board composition
The Company reports into the ENGIE UK Business Unit CEO Nicola Lovett and her Executive Board. The board ensures that the UK Business Unit operates to the highest economic, social and environmental standards – leading the business in-line with the stated values of the organisation.

The board is supported by a robust business management system (including business continuity and succession plans) – ensuring that roles are consistently and fairly filled with highly experienced individuals.

Decisions of the board are scrutinised by a framework of separate parties:
- The board of ENGIE Group holds ultimate oversight over the UK Business Unit.
- Independent oversight is received from the UK Advisory Board, led in 2019 by Sir Mike Rake.
- The ENGIE UK board also employs an independent Scrutiny Board, led by Lord Kerslake - which measures the UK Business Unit's adherence to its self-administered Responsible Business Charter.

Remuneration
The ENGIE UK BU Executive total remuneration is reviewed by the ENGIE Scrutiny Board and was deemed to be fair, proportionate and timely in relation to corporate performance, in comparison with peers and in ratio with employees' pay and benefits.

The salary of all Executives in the UK is set by the parent company, ENGIE S.A., and aims to support long-term success by linking in bonus, salary increases and long-term incentives to a set number of financial and managerial targets, along with a view on market positioning. The same approach to bonus and salary is used for employees below the executive level (where eligible).

Stakeholder relationships and engagement
When managing stakeholder relationships, all activity adheres to ENGIE's Ethics Policy and Gifts and Hospitality Policy, with governance from a Board level Ethics Officer.

Section 172

Long term consequences of decisions made in year
During 2019 the Company approved a contract to upgrade the 18kV switchgear on a further unit at Dinorwig Power station, which will be completed in 2022. This decision will help to maintain the unit's reliability and availability by preventing obsolescence of a critical plant component.

The Company has committed to procuring strategic spare wound rotor poles for use at Dinorwig during the 2020 and future year maintenance outages.

The Company has continued the planned refurbishment work on Units 1 & 2 at Ffestiniog Power Station.

Strategic report (continued)

Section 172 (continued)

Interests of employees

The Company places considerable value on the involvement of its employees and systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, in order that their views may be taken into account where decision making may affect their interests. This is achieved through regular meetings between management and elected employee representatives, Company-wide web presentations, intranet news articles and mails to employees' home addresses. Employee involvement in the Company is encouraged through regular employee surveys. Achieving a common awareness on the part of all employees of the financial and economic factors affecting the Company plays a role in improving its performance. The Company also encourages the involvement of employees to optimise Company and Group performance through wider employee share ownership utilising the Group's Link Employee Share Purchase Plan.

The UK group offers and actively promotes development opportunities at all levels. There are focussed programmes at a global and local level for the highest potential talent, which are aligned to the succession planning process. In the wider business, the Company has developed accredited management development programmes that are open to all employees. The Company also offer a variety of bespoke development programmes for areas of the business such as Business Development, Smart Buildings and Finance. Currently under development is an in-house, sophisticated digital learning team enabling a greater number of employees to be reached for training and development of technical, mandatory and soft skills. To support the longer term, sustainable talent pipeline that ENGIE and the UK requires, there are currently 140 early career apprentices studying towards a wide range of vocational qualifications across the UK group.

The UK group contributes to ENGIE's global skills reporting process, which provides an understanding of current skill trends and gaps requiring attention. This enables the Company to establish a clear understanding of the short, medium and long-term focus areas. Succession plans and pools for business-critical roles are regularly reviewed, developing internal and external development plans to ensure a sustainable pipeline of talent.

Fostering business relationships with suppliers, customers and other stakeholders

The Company adheres to the four fundamental principles included in the ENGIE Ethics Charter:

1. Act in accordance with laws and regulations.
2. Behave honestly and promote a culture of integrity.
3. Be loyal.
4. Respect others.

All employees are required to undertake mandatory Ethics training which covers ENGIE's whistleblowing system, Fraud and corruption – zero tolerance, conflicts of interest, human rights and Competition law.

In addition to the ENGIE Group Policies, the Company also operates within a framework of Business Principles. These principles detail our commitment to the Environment, Health and Safety, Corporate Social Responsibility, Human Resources, Procurement & Competitive Practices, Confidentially & accuracy and Engineering, Maintenance & Operations.

The Company aligns to a set of standards that support stakeholder engagement efforts, with accreditation under ISO 14001 Environmental Management, ISO 45001 Occupational Health and Safety management, ISO 9001 Quality Management and ISO 50001 Energy Management.

Impact of the company's operations on the community and environment

The Company is aligned to ENGIE's Responsible Business Charter which includes reference to the commitment to invest in both communities and environmental leadership.

The UK BU defines community investment as the total financial value of employee fundraising, employee volunteering hours and management time, gifts and donations, financial investment including spend with the Voluntary, Community & Social Enterprise sector and sponsorship of community events.

In 2019 the total community investment for the UK BU exceeded £1m for the second consecutive year. This included over 14,000 volunteering hours, £140,000 raised for the ENGIE chosen charities and over £220,000 of investment into community funds associated with ENGIE wind farms across the UK.

Strategic report (continued)

Section 172 (continued)

Impact of the company's operations on the community and environment (continued)

In 2019 the UK BU continued to improve environmental performance against a range of indicators. In line with ENGIE's business purpose of 'Making Zero Carbon Happen', the UK BU has reduced Scope 1 and 2 corporate carbon intensity by 54% since 2012 and Scope 3 emissions by 46% since 2018. The UK BU has saved clients over 71,000 tonnes of CO_2e and increased the proportion of vehicle fleet made up of electric vehicles to 9%. As of 2019, Scope 1 and 2 asset carbon intensity has been reduced by 64% and freshwater abstraction by 61%. The proportion of electricity generating capacity made up of renewables remains at 4%.

The maintenance of high standards of conduct

The UK Directors uphold the maintenance of high standards of conduct by ensuring that activities of the UK BU Companies are in line with ENGIE's Ethics Charter, policies and codes of conduct. The overarching Ethics Charter includes a zero tolerance for all forms of corruption and is supplemented with a range of more specific policies and practical guidelines which deal with areas such as supplier relationships, conflicts of interest and gifts and hospitality. All Board members have received training in this respect. The Directors' actions are also guided by ENGIE's core values: Bold, Open, Caring and Demanding, which help define the UK Companies strategies and targets. Additional assurance that high standards of conduct are maintained is gained from the oversight and guidance that the Companies receive from the independent Scrutiny Board, which is a non-statutory oversight committee appointed to assess activities against the Responsible Business Charter. The Responsible Business Charter aims to ensure that ENGIE operates to the highest economic, social and environmental standards while building and maintaining public trust.

The need to act fairly as between members of the company

First Hydro Company is a 100% subsidiary of First Hydro Holdings Company which has an intermediate parent, FHH No 1 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 during the year ended 31 December 2019, and which was a 100% subsidiary of FHH (Guernsey) Limited in 2018. A shareholder agreement governs the flow of information between the First Hydro Holdings Company and the minority shareholder and ensures that the Company acts fairly.

Summary of methods used by the Director to engage with stakeholders

Directors utilise a full range of communication channels to engage with stakeholders; these include face to face meetings, forums and events, reports and other written materials, as well as through public relations activity, targeted digital content and social media.

By order of the Board

D. Alcock
Director
11 March 2020

Directors' report

The Directors present their report and audited financial statements of First Hydro Company (the Company) for the year ended 31 December 2019.

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 meets its liabilities as they fall due and 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

A. Garner

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 years ended 31 December 2019 and 2018 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 £56.9m (2018: £52.7m), approved by the Board, were paid during the year in respect of the year ended 31 December 2019. The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: £nil). This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Directors' report (continued)

Disclosure of information to the auditor

Ernst & Young LLP was the Company's statutory auditor for the year ended 31 December 2019. The Directors who held office at the date of approval of this Directors' report confirm 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

D. Alcock
Director
11 March 2020

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 2019 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 23, 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 2019 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.

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

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 9, 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
12 March 2020

Profit and loss account
For the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Turnover	3	**253,428**	266,482
Cost of sales		**(82,197)**	(134,271)
Fair value movement on unrealised energy trading commodities	18	**2,180**	(5,223)
Gross profit		**173,411**	126,988
Administrative expenses		**(54,583)**	(54,881)
Operating profit	4	**118,828**	72,107
Profit before interest and taxation		**118,828**	72,107
Finance costs (net)	7	**397**	59
Profit before taxation		**119,225**	72,166
Taxation	8	**(16,841)**	(7,762)
Profit for the financial year		**102,384**	64,404

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

The notes on pages 16 to 43 form part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Profit for the financial year		**102,384**	64,404
Recyclable items:			
Cash flow hedges	16	**(172)**	-
Deferred tax on cash flow hedges	8	**35**	-
Total recyclable items		**(137)**	-
Non-recyclable items:			
Actuarial (losses)/gains	20	**(17,663)**	8,312
Deferred tax on actuarial (losses)/gains	8	**3,003**	(1,413)
Total non-recyclable items		**(14,660)**	6,899
Other comprehensive income for the year net of tax		**(14,797)**	6,899
Total comprehensive income for the financial year		**87,587**	71,303

The notes on pages 16 to 43 form part of these financial statements.

Balance sheet
as at 31 December 2019

	Note	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Fixed assets			
Property, plant and equipment	9	**417,112**	399,899
		417,112	399,899
Current assets			
Debtors	10	**97,550**	55,370
Investments – money market deposits		**25,028**	35,093
Cash at bank and in hand		**2,252**	3,282
		124,830	93,745
Creditors: amounts falling due within one year			
- due within one year	11	**(40,024)**	(35,207)
- due after one year	12	**(122)**	-
Deferred tax liability	8	**(3,702)**	(3,332)
Net current assets		**80,982**	55,206
Total assets less current liabilities		**498,094**	455,105
Retirement Benefits	14,20	**(4,755)**	7,608
Net assets		**493,339**	462,713
Capital and reserves			
Called up share capital	15	**87,346**	87,346
Share premium account		**295,741**	295,741
Revaluation reserve		**40,882**	41,833
Hedging reserve	16	**(137)**	-
Retained earnings		**69,507**	37,793
Equity shareholder's funds		**493,339**	462,713

The notes on pages 16 to 43 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 11 March 2020 and signed on its behalf by:

S. Pinnell
Director

Statement of changes in equity
for the year ended 31 December 2019

	Note	Called up share capital	Share premium account	Revaluation reserve	Hedging reserve	Retained earnings	Total equity shareholders' funds
		£'000	£'000	£'000	£'000	£'000	£'000
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 expense		-	-	-	-	6,899	6,899
Total comprehensive income for the financial year		-	-	-	-	71,303	71,303
Dividends	17	-	-	-	-	(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
Profit for the financial year		-	-	-	-	102,384	102,384
Other comprehensive income		-	-	-	(137)	(14,660)	(14,797)
Total comprehensive income for the financial year		-	-	-	(137)	87,724	87,587
Dividends	17	-	-	-	-	(56,961)	(56,961)
Other changes		-	-	(951)	-	951	-
Equity shareholder's funds at 31 December 2019		**87,346**	**295,741**	**40,882**	**(137)**	**69,507**	**493,339**

The hedging reserves relate to the Company's cash flow hedges as detailed in Note 16.

The notes on pages 16 to 43 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2019

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 6.

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 22.

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 meets 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 16 Leases, IFRIC 23 Uncertainty over Income Tax Treatments and IAS 19 Employee Benefits (plan amendment, curtailment or settlement) for the first time. The nature and the effect of the change as a result of the adoption of these new standards are listed below.

- IFRS 16 Leases (effective date 1 January 2019) – acquisitions of motor vehicles under lease agreements during the year have been included within fixed assets as right of use assets, with a corresponding liability included in creditors. The related deprecation and financing costs have not had a material impact on the financial statements. There were no leases in the prior year requiring restatement.
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019) – has not materially impacted the financial statements.
- IAS 19 Employee Benefits (effective date 1 January 2019) – has not materially impacted the financial statements.

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

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

a. Basis of preparation (continued)

- 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 20.
- fair value of financial instruments based on forward price curves, see Note 18.
- taxation and the appropriate rates of corporation tax and deferred tax to apply to estimate of profit chargeable to corporation tax, see Note 8.

In addition to the key estimates noted, there is also 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 18.

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, unless related or matching forward foreign exchange contracts have been entered into when the rate specified in the contract is used. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange rate differences arising in the normal course of business and on the translation of monetary assets and liabilities are recognised in the income statement. 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.

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

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
Right-of-use assets (Motor vehicles) (See Note 2 g)	Up to 5

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 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 the higher of its value in use and its fair value less costs to disposal, 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.

g. Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Company cannot readily determine the interest rate implicit in the leases, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

g. Leases (continued)

(i) Right-of-use assets

The Company recognises the right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as follows:

Motor vehicles and other equipment	up to 5 years

If ownership of the leased asset transfers to the company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policy below in Note 2. h. Impairment of tangible assets.

(ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments including in-substance fixed payments) less any lease incentives receivable, variable lease payment that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (eg changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in Creditors (see Notes 11 &12).

(iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (ie those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to lease of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

h. 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.

i. 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.

2. Accounting policies (continued)

i. Taxation (continued)

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.

j. 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 Company 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.

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.

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

k. 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.

l. Dividends on shares presented within shareholder's funds

The Company recognises a liability to make cash distributions to equity holders of the Company 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.

m. 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.

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.

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

m. Financial instruments (continued)

(i) Derivative financial instruments (continued)

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.

Financial assets at fair value through OCI (debt instruments) (continued)

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.

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.

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

m. Financial instruments (continued)

(i) Derivative financial instruments (continued)

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.

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.

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

n. Hedge accounting
For those derivatives designated as hedging instruments and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as:
- Fair value hedges when hedging the exposure to changes in the fair value of a recognise asset or liability or an unrecognised firm commitment; or
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Hedges of a net investment in a foreign investment.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
The Company currently has no fair value hedges, but the policy for fair value hedges is that the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is measured at fair value and gains and losses from both are recognised in finance costs in the income statement. For hedged items carried at amortised cost, the adjustment is amortised through the income statement over the remaining term to maturity. When an unrecognised firm commitment is designated as a hedged item this gives rise to an asset or liability in the balance sheet representing the cumulative change in the fair value of the firm commitment attributable to the hedged risks. Fair value hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised, or no longer meets the criterial for hedge accounting or the designation is revoked.

Cash flow hedges
The Company uses derivative financial instruments, specifically currency swaps, to manage its exposure to foreign exchange fluctuations. These contracts have been designated as hedged items and qualify for cash-flow hedge accounting.

For derivative instruments designated and qualifying as a cash-flow hedge, the effective portion of changes in the fair value of the hedging instrument is recognised as other comprehensive income in the hedging reserve, while an ineffective portion is recognised immediately in the income statement. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the period when the hedged item affects profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. Any gains or losses recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedging reserve is recognised immediately in profit or loss. The Company do not hold or issue derivative financial instrument for speculative purposes. The fair value of the derivative instruments used for hedging purposes and hedging reserve movements inequity are outlined in Note 16.

Derivative instruments that do not qualify for hedge accounting are accounted for at fair value through profit and loss. Changes in the fair value of these derivative instruments are recognised in the income statement.

n. 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. b.

Notes to the financial statements (continued)
for the year ended 31 December 2019

2. Accounting policies (continued)

n. Turnover (continued)

The Company is in the business of generating power and supplying this into the UK electricity grid system. 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 IFRS 15. 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.

p. 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 Note 2. m (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.

3. Turnover

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

	2019	2018
Turnover:	£'000	£'000
Electricity generation:		
Recognised under IFRS 9	**75,892**	110,771
Recognised under IFRS 15	**177,328**	155,415
	253,220	266,186
Tourist attraction	**208**	296
	253,428	266,482

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

	2019	2018
Turnover:	£'000	£'000
United Kingdom	**253,428**	266,482

3. Turnover (continued)

Due to the Government's suspension of the capacity market in the prior year it was not possible to recognise £10m of revenue for the final quarter of 2018. Following the reinstatement of the capacity market mechanism that revenue has now been received and recognised within 2019, thus the current year benefits from £10m of additional capacity market revenue which would otherwise have been recognised in 2018.

4. Operating profit

This is stated after charging/(crediting):	2019 £'000	2018 £'000
Depreciation of tangible fixed assets (Note 9)	**6,808**	6,617
Insurance receipt – property damage	**-**	(2,380)
Staff costs (Note 5)	**12,906**	13,714
Expense relating to leases of low-value assets (Note 13)	**18**	13

5. Directors' and employees' remuneration

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

Employee costs during the year amounted to:	2019 £'000	2018 £'000
Wages and salaries	**8,629**	9,374
Social security costs	**1,085**	1,120
Apprentice levy	**47**	46
Pension costs (see note 16) defined benefit scheme	**2,931**	2,946
Pension costs defined contribution scheme	**214**	228
	12,906	13,714

Other pension costs on defined benefit schemes include those items included within operating costs i.e. the Current service cost as disclosed in Note 20.

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

	2019 Number	2018 Number
Production	**113**	116
Administration	**38**	48
	151	164

The Directors did not receive any fees or emoluments from the Company during the year (2018: £nil) directly attributable to their position within the Company. In both 2019 and 2018 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:

	2019 Number	2018 Number
Defined Benefit schemes	**3**	3

Share Options

The number of directors who exercised share options in ENGIE S.A. or International Power Limited.: nil. (2018: nil).

Notes to the financial statements (continued)
for the year ended 31 December 2019

6. Auditor's remuneration
The auditor's remuneration in respect of the statutory audit for the years ended 31 December 2019 and 31 December 2018 was borne by First Hydro Company.

The auditor's remuneration was as follows:

	2019 £'000	2018 £'000
Auditor's remuneration for the financial year	**198**	129

No services were provided pursuant to contingent fee arrangements, and no non-audit services were provided in 2019 or 2018.

7. Finance Costs (net)

	Note	2019 £'000	2018 £'000
Interest receivable and similar income	7a	**4,660**	4,050
Less: Interest payable and similar charges	7b	**(4,263)**	(3,991)
		397	59

7a. Interest receivable and similar income

	2019 £'000	2018 £'000
Total interest income on financial assets measured at amortised cost – bank interest	**250**	236
Pension scheme interest income – see Note 20	**4,410**	3,814
Total interest income	**4,660**	4,050

7b. Interest payable and similar charges

	2019 £'000	2018 £'000
Bank interest payable	**93**	107
Interest on lease liabilities – see Note 13	**2**	-
Total interest expense for financial liabilities measured at amortised cost	**95**	107
Pension scheme interest expense– see Note 20	**4,168**	3,884
Total interest expense	**4,263**	3,991

Notes to the financial statements (continued)
for the year ended 31 December 2019

8. Taxation

	2019 £'000	2018 £'000
Analysis of taxation in the year:		
Current tax charge		
UK corporation tax	(13,433)	(7,216)
Prior year tax adjustment	-	-
Total current tax	(13,433)	(7,216)
Deferred tax charge		
Origination and reversal of timing differences	(3,408)	(546)
Total deferred tax	(3,408)	(546)
Taxation	(16,841)	(7,762)

Deferred tax on other comprehensive income

	2019 £'000	2018 £'000
Cash flow hedge	35	-
Pension scheme costs	3,003	(1,413)
	3,038	(1,413)

	2019 £'000	2018 £'000
Reconciliation of the total tax		
Profit before taxation	119,225	72,166
Current tax at 19% (2018: 19%)	(22,653)	(13,711)
Items non-deductible for tax purposes	(1,235)	(1,092)
Impact of rate change	-	131
Other deferred tax movements	102	(42)
Group relief	6,945	6,952
Tax on profit	(16,841)	(7,762)

The applicable statutory tax rate for the period and prior period was 19%.

Notes to the financial statements (continued)
for the year ended 31 December 2019

8. Taxation (continued)

Deferred tax

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

	2019 £'000	2018 £'000
Deferred tax liability		
At beginning of year	**(3,332)**	(1,373)
Current year deferred tax	**(3,408)**	(546)
Other comprehensive income current year deferred tax	**3,038**	(1,413)
At end of year	**(3,702)**	(3,332)

Analysed as:	2019 £'000	2018 £'000
Accelerated capital allowances	**(4,575)**	(2,902)
Pension deficit repair payments	**382**	800
Deferred tax arising in relation to retirement benefit obligations (Note 20)	**808**	(1,292)
Electricity commodities	**(352)**	62
Cash flow hedges (Note 16)	**35**	-
Deferred tax	**(3,702)**	(3,332)

	2019 £'000	2018 £'000
Deferred tax in the income statement		
Timing difference in relation to derivatives	**(414)**	1,005
Timing difference in relation to capital allowances	**(1,674)**	(987)
Defined benefit pension scheme (deficit repair)	**(419)**	(417)
Defined benefit pension scheme (actuarial movements)	**(901)**	(147)
Deferred tax	**(3,408)**	(546)

Notes to the financial statements (continued)
for the year ended 31 December 2019

9. Property, plant and equipment

	Freehold Land & buildings	Plant & machinery	Fixtures & fittings	Assets in the course of construction	Right of use assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 January 2019	414,618	111,882	7,178	29,900	-	563,578
Additions	-	646	109	23,364	55	24,174
Transfer	-	2,401	-	(2,401)	-	-
Disposals	-	(750)	(822)	-	-	(1,572)
At 31 December 2019	414,618	114,179	6,465	50,863	55	586,180
Depreciation						
At 1 January 2019	109,664	47,349	6,666	-	-	163,679
Depreciation charge for the year	3,980	2,602	216	-	10	6,808
Disposals	-	(597)	(822)	-	-	(1,419)
At 31 December 2019	113,644	49,354	6,060	-	10	169,068
Net book value						
At 31 December 2019	**300,974**	**64,825**	**405**	**50,863**	**45**	**417,112**

	Freehold Land & buildings	Plant & machinery	Fixtures & fittings	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000	£'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	414,618	111,882	7,178	29,900	563,578
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	109,664	47,349	6,666	-	163,679
Net book value					
At 31 December 2018	304,954	64,533	512	29,900	399,899

Notes to the financial statements (continued)
for the year ended 31 December 2019

9. Property, plant and equipment (continued)

At 31 December 2019 the carrying value of tangible fixed assets that are pledged as security for liabilities is £417.1m (2018: £399.9m).

Freehold land amounting to £975,000 (2018 – £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 £522.8m (2018 - £500.5m), historical cumulative depreciation £147.3m (2018 - £140.3m), and net book value £375.5m (2018 - £360.2m). 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 £2.3m (2018 - £2.1m) of non-depreciable consumable stock items.

The company had capital commitments of £14.0m as at 31 December 2019 (2018 - £21.0m).

10. Debtors

Due within one year:	2019 £'000	2018 £'000
Trade debtors – income recognised under IFRS 15	**56,912**	13,644
Accrued income – income recognised under IFRS 15	**13,264**	10,439
Amounts owed by group undertakings – income recognised under IFRS 9	**13,531**	19,367
Financial instruments with related parties (Note 18)	**1,854**	157
Prepayments and accrued income	**3,233**	3,007
Amounts owed by group undertaking - loan	**8,756**	8,756
	97,550	55,370

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 18) (2018 – same).

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 (2018 – same).

11. Creditors: amounts falling due within one year

Due within one year:	2019 £'000	2018 £'000
Trade creditors	**2,237**	1,823
Lease liabilities (Note 13)	**20**	-
Amounts owed to group undertakings	**13,581**	22,192
Corporation tax	**11,969**	2,619
Other taxation and social security	**1,778**	1,066
Financial instruments with related parties (Note 18)	**-**	483
Financial instruments – cash flow hedge (Note 16)	**72**	-
Accruals	**10,367**	7,024
	40,024	35,207

Notes to the financial statements (continued)
for the year ended 31 December 2019

11. Creditors: amounts falling due within one year

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 18).

12. Creditors – amounts falling due after more than one year

Due after more than one year:	2019 £'000	2018 £'000
Lease liabilities (Note 13)	22	-
Financial instruments – cash flow hedge (Note 16)	100	-
	122	-

13. Leases

The Company has lease contracts for various vehicles used in its operations. Leases of motor vehicles generally have lease terms between 2 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally the Company is restricted from assigning and subleasing the leased assets. The Company also has certain leases of office equipment with low value. The Company applies the "lease of low-value assets" recognition exemptions for these leases.

The carrying value of right-of-use assets recognised and the movement during the year are shown in Note 9 Property, plant and equipment above. The carrying amounts of the lease liabilities are included in Note 11. Creditors: amounts falling due within one year and Note 12 Creditors: amounts falling due after more than one year above.

The Company cannot readily determine the interest rate implicit in the leases, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Set out below are the carrying amounts of the lease liabilities and the movements during the year:

	2019 £'000	2018 £'000
At 1 January	-	-
Additions	(55)	-
Accretion of interest	(2)	-
Payments	15	-
At 31 December	(42)	-
Current	(20)	-
Non-current	(22)	-
	(42)	-

Notes to the financial statements (continued)
for the year ended 31 December 2019

13. Leases (continued)

The following are the amounts recognised in profit or loss:

	2019 £'000	2018 £'000
Depreciation expense on right-of-use assets	10	-
Interest expense on lease liabilities	2	-
Expense relating to leases of low-value assets	18	3
Total amount recognised in profit or loss	30	3

14. Retirement benefits

	2019 £'000	2018 £'000
Defined benefit pension scheme:		
Fair value of plan assets	173,568	152,355
Defined benefit obligation (Note 20)	(178,323)	(144,747)
	(4,755)	7,608

15. Called up share capital

	2019 £'000	2018 £'000
Authorised, issued and called up share capital		
349,382,331 ordinary shares of 25p each	87,346	87,346

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).

16. Hedging Reserve

	2019 £'000	2018 £'000
At 1 January	-	-
Loss recognised on cash flow hedge	(172)	-
Foreign currency forward contracts	-	-
Tax related to loss in other comprehensive income	35	-
At 31 December	(137)	-

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Notes to the financial statements (continued)
for the year ended 31 December 2019

17. 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 2019	5.15p	18,000,000	2019
30 March 2019	1.08p	3,800,000	2019
30 July 2019	5.15p	18,000,000	2019
20 December 2019	4.91p	17,160,620	2019
		56,960,620	

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
		52,700,000	

18. 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 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. 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.

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.

Notes to the financial statements (continued)
for the year ended 31 December 2019

18. Financial instruments (continued)

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

	2019	Movement in 2019	2018	Movement in 2018	2017
Fair value through profit and loss (FVTPL)	£'000	£'000	£'000	£'000	£'000
Energy contracts financial assets	1,854	1,697	157	(4,914)	5,071
Energy contract financial liabilities	-	483	(483)	(309)	(174)
	1,854	2,180	(326)	(5,223)	4,897

The above derivative asset relates to forward and future contracts to sell 190,070 MWh (2018: 394,117MWh) and to purchase 261,799 MWh (2018: 547,442MWh) 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.

	(Decrease)/ increase in PAT	(Decrease) / increase in Equity
Fair value through profit and loss (FVTPL)	£'000	£'000
2019		
20% increase in forward price curves for electricity	(75)	(75)
20% decrease in forward price curves for electricity	75	75
2018		
20% increase in forward price curves for electricity	127	127
20% decrease in forward price curves for electricity	(127)	(127)

Changes in value of financial instruments at fair value

	2019 £'000	2018 £'000
Financial assets at fair value through Gross profit	1,854	157
Financial liabilities at fair value through Gross profit	-	(483)
	1,854	(326)
Of which:		
Gains expected to be recognised in the year ended December 2019	-	(326)
Gains expected to be recognised in the year ended December 2020	1,854	-

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

Notes to the financial statements (continued)
for the year ended 31 December 2019

18. Financial instruments (continued)

Foreign exchange cash flow hedges

The Company has entered into foreign exchange cash flow hedges to enable the Company to mitigate the risk of changing exchange rates on the contracted price for the purchase of spare parts. The fair value of the foreign exchange cash flow hedges at the year-end is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contracts, which are disclosed below. The average exchange rate is based on the outstanding balances at the end of the financial year. The following table details the notional principal amounts, and remaining terms of the forward contracts outstanding for the Company, at the year-end:

	Average contract exchange rate		Notional principal value		Fair value	
	2019	2018	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Less than 1 year	1.17	-	1,346	-	72	-
1 to 2 years	1.17	-	1,346	-	98	-
2 to 5 years	1.17	-	28	-	2	-
Total			2,720	-	172	-

All foreign exchange forward agreements are designated as cash flow hedges to reduce the Company's exposure resulting from variable exchange rates.

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

Year ended 31 December 2019	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to five years £'000	Total £'000
Trade creditors	-	2,237	-	-	2,237
Amounts owed to Group undertakings	-	13,581	-	-	13,581
Energy Contracts	-	-	-	-	-
Total	-	15,818	-	-	15,818

Year ended 31 December 2018	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to five years £'000	Total £'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

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

Notes to the financial statements (continued)
for the year ended 31 December 2019

18. Financial instruments (continued)

Financial assets

The Company held the following financial assets as at 31 December 2019:

Sterling money market deposits	£25,028,000	(2018 - £35,093,000)
Cash at bank and in hand	£2,252,000	(2018 - £3,282,000)
Trade debtors and accrued income	£70,176,000	(2018 - £24,083,000)
Derivative financial assets	£1,854,000	(2018 - £157,000)
Inter-company debtors	£13,531,000	(2018 - £19,367,000)
Inter-company loan	£8,756,000	(2018 - £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.

Fair values

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

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Energy contracts	1,854	1,854	157	157
Total	**1,854**	**1,854**	157	157

Fair values

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

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities				
Energy contracts	-	-	(483)	(483)
Cash flow hedges	(172)	(172)	-	-
Total	(172)	(172)	(483)	(483)

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

			Fair value measurement using	
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)
Assets measured at fair value:		£'000	£'000	£'000
Energy contracts financial assets	31 December 2019	1,854	-	1,854
		1,854	-	**1,854**

Notes to the financial statements (continued)
for the year ended 31 December 2019

18. Financial instruments (continued)

	Date of valuation	Total	Fair value measurement using 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 2019	-	-	-
Cash flow hedges – foreign exchange	31 December 2019	(172)	(172)	-
		(172)	**(172)**	-

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

	Date of valuation	Total	Fair value measurement using 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 2018	(483)	-	(483)
		(483)	-	(483)

19. Hedging activities and derivatives

	2019 £'000	2018 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value:		
Foreign exchange – cash flow hedges – current liability	**72**	-
Foreign exchange – cash flow hedges – non-current liability	**100**	-
	172	-
Deferred tax	**(35)**	-
	137	-

During 2019 the Company has entered into foreign exchange contracts. There were no foreign exchange contracts in 2018. The Company uses derivatives to manage the risk associated with fluctuating foreign exchange rates on its contracts to purchase spare parts. The notional principal amount of the outstanding foreign exchange contract on 31 December 2009 was £2,720k. At 31 December 2019, the Euro exchange rate was 0.8496 and the Swiss Franc exchange rate was 0.7829. The maximum exposure to credit risk at each reporting date is the fair value of the derivative liability outlined above. Due to when the cash flows fall due, the foreign exchange cash flow hedges are classified as current or non-current assets or liabilities.

The foreign exchange cash flow hedges of the expected future cash flow at 31 December 2019 were assessed to be highly effective and a net unrealised loss of £172k with a deferred tax asset of £35k relating to the effective portion of the hedging instrument, is included in other comprehensive income. The ineffectiveness relating to the ineffective portion of the hedging instrument recorded at the reporting dates was a credit to the income statement of £nil. Details on the Company's accounting policy for hedging instruments can be found in Note 2. n.

Notes to the financial statements (continued)
for the year ended 31 December 2019

20. 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 2019 was £214k (2018: £228k).

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 2019 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.

	Valuation at	
	2019	**2018**
	(% p.a.)	**(% p.a.)**
Key assumptions used:		
Discount rate	**2.0**	2.85
Rate of increase of pensions in payment	**3.2**	3.0
Inflation	**3.2**	3.2
Rate of increase in salaries	**3.7**	3.7
Rate of increase in deferred pensions	**3.7**	3.2

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.

Notes to the financial statements (continued)
for the year ended 31 December 2019

20. Employee benefits (continued)

Mortality assumptions:
The UK mortality assumptions at 31 December 2019 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 2019 years	2018 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 2019 %	Increase effect on Scheme liabilities 2018 %
Discount rate	Decrease by 0.1%	**2.52**	2.30
Rate of inflation	Increase by 0.1%	**1.25**	1.48
Rate of mortality	Life expectancy increase by one year	**0.63**	5.59

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.

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

	2019 £'000	2018 £'000
Current service cost	**2,931**	2,946
Interest income	**4,410**	3,814
Interest expense	**(4,168)**	(3,884)
	242	(70)

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

	2019 £'000	2018 £'000
Actuarial gains/(losses)	**(29,631)**	12,847
Return on plan assets (excluding amounts included in interest income)	**11,968**	(4,535)
	(17,663)	8,312

Notes to the financial statements (continued)
for the year ended 31 December 2019

20. Employee benefits (continued)

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 2020 once a more accurate figure is calculated.

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2019	152,355	(144,747)	7,608
Current service cost	-	(2,931)	(2,931)
Interest income/(expense)	4,410	(4,168)	242
Actuarial gain – experience adjustments	-	-	-
Actuarial loss – financial assumptions	-	(29,631)	(29,631)
Return on plan assets (excluding amounts included in interest income)	11,968	-	11,968
Employer contributions	7,989	-	7,989
Scheme participant contributions	366	(366)	-
Benefits paid, net of transfers in	(3,520)	3,520	-
At 31 December 2019	**173,568**	**(178,323)**	**(4,755)**

	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 2019

20. Employee benefits (continued)

At 31 December 2019, the pension liability of the Scheme related to the following types of member:

	2019 %	2018 %
Active members	**39**	39
Deferred members	**14**	14
Pensioners	**47**	47
Total	**100**	100

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

	Fair value of assets 2019 £'000	2018 £'000
Equity instruments	**81,877**	71,871
Debt instruments	**51,498**	45,204
Real estate	**13,008**	11,418
Other assets	**27,185**	23,862
	173,568	152,355

Contributions
The Company expects to make contributions of approximately £2.4m to the Scheme during 2020 (2019 - £2.1m).

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

21. Related party disclosures

As at 31 December 2019 and 31 December 2018, the Company was a wholly owned subsidiary of First Hydro Holdings Company. First Hydro Holdings Company has an intermediate parent, FHH No 1 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 during the year ended 31 December 2019, and which was a 100% subsidiary of FHH (Guernsey) Limited in 2018.

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 subsidiaries of the ENGIE group and its ultimate parent undertaking, ENGIE SA.

2019	Sales	Purchases	Amount owed from	Amount owed to
	£'000	£'000	£'000	£'000
IPM Energy Trading Limited	138,718	(138,339)	13,523	(12,322)
International Power Limited	24	(4,414)	8	(1,153)
Brookfield Renewables UK Hydro Limited	-	(192)	-	(89)
First Hydro Holdings Company	-	-	8,756	-
ENGIE	-	(63)	-	(17)

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)

Notes to the financial statements (continued)
for the year ended 31 December 2019

21. Related party disclosures

In addition to the above there are derivative financial assets of £1,854k (2018 - £157k) and liabilities of £nil (2018 - £483k) 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 £56,960,620 (2018: £52,700,000) were paid to First Hydro Holdings Company.

22. 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 is 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 2019 and the year ended 31 December 2018. 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.

23. 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.