Power to the people

Guernsey Electricity

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As you'll see overleaf, this last financial year threw some very difficult situations at us. Due to the failure of the cable link supply, we moved from a position where 80% of our supplies were coming from imports before the cable failure to 0% immediately the cable failed. Even after we fixed the Guernsey-Jersey cable, we still had the permanent failure of one of the Jersey-France cables, which meant we were still only able to import about one third of Guernsey's electricity supplies. During the period that we were generating 100% of our electricity on-island, our costs increased by approximately one an a half million pounds per month.

In addition to this there was the workload associated with the installation of a new generator, as well as the worst snowfall in a generation, all adding to the difficulties as a business we have had to face in the last 12 months. We went from posting an operating profit of £4.7 million last year, to a loss of £3.4 million this year and led us to the difficult, yet inevitable decision of having to increase our tariffs by 9% from 1 October 2012.

However, despite all of these major challenges, we have continued to deliver electricity supplies and a high level of customer service to the Island. I know this could only be achieved by all the hard work and loyalty from Guernsey Electricity staff for which I remain, as always, extremely humbled and grateful.

I hope that, by taking the time to read through this leaflet, you will have gained an understanding of why we make the decisions we do when it comes to your supply of electricity. No decision is ever taken lightly and we invest a great deal of time and resources into making sure the decisions we make are in the best interests of our customers and Guernsey. If you want to find out more about our Annual Report and Accounts, head to our website. If you still have questions unanswered we'd like to know. Drop us a line at feedback@electricity.gg or you can write to me at Guernsey Electricity, FREEPOST, Guernsey, GY1 5SS and we'll do our best to help.

Thank you for taking the time to read this.

Alan Bates
Managing Director
Guernsey Electricity Limited

Guernsey Electricity in the Community

We like to think that as well as supplying you with your electricity, we're also reaching out to support the community in other ways.

We're particularly proud of our support for the Safety Calling initiative which is held every year for Year 6 students in both Guernsey and Alderney. Children are taught how to keep themselves safe and make real 999 calls to the emergency services. We provided volunteer staff to man the incident control room as well as sponsoring the Safety Calling activity books.

We've had our fair share of dress down days, cake sales and charity walks with the funds raised going to a variety of charities.

And last autumn we held a calendar competition with staff encouraged to take images of Bailiwick scenes during the year. The chosen images went towards the production of a sponsored calendar which raised in excess of £1,000 for Les Bourgs Hospice.

La Mare de Carteret School children in the Science Dome

We ended this financial year with a donation to La Mare de Carteret Primary School which gave every child the opportunity to experience a learning session in a Science Dome. This gave the children a chance to learn about the climate in different parts of the world, the animals that live there and how their behaviour could protect the world for future generations.

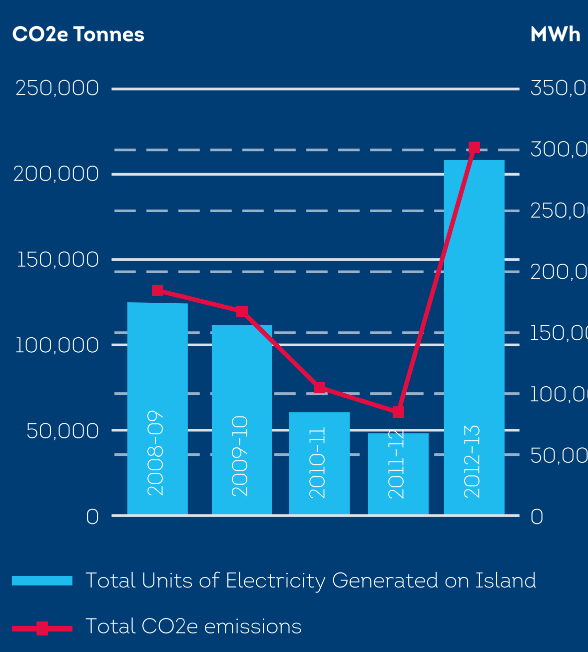
The last year has been one of the most challenging in the history of Guernsey Electricity and unfortunately resulted in a price rise. No one likes it when their electricity bill goes up and we certainly don't like putting them up without good reason. We have experienced an unprecedented year of challenges and we hope this leaflet will give you a better understanding of these, as well as the plans we have in place and the people to carry these through to fulfill our objectives of providing a reliable supply of electricity, at affordable prices with low carbon emissions.
Your Guernsey Electricity Team

Going Greener

Two of our key objectives are to provide you with a secure supply of electricity and at the same time to lower our carbon emissions. However, when the cable broke last year and we were forced to generate all the Island's electricity on-island, we were unable to meet our 'lower carbon emissions' objective.

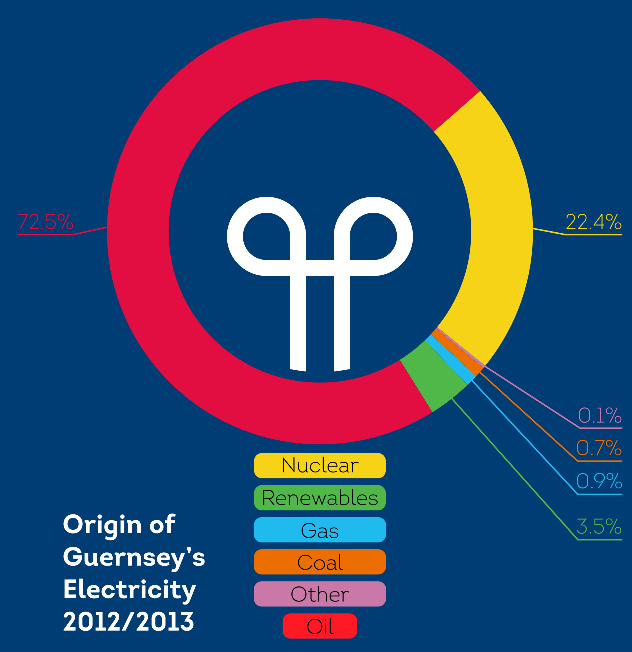
As you'll see from the graph below, in the period 2008/9 to 2011/12, we successfully reduced our carbon dioxide equivalent emissions from electricity supply by a greater use of supplies from low carbon sources. As a consequence of the cable break, you'll see there was an unfortunate rise in our carbon emissions this last year.

Carbon dioxide equivalent emissions and total units of electricity



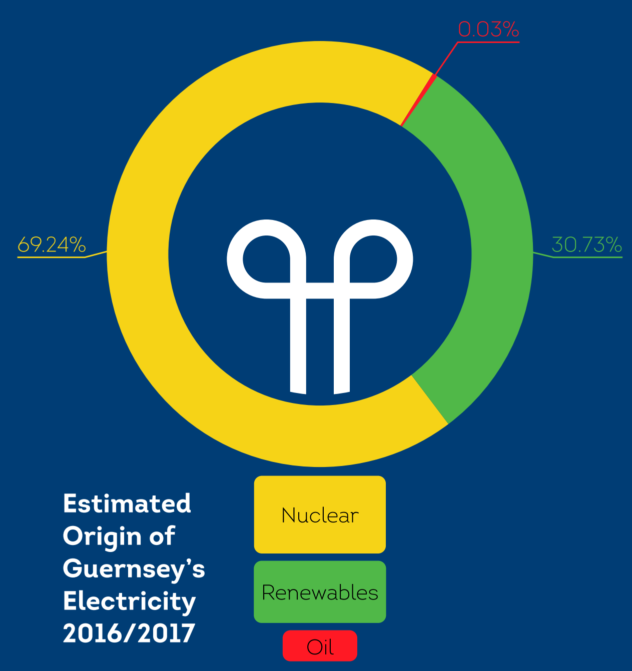
We've also been working to reduce the fuel consumption and carbon dioxide equivalent emissions associated with our vehicle fleet and car business travel. We're working towards achieving this by purchasing fuel efficient vehicles, as well as optimising our routes to reduce mileage. This year we've fitted a vehicle tracking system to our fleet of vehicles which will provide us with data to further optimise vehicle use.

The pie chart in the next column shows how the failure of the cable link last year impacted the source of electricity.



We recognise the importance of electricity that is renewably sourced and in January 2013 secured a ten-year agreement with Électricitié de France (EdF). This will mean that 100% of all our imported electricity will be fossil free and 30% will be hydropower generated.

In the longer term, locally generated renewable energy is seen as important in the Island's Energy Plan. We are working with the Renewable Energy Team at Commerce and Employment to ensure the Island is prepared to seize the opportunities for these energy sources when they arise.



Changing Faces

David Hipple

The last year has seen some Board changes. Our Finance Director, Iain Limond has retired after 11 years with us and has been replaced by David Hipple who joins us with utility experience gained at Anglian Water where he was Finance Director. After six years with us, Non-Executive Director David Farrimond is stepping down. We've recruited two new Non-Executives: Bob Dutnall and Christine Holmes who will join the Board in August.

Objectives

We must increase our import capacity of electricity if we are to meet our key objectives for you:

- **Reliability**
- **Affordability**
- **Security**
- **Sustainability**

The year at a glance

April 2012

After a successful 2011/12, at the start of 2012/13 we had our most challenging event in recent years.

The electricity supply cable between Jersey and Guernsey failed.

It is the first time there has been a problem of this nature since its installation in 2000

0 £

The cost of generating on-island is considerably higher than the cost of importing electricity from France

June 2012

One of the two cables from France to Jersey through which we obtain our imported electricity failed and was found to be irreparable

3 months

The time it took to repair the faulty cable to Guernsey

August 2012

100% on-island generation when the cable connection joining the undersea cable to the on-island network failed

Started installation of a new medium speed diesel engine, 2D, which will provide another 17MW of island generating capacity

£14m

The cost of the new diesel engine

5 months

The period of time that Guernsey had to solely rely on on-island generated electricity

October 2012

9% increase

In electricity tariff to customers from 1 October

\+ 100% 80% 0 −

Cable link was repaired but with only one cable operating between France and Jersey, imported electricity represents only about 1/3 of our supplies compared to a level of 80% before the cable failure in April

January 2013

EDF ENERGY

New 10 year agreement started with EdF 30% of which will come from hydroelectricity

Heaviest snowfall in Guernsey for a generation - Island ground to a halt for almost three days. During this period there was no interruption to the electricity supply. This is a positive result from putting all of our electricity cables underground

March 2013

CIEG propose new infrastructure between islands to allow 100% import capability

£3.4 million

Operating loss incurred by Guernsey Electricity during the last financial year

Guernsey Electricity Limited

Report and financial statements

31 March 2013

Guernsey Electricity Limited

Contents

Guernsey Electricity Limited

Directors, officers and professional advisers

Directors:	Advocate IH Beattie	(non-executive Chairman)
	AM Bates	(managing)
	IJ Limond	(finance) – retiring 9 July 2013
	RW Beebe	(operations)
	S-A David	(corporate strategy)
	D Farrimond	(non-executive) – retiring 6 August 2013
	MJ Mann	(non-executive)
	RP Lawrence	(non-executive)
	IA Hardman	(non-executive)

Secretary: SB Pattimore

Bankers:
Barclays Bank Plc
PO Box 41
Le Marchant House
St Peter Port
Guernsey
GY1 3BE

Legal advisers:
Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP

Independent auditor:
KPMG Channel Islands Limited
PO Box 20
20 New Street
St Peter Port
Guernsey
GY1 4AN

Registered office:
PO Box 4
Electricity House
North Side
Vale
Guernsey
GY1 3AD

Company number: 38692

Guernsey Electricity Limited

Chairman’s statement

The 2012/13 financial year has been a very eventful one for Guernsey Electricity. We have seen the failure of the subsea cables between both Guernsey and Jersey and Jersey and France, breakdowns in critical equipment for power importation on-island, the installation of a new generator and the worst snowfall that the island of Guernsey has seen in our lifetimes. Notwithstanding those events I am pleased to say that Guernsey Electricity has been able to continue to deliver electricity supplies and a high quality service to its customers. Our plans to deal with such eventualities only worked successfully because of the loyalty and commitment of our staff. Without their efforts we would not have been able to succeed so well and I would like to thank them for that support.

The lessons of this year’s events have been clear. We must continue to develop our strategy so that we can keep delivering reliable electricity supplies to the island. In addition, we must be conscious of the requirements set out in the States Energy Resource Plan for electricity supplies that are affordable, have significantly reduced carbon emissions and are secure. That means that we must consider the need for further interconnector cables to France, either directly or via Jersey so as to secure our future supplies. We shall be making proposals to our shareholder in this regard this summer.

There are a number of changes to the Board which I would like to note. Iain Limond who has tirelessly served the Board as Finance Director for the past 11 years is retiring on 9 July. Iain has guided the company through financially choppy seas and the Board is indebted to him. Iain will be replaced by David Hipple who brings to the company considerable experience gained with Anglian Water and the Department of Transport. Amongst the non-executive directors, David Farrimond is stepping down after 6 years. We have recruited 2 new non-executives, Bob Dutnall and Christine Holmes both of whom will join the Board in August. I would like to take this opportunity to thank both Iain Limond and David Farrimond for their help and support and for the contribution they have made to the development of the company.

Guernsey Electricity Limited

Managing director's report

Over the last year we have faced significant and unprecedented challenges in terms of our electricity assets but my greatest satisfaction is that we have responded well to those challenges and have continued to deliver a quality service to our customers.

As an organisation we will continue to focus on delivering our priorities:-

- A reliable and efficient electricity service to our customers;
- Maintaining tariffs at a level that remains affordable to our customers;
- Ensuring that we contribute to the island's aspirations for a low carbon future.

For Guernsey Electricity, these priorities have to be delivered in what is a very complex environment. Guernsey is a small island with only 30,000 customers, so maintaining affordability today and in the future is a guiding principle. Guernsey is 38km from its nearest neighbour, Jersey, and 50km from France so the importation of electricity supplies does present problems and risks which will remain until the import infrastructure is robust. As a consequence we have to be in a position to generate the island's demand for electricity on-island if necessary, but such generation does not meet the aspiration for low carbon electricity supplies. In addition the cost of generating on-island is also considerably higher than the cost of importing electricity from France.

The year saw a number of specific events worthy of note which the company had to manage.

In April 2012, the subsea supply cable from Jersey to Guernsey failed. This is the first time that there has been a problem of this nature since its installation in 2000. The process of identifying the fault and carrying out a repair took 3 months – quicker than we had expected (the usual benchmark for such a repair is 6 months). However the situation was further complicated when the piece of equipment which connects the cable to the on-island network failed in August. Even with this subsequent failure we were able to restore the import capacity at the start of October but all of Guernsey's electricity supplies for that 5 month period were generated from our generating plant on-island.

In June 2012, one of the two cables from France to Jersey (through which we obtain our imported supplies) failed and was subsequently found to be economically irreparable. So when we did restore imported supplies to Guernsey in October, the amount we were able to import was significantly reduced as there is now only one cable operating from France to Jersey. Since October, imported electricity represents only about a third of our electricity demand compared to a level of 80% before the cable failure in April 2012.

In August we began installing a new medium speed diesel engine in D station, which will provide us with another 17MW of on-island generating capacity. This is an enormous piece of equipment which many islanders will have seen as it was unloaded at St Sampson's harbour and transported along the quayside to the power station. Its installation is a major project for the company and it represents a significant investment at a cost of £14m. The process of commissioning has been longer than planned as the manufacturers have continued to resolve a number of faults but we have to ensure that it operates reliably and efficiently before we accept it. Whilst the engine has successfully produced 17MW we have taken the decision that the 25 year plus asset should meet all design criteria.

In March 2013 Guernsey saw the heaviest snowfall for a generation closing roads, schools and the airport with transport on the island almost grinding to a halt for three days. During this period we managed to continue to deliver electricity supplies to the island without any significant interruption. This is primarily down to a strategic initiative following the storms of 1987, whereby Guernsey Electricity has removed all overhead electricity lines preventing significant disruption during extremes of weather.

In spite of the above events it is pleasing to be able to report that Guernsey Electricity customers suffered only 68.6 minutes loss of supply on average throughout the year (this compares to 84.3 minutes lost during the prior financial year). The risk mitigation and standby measures we had put in place worked and we were able to continue to meet our customers, and the island's electricity requirements.

Managing director's report - continued

There have unfortunately been consequences of the cable failures and the reduction of imported electricity supplies for our customers. There has been a significant increase in our costs this year as a result of the change in the source of electricity we have supplied. Whilst the damage caused to the Guernsey-Jersey cable was insured, the costs of on-island generation during the period of its repair were over £6m higher than would have been the case if imports were available. Imports of electricity have been restored but as we are currently generating approximately two thirds of our power requirements costs are also significantly higher this year. Whilst the costs associated with the cable link repair have been recovered and accounted for in these accounts, we are exploring all avenues to recover the additional £6m costs incurred as a result of on-island generation following the failure of the Guernsey-Jersey cable.

Regrettably, we have had to pass some of the additional costs through to customers and we increased our tariffs by 9% from 1 October 2012. We have tried to ease the impact on customers by not passing through all cost increases and as a result we have made a loss before tax of £3.4m for the financial year.

The events of the year have made it clear to us that we need to reinforce our route for electricity supplies from the continent. Having only one cable to Guernsey leaves us very exposed to any failure of this cable and the consequent increase in costs to our customers that this brings. We are therefore carrying out a number of strategic projects to improve the resilience of our import capability:

- Through our joint arrangement with Jersey Electricity plc, the Channel Islands Electricity Grid, we are installing a further cable between Jersey and France to increase import capacity for both islands. This should be operational by late 2014.
- With Jersey Electricity plc we are also seeking permissions to install another cable from France to Jersey to replace the one that was irreparably damaged in 2012.
- We are also examining options for installing a further cable link to Guernsey either from Jersey or directly from France. We believe this is essential to ensure that we can deliver the most cost effective and secure electricity supplies to our customers.

We believe that we must be able to increase imported capacity to the island to ensure that we can deliver our key objectives for the customers in Guernsey: reliability of supply, lowest possible prices and low carbon emissions. Reliability of supply will also require us to maintain sufficient on-island generation to mitigate risks to the continuity of electricity supply.

Despite the challenges encountered in this financial year the company and its employees remain committed to doing what is right for the island and our customers and I would like to thank all the employees at Guernsey Electricity for their dedication and loyalty – the employees make the company and Guernsey Electricity's great employee team dealt with all the challenges presented this year.

Finance director’s report

Profit and Loss Account

The last year has been a difficult year for the company. Our overall results show an operating loss of £3.4m compared with a profit of £4.7m the previous year. The main factor in this change is the significant increase in generation costs following the Guernsey-Jersey cable failure on 29 April and the loss of one of the Jersey-France cables in June. We were unable to import any power from 29 April to 5 October and as a result of the Jersey-France cable failure we saw our imports of power supplies reduced from approximately 80% of demand to 30%. As a consequence we had to generate significantly more power than planned on-island with an increase of over £6m in our costs. Overall loss before tax was £3.4m, a deterioration of £8.4m from the prior year profit before tax of £5m. The results represent a great disappointment for us but reflect a good performance given the operational difficulties faced by the company during the year.

Turnover showed an increase of £4.6m to £56.4m, an increase of 8.8%. As a result of the cost increases which arose from the cable failures, we were forced to increase prices by 9% from 1 October. This followed a 1 April price increase of 2.5%. These price increases contributed £3.8m of the increase in turnover with the balance coming from higher volume. Whilst it was necessary for us to increase charges in October 2012, the level of our overall loss for the year arises from the fact that we have tried to absorb some of the cost increases we have faced.

The direct costs of supplying customers with electricity rose from £35.9m to £48.1m, an increase of 34%. The increase in on-island generation gave rise to an increase of £11.4m in the cost of supply over the previous year. We had to switch to using our generators extensively and as a result we saw a £22.8m increase in the cost of heavy fuel oil and a reduction of £12.3m in our power import costs compared to the prior year. The year saw a continuing high level of fuel costs and as a result the marginal cost of on-island generation is some 50% higher than imports.

Net operating expenses increased from £11.3m to £11.7m, an increase of 3.5%. We have worked hard to keep controllable costs to a minimum to mitigate against the impact of increased costs of generation on customers’ bills.

Net interest shows a reduction of £0.26m as a result of lower cash balances held by the company and continuing low interest rates. Other finance costs reflect part of the cost associated with the staff pension scheme.

The taxation credit arises from the losses we have incurred and the company now has tax losses carried forward of £6.8m.

At the company’s last Annual General Meeting due consideration was given to a proposed dividend of £1m in respect of performance for the 2011/12 financial year. In light of the financial impact of the cable link outage, it was agreed to defer payment of this dividend and it will be reconsidered at the next Annual General Meeting. No dividend is proposed with respect to performance for the 2012/13 financial year.

Looking forward we will continue to see higher generation costs until we are able to increase the amount of power imported through our interconnector. This will not happen until late 2014 at the earliest so we must continue to manage our costs closely to minimise the impact of higher charges on customers.

Finance director's report - continued

Balance Sheet

The company continues to benefit from a strong balance sheet. Not surprisingly we have a significant fixed asset base of £100.2m to support our operational activities, a £6.7m increase from the previous year reflecting the impact of our investment in a new engine.

Working capital of £9.1m was a £0.9m decrease on the previous year and we continued to have strong cash balances of £9.0m. However this is down by £8.1m and will continue to reduce as we make the future investment in fixed assets needed to secure the island's electricity supplies.

Our Shareholder's Funds decreased by £3.7m, from £102.2m to £98.5m. This was the result of £2.5m of post tax losses for the year and also the actuarial loss recognised in the pension scheme net of the movement in deferred tax relating to the pension deficit of £1.2m. The company is part of the States of Guernsey Pension Scheme.

The net pension deficit after deferred tax, reported under Financial Reporting Standard 17 ("FRS17") Retirement Benefits, has increased from £13.3m to £15.2m.

The deterioration in the pension deficit is the result of a number of factors. Most significantly, the actuarial discount rate used to compute the scheme liabilities is currently very low leading to an increase in the liability. The discount rate is based on a long term high-quality corporate bond index which is at an unprecedentedly low level as a result of fiscal and monetary policy in the UK.

Although our cash obligation to pay into the pension scheme is not determined by the outcome of the FRS 17 valuation we are very aware of the impact that the scheme has on our financial position. The States are currently consulting on proposed changes to the scheme and we shall review the outcome of that consultation in determining the basis of future pension provision for Guernsey Electricity.

Cash Flow Statement

Overall there was a net cash outflow for the year of £8.1m compared to the previous year which generated a net cash inflow of £2.9m. This is largely attributable to net capital expenditure which had a net cash cost of £10.7m, a £4.9m increase over the previous year principally as a result of the purchase of a new diesel engine. Cash inflow from operating activities fell from £8.6m last year to £2.2m this year as a result of the higher costs of the changed mix of our import and generation activities.

The closing cash balances for the year were £9.0m compared to £17.1m last year. These amounts include balances with the States of Guernsey of £4.3m (2012: £16.8m).

Finance director's report - continued

Management of Financial Risks

In the normal course of business the company faces a number of significant financial risks. We purchase imported electricity in Euro under a long term contract with Electricite de France ("EdF"). We purchase fuel oil for on-island generation which has inherent exposure to the US dollar. Guernsey Electricity manages future financial risks by hedging against future price movements and currency fluctuations. This provides increased levels of certainty for our financial position which benefits our customers. As at 31 March 2013 it had entered the following agreements:

- forward supply contracts with EdF for power supplies at fixed prices covering the period to the end of 2016;
- forward currency exchange contracts to purchase Euro amounting to 5.7m Euros;
- financial hedges on the commodity price of heavy fuel oil for 2013/14 and 2014/15 amounting to £15.6m

Further details can be found in note 22 to the accounts.

Outlook

The year ahead will continue to be challenging for Guernsey Electricity's finances. We will continue to generate a large percentage of our supplies on-island because of the constraints on import imposed by the failure of the older of the two Jersey to France cables in 2012. We are also entering a period which will require increased capital investment to enable us to meet the increasing demands we face for electricity.

We will continue to focus on how we can deliver the most cost effective supplies to our customers. Specifically, Guernsey Electricity will continue to minimise its controllable costs and, where possible, absorb the impact of further uncontrollable costs associated with the requirement to generate on-island. This will be largely dependent upon global energy prices. Additionally, debt financing of future import and on-island capacity investment will assist significantly in the smoothing of future tariff changes for customers.

Guernsey Electricity Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2013. These comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement and notes to the financial statements set out on pages 23 to 40.

Incorporation

Guernsey Electricity Limited was incorporated on 24 August 2001.

Principal activities

The principal activities of the company are the generation, importation and distribution of electricity and the sale of associated goods and services.

Customers

The number of customers as at 31 March 2013 is 29,633 (2012: 29,458).

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 28% (2012: 82%) of the island needs in the year ended 31 March 2013 and 72% (2012: 18%) was generated on the island, as shown by the units analysis below:

	2013	2012
Units imported MWh	**111,244**	312,703
Units generated MWh	**288,760**	68,056
Total units imported/generated MWh	**400,004**	380,759

Average price

The average price per kWh sold in the year ended 31 March 2013 was 14.43 pence (2012: 13.57 pence).

Reliability

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power failures can be caused by a failure of generation plant, a failure of the distribution network or a failure of the cable link. Customers lost 24.65 minutes due to generation activity (2012: 62.19 minutes) and 43.95 minutes were lost per customer in respect of distribution (2012: 22.14 minutes).

Directors and their interests

The directors of the company, who served during the year and to date, are as detailed on page 1. The directors have no beneficial interests in the shares of the company.

Directors' report - continued

Disclosure of Information to Auditor

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.

Auditor

A resolution for the appointment of auditor will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors

IH Beattie

IJ Limond
Directors
17 June 2013

Corporate governance

Guernsey Electricity's corporate governance arrangements are based on the proportionate and relevant application of good practice principles in corporate governance and predominantly those contained within the UK Corporate Governance Code published in September 2012.

Directors

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, the non-executive directors are appointed by the States of Guernsey on the nomination of the States of Guernsey Advisory & Finance Committee, now the Treasury & Resources Department. The first executive directors were appointed by the Advisory & Finance Committee after consultation with the non-executive directors. Further appointments of executive directors are made by the company's Board of Directors.

The Board's role is to provide entrepreneurial leadership of the company within a prudent framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the company, sets its values and standards and takes decisions objectively in the interests of the company, its shareholders and other stakeholders.

Non-executive directors help to develop and challenge the company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for executive directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to the shareholder and those which can be delegated to Sub-Committees of the Board or senior management.

There were 10 Board meetings held during 2012/13. If a Board member cannot attend a meeting, they receive a copy of the agenda and the accompanying papers in advance of the meeting and are able to comment on the matters to be discussed.

The names of directors and the membership of the Board Sub-Committees are set out in the sections below. The Board Sub-Committees have authority to make decisions according to their terms of reference.

Chairman and Chief Executive

Guernsey Electricity has a non-executive Chairman and a managing director. There is a clear division of responsibilities between the two positions with the Chairman responsible for the running of the Board and the managing director responsible for the running of the company's business.

Ian Beattie spends on average 1 day per week in his role as Chairman. The Board consider that he has no other external directorships which make conflicting demands on his time as Chairman.

David Farrimond is the Deputy Chairman appointed by the Board.

Corporate governance - continued

Board balance and independence

Throughout the year the company has had a balance of independent non-executive directors on the Board who ensure that no one person has disproportionate influence. There are five non-executive directors and four executive directors on the Board.

All of the non-executive directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

Appointments to the Board

Recommendations for appointments to the Board are the responsibility of the Remuneration & Nominations Sub-Committee. The appointment of non-executive directors is made by resolution of the States of Deliberation. All Board appointments are made in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001 and the company's Articles of Incorporation.

Information and professional development

For each scheduled Board meeting the Chairman and the Company Secretary ensure that the directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled Board meeting, the directors receive the prior month and cumulative company financial and operating information.

All newly appointed directors participate in an internal induction programme that introduces the director to the company and key stakeholders.

The Company Secretary, who is appointed by the Board is responsible for facilitating compliance with Board procedures. This includes recording any concerns relating to the running of the company or proposed actions arising there from, that are expressed by a director in a Board meeting. The Company Secretary is also secretary to all of the Board's Sub-Committees. The Company Secretary is available to give ongoing advice to all directors on Board procedures and corporate governance matters.

Attendance at Board meetings

Attendance during the year for Board meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
IH Beattie	10/10
AM Bates	10/10
IJ Limond	10/10
RW Beebe	10/10
S-A David	10/10
D Farrimond	9/10
MJ Mann	10/10
RP Lawrence	9/10
IA Hardman	8/10

Performance evaluation

The Board undergoes an annual evaluation of its performance. The last assessment was for the period up to 30 April 2012 and the next assessment is currently taking place. The evaluation consists of an internally produced confidential questionnaire, which is independently assessed by the Company Secretary who then prepares a report for consideration by the Board.

Election and re-election of directors

Guernsey Electricity's Articles of Incorporation require that non-executive directors retire by rotation but provide that they are eligible for re-election. Non-executive directors are submitted for re-election in accordance with the principles agreed with the company's shareholder. Non-executive directors serve the company under letters of appointment, which are generally for an initial three year term.

At the 2013 annual general meeting, Mr I H Beattie is being recommended by the Board and will be proposed for re-election. Mr D Farrimond will retire from the Board at the 2013 annual general meeting in accordance with the principles agreed with the shareholder.

Remuneration

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by the Treasury & Resources Department.

The Remuneration & Nominations Sub-Committee, which is chaired by Martyn Mann, consists solely of a minimum of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the company's annual salary negotiations. No director is permitted to be involved in any decision in relation to his/her own remuneration. The Remuneration & Nominations Sub-Committee considers that the procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of the shareholder.

The Remuneration & Nominations Sub-Committee is also tasked with considering the balance of the Board, director and senior management job descriptions and objective criteria for Board appointments and succession planning.

Accountability and Audit

Financial reporting

The company has a comprehensive system for reporting the financial performance of the company and each of its business units. Management and the Board of Directors review these monthly. The financial statements for the accounting period ending on the accounting reference date of 31 March are reviewed and signed on behalf of the Board of Directors, and will be presented to the shareholder at the forthcoming annual general meeting.

Internal control and risk management

During 2012/13 the executive team undertook a comprehensive review of the risks facing the business, ensuring that there are robust controls and actions in place to manage them. The Board approved the approach and receives biannual updates on progress. The risk management process is the responsibility of the Corporate Strategy Director.

All Directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

The Board obtains its assurance on the effectiveness of the system of internal control from a variety of sources, including internal audit, regular updates on risk management and internal control, health and safety, monthly management information and representations from the executive team.

Internal audit has a continuing role in monitoring and reporting on business risks. This service continues to be provided by RSM Tenon, a leading entity in providing such services. The Corporate Strategy Director, in association with RSM Tenon, reports on all internal audit work in accordance with the plan approved by the Audit & Risk Sub-Committee. Specialist engineering audits complement this, again as approved by the Audit & Risk Sub-Committee.

The company has established controls and procedures over the security of data held on IT systems and has in place comprehensive disaster recovery arrangements. These arrangements are tested regularly and reviewed by independent consultants.

Audit & Risk Sub-Committee and Auditor

The purpose of the Audit & Risk Sub Committee is to assist the Board of Directors of Guernsey Electricity Limited in the effective discharge of the Board's responsibilities for risk management, financial reporting and internal control in order to ensure high standards of probity and good corporate governance. In doing so, the Audit & Risk Sub-Committee is required to act independently of the executive and seek to safeguard the interest of the company shareholder.

The Board has delegated responsibility to the Audit & Risk Sub-Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law, ensuring the proportionate and relevant application of good practice principles in corporate governance and managing the company's relationship with the company's external auditor. The Audit & Risk Sub-Committee members comprise non-executive directors. David Farrimond, who is a qualified accountant, is the Chairman of the Audit & Risk Sub-Committee and the Board is satisfied that he has recent and relevant financial experience to enable the duties of the Sub-Committee to be fully discharged.

The Audit & Risk Sub-Committee meets at least once a year with representatives of the company's external auditor.

Corporate governance - continued

Audit & Risk Sub-Committee and Auditor - continued

The membership of this Sub-Committee during the financial year was as follows:

For the period from 1 April 2012 to 15 November 2012:

Chairman: Mr D Farrimond
Members: Mr M J Mann
Mr R P Lawrence
Mr I A Hardman

From 15 November 2012 to date:

Chairman: Mr D Farrimond
Members: Advocate I H Beattie
Mr R P Lawrence

Attendance during the year for Audit & Risk Sub-Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
D Farrimond	6/6
MJ Mann	3/3
IA Hardman	1/3
RP Lawrence	6/6
IH Beattie	2/2

Sub-Committees of the Board and main terms of reference

In addition to regular scheduled Board meetings, the company operates through Board Sub-Committees, of which the main terms of reference are set out below (except the Audit & Risk Sub-Committee which is outlined above).

Remuneration & Nominations Sub-Committee

Martyn Mann is the Chairman of the Remuneration & Nominations Sub-Committee.

The purpose of the Remuneration & Nominations Sub-Committee is to assist the Board in the effective discharge of its responsibilities for the remuneration and other employment conditions of executive directors and senior management and to act as a Nominations Sub-Committee as the need arises.

In deciding the remuneration and other employment conditions of executive directors, the Sub-Committee acts independently of the executive and seek to safeguard the interests of the company's shareholder.

Corporate governance – continued

Remuneration & Nominations Sub-Committee - continued

In respect of remuneration matters the Sub-Committee's responsibilities include:

- The determination, maintenance, and development of documentation, detailing broad company policy and clear, formal and transparent procedures in regard to remuneration and performance related issues in respect of executive and senior management remuneration, bonus and performance matters. This is done on behalf of the Board and all significant policy and procedural changes in relation to remuneration matters must be approved by the whole Board.

- The determination of the remuneration and other employment conditions of executive directors and senior management (including contractual issues) with the objective of ensuring that executive directors and senior management are provided with appropriate incentives which will encourage enhanced performance and that they are competitively, fairly and responsibly rewarded for their individual contributions to the company's overall performance.

In respect of nomination matters, the main terms of reference of this Sub-Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board, Board Sub-Committees and as holders of any executive office.

The membership of this Sub-Committee during the financial year was as follows:

For the period from 1 April 2012 to 15 November 2012:

Chairman: Mr M J Mann
Members: Advocate I H Beattie
Mr I A Hardman
Mr R P Lawrence

From 15 November 2012 to date:

Chairman: Mr M J Mann
Members: Advocate I H Beattie
Mr I A Hardman

Attendance during the year for Remuneration & Nominations Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
MJ Mann	9/9
IH Beattie	7/9
IA Hardman	8/9
RP Lawrence	3/5

Land & Property Sub-Committee

Iain Limond is Chairman of the Land & Property Sub-Committee. The main terms of reference for this Committee are to review and approve all routine property transactions undertaken by the company up to a limit set by the Board and to undertake such other tasks relating to land and property as directed by the Board. This Sub-Committee comprises the company Chairman together with all of the executive directors.

Attendance during the year for Land & Property Sub-Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
IJ Limond	4/5
S-A David	4/5
RW Beebe	5/5
IH Beattie	5/5
AM Bates	3/5

Relations with the shareholder

The company's issued share capital is wholly owned by the States of Guernsey. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, provided for the States of Guernsey Advisory & Finance Committee (now Treasury & Resources Department) to undertake, on behalf of the States, the role of shareholder. In accordance therewith, the share certificates for the whole issued share capital are held equally in the names of the Minister and Deputy Minister of the Treasury & Resources Department, in trust, as nominees, on behalf of the States of Guernsey. Provision is also in place for the States to give guidance to the Treasury & Resources Department on the policies it wishes to be pursued in fulfilling this role. Each year, the company submits its forward plan to the Treasury & Resources Department. In addition, the company has signed a memorandum of understanding with the States' shareholder representative concerning the manner in which the company and its shareholder's representatives will interact in respect of stewardship and corporate governance matters generally.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law.

The financial statements are required by law to 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 proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Guernsey Electricity Limited

We have audited the financial statements of Guernsey Electricity Limited (the "Company") for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its loss for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited
Chartered Accountant

17 June 2013

The maintenance and integrity of the Guernsey Electricity Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

Guernsey Electricity Limited

Profit and loss account

for the year ended 31 March 2013

	Note	**2013** **£'000**	2012 £'000
Turnover	*2*	**56,443**	51,887
Cost of sales		**(48,140)**	(35,870)
Gross profit		**8,303**	16,017
Net operating expenses		**(11,714)**	(11,349)
Operating (loss) / profit	*3*	**(3,411)**	4,668
Loss on disposal of assets		**(235)**	(27)
(Loss) / profit on ordinary activities before interest, other finance cost and other income		**(3,646)**	4,641
Interest receivable	*4*	**257**	521
Interest payable	*4*	**(1)**	(1)
Other finance cost		**(161)**	(103)
Other income	*5*	**198**	-
(Loss) / profit on ordinary activities before taxation		**(3,353)**	5,058
Taxation	*6*	**831**	(1,032)
(Loss) / profit for the financial year after taxation		**(2,522)**	4,026

All activities derive from continuing operations.

The notes on pages 23 to 40 form an integral part of these financial statements.

Guernsey Electricity Limited

Statement of total recognised gains and losses
for the year ended 31 March 2013

	Note	**2013 £'000**	2012 £'000
(Loss) / profit for the financial year		**(2,522)**	4,026
Actuarial loss recognised in the pension scheme	*24*	**(1,540)**	(7,218)
Movement on deferred tax relating to pension deficit	*14*	**301**	1,394
Total recognised loss for the year		**(3,761)**	(1,798)

The notes on pages 23 to 40 form an integral part of these financial statements.

Balance sheet
at 31 March 2013

	Note	2013 £'000	2012 £'000
Tangible fixed assets	8	**100,186**	93,527
Current assets			
Stocks and work in progress	9	**7,236**	7,830
Debtors and prepayments	10	**12,525**	10,762
Balances with States Treasury	11	**4,346**	16,829
Cash at bank and in hand		**4,632**	253
		28,739	35,674
Creditors: amounts falling due within one year	12	**(10,612)**	(8,629)
Net current assets		**18,127**	27,045
Total assets less current liabilities		**118,313**	120,572
Creditors: amounts falling due after more than one year	13	**(4,057)**	(3,874)
Provision for liabilities and charges	14	**(619)**	(1,222)
Net pension deficit	24	**(15,178)**	(13,256)
Net assets including pension deficit		**98,459**	102,220
Share capital	15	**109,209**	109,209
Reserves	19	**(10,750)**	(6,989)
Shareholders' funds	20	**98,459**	102,220

The financial statements on pages 19 to 40 were approved by the Board of Directors on 17 June 2013.

Signed on behalf of the Board of Directors

IH Beattie

IJ Limond
Directors

The notes on pages 23 to 40 form an integral part of these financial statements.

Cash flow statement

for the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	*16*	**2,191**	8,600
Returns on investments and servicing of finance			
Interest received		**241**	521
Interest paid		**(1)**	(1)
Net cash inflow from returns on investments and servicing of finance		**240**	520
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(11,050)**	(6,226)
Proceeds of disposal of tangible fixed assets		**12**	114
Customers' contributions towards capital expenditure		**305**	346
Net cash outflow from capital expenditure and financial investment		**(10,733)**	(5,766)
Equity dividends paid	*7*	**-**	(484)
Other income	*5*	**198**	-
Net cash (outflow) / inflow before use of liquid resources and financing		**(8,104)**	2,870
Management of liquid resources			
Net cash movements with States Treasury		**(12,483)**	3,050
Increase / (decrease) in cash	*17 & 18*	**4,379**	(180)
Net cash (outflow) / inflow		**(8,104)**	2,870

Movements in balances with States Treasury and the other income are deemed liquid resources in accordance with Financial Reporting Standard 1, "Cash Flow Statements", ("FRS1") (as revised).

The notes on pages 23 to 40 form an integral part of these financial statements.

Notes to the financial statements

Year ended 31 March 2013

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of preparation

The financial statements have been prepared under the historical cost convention, they give a true and fair view, have been prepared in accordance with UK GAAP and are in compliance with the Companies (Guernsey) Law, 2008.

Transfer of undertaking

The company was established in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Law 2001 (Commencement) Ordinance and the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002.

Sales of electricity

Sales of electricity are accounted for on an accruals basis and include the estimated value of unbilled units at the year end. The unbilled units are valued at current tariff rates.

Hire purchase

The company provides hire purchase facilities on the provision of goods and services ancillary to the principal activities of the company. The sales value is included in turnover at the inception of the hire purchase transaction and interest is included in interest receivable over the finance period of the transaction.

Interest

Interest receivable and payable are accounted for on an accruals basis.

Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the profit and loss account over the estimated life of the assets to which they relate.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Assets transferred from the States of Guernsey Electricity Board as at 1 February 2002 are being depreciated over their residual estimated useful lives from that date applying the periods noted below.

1. Principal accounting policies - continued

Tangible fixed assets and depreciation - continued

Depreciation is calculated so as to write off the cost of tangible fixed assets over the period of their estimated useful lives using the straight line method. The estimated life of each class of fixed asset is set out below. Depreciation commences in the year of acquisition, or on completion of construction. Any shortfall of depreciation arising on the disposal, or write-off, of fixed assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. The estimated lives are as shown below:

		Estimated life in years
Buildings		40
Buildings Equipment		10
Cable Link		25
Plant and machinery	- Generation	25 – 35
	- Distribution	35
	- Street Lights	20
Distribution network comprising:		
Distributors		35
Meters		5 – 15
Cyclocontrol receivers		5
Motor vehicles		5
Furniture and equipment		3 – 10
Minor plant		5 – 10

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. In respect of goods held for resale, a provision is made based on the time elapsed since the goods were purchased. Provision is made for other stocks relating to strategic plant, based upon the remaining useful economic life of the assets to which they relate.

Leases

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Deferred taxation

Provision for deferred tax is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise, based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. The pension scheme deficit shown in the accounts is net of the deferred tax asset. Deferred tax assets and liabilities are not discounted.

Notes to the financial statements - continued

Year ended 31 March 2013

1. Principal accounting policies - continued

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Foreign currency profits and losses are dealt with in the profit and loss account.

Financial instruments

The company enters into forward exchange contracts to mitigate the risk of fluctuations in the currency rate between the Euro and the Pound Sterling in meeting its financial obligations for the import of electricity units from the European grid and on major infrastructure projects, including the new on-island generator, 2D. Gains and losses on these contracts are deferred and recognised in the profit and loss account only when the delayed transaction has itself been reflected in the company's account. The company does not hold, or issue, financial instruments for speculative purposes. The company also hedges against the fluctuation in the price of heavy fuel oil, including the movement in the US Dollar, which is inherent in the pricing. Gains and losses are recognised in the profit and loss account when realised.

Pension costs

The employees' pension scheme is a defined benefits scheme. The company applies Financial Reporting Standard 17, "Post retirement benefits", ("FRS17"). In so doing, current service cost and any past service cost is charged to the profit and loss account, together with finance costs/income for the scheme which are charged/credited to the profit and loss account. The difference between the expected and actual actuarial gains and losses are charged to the statement of total recognised gains and losses. Full actuarial valuations are carried out on a triennial basis and annual updates are carried out to disclose the values and assumptions in accordance with FRS17.

Joint arrangements

The Channel Islands Electricity Grid Limited is a joint arrangement between Jersey Electricity plc and Guernsey Electricity Limited. The company was formed to manage the project and the ongoing operation of the cable link between Guernsey, Jersey and France. In accordance with Financial Reporting Standard 9, "Associates and Joint Ventures", ("FRS9"), these financial statements include the company's entitlement to the assets, liabilities, cash flows and the shared items of this joint arrangement where the company's entitlements are fully determined by contracts with the other party to the joint arrangement.

Notes to the financial statements - continued

Year ended 31 March 2013

2. Turnover

	2013 **£'000**	2012 £'000
Sales of electricity	**52,894**	48,257
Other sales	**3,549**	3,630
	56,443	51,887

All sales of electricity arise from customers in the Island of Guernsey. Other sales are made to customers throughout the Bailiwick of Guernsey. As stated in the accounting policy for sales of electricity, each year an estimate of the unbilled units as at 31 March is determined.

3. Operating (Loss) / profit

Operating (loss) / profit is after charging / (crediting):

	2013 **£'000**	2012 £'000
Depreciation (note 8)	**5,632**	5,521
Rentals under operating leases	**12**	12
Auditor's remuneration - statutory audit	**33**	36
Bad debts	**65**	31
Emoluments		
- non-executive directors	**53**	41
- executive directors		
- basic remuneration	**455**	349
- other benefits (including pension costs under FRS17)	**180**	136
Regulatory costs - external (excluding non-audit services)	**129**	360
- internal	**71**	133
Other operating income	**(668)**	(609)

Notes to the financial statements - continued

Year ended 31 March 2013

4. Interest

	2013	2012
	£'000	£'000
Interest receivable:		
Deposits with banks and States Treasury	**122**	380
Hire purchase	**135**	141
	257	521
Interest payable:		
Security deposits	**1**	1
	1	1

5. Other income

Of the £5,350,000 that the States of Guernsey Electricity Board had on deposit with the Bank of Credit and Commerce International when it ceased trading on 5 July 1991, £5,623,633 has been recovered. £197,477 was received in the current year (2012: £Nil). Distributions by the liquidator are denominated in US Dollars and therefore exposed to Sterling / Dollar fluctuations. This represents a full recovery of the original capital deposit together with interest.

6. Taxation

The company's profits or losses from the activities subject to licence from the Guernsey Competition and Regulatory Authority (formerly the Office of Utility Regulation) will be chargeable to tax at the company higher rate of 20%, as will rental income from Guernsey properties. For all other company activities, the company standard rate of 0% is applicable. The tax adjusted profits of the company have been determined so that the appropriate amounts are taxed at the applicable rate.

The basis of assessment to Guernsey tax continues to be on an actual current year basis. The assessable profits for the current year have been offset against the unrelieved trading losses and excess capital allowances carried forward from prior years. Consequently, all tax is deferred and there is no tax payable for the current year.

Notes to the financial statements - continued

Year ended 31 March 2013

6. Taxation - continued

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. Various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate and the company higher rate. Deferred tax has been provided on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 19.6173% (2012: 19.3209%) has been used to provide for deferred tax. The blended rate has been calculated by reference to the company's effective rate of tax in the year ended 31 March 2013.

The deferred tax (credit) / charge in the profit and loss account for the year is:

	2013	2012
	£'000	£'000
Timing differences on capital allowances and depreciation	**(50)**	71
Short term timing differences (pension)	**(228)**	(92)
Short term timing differences (other)	**(55)**	(26)
Movement on unrelieved trading losses	**(498)**	1,079
	(831)	1,032

7. Dividend

	2013	2012
	£'000	£'000
Paid in the year, £Nil per share (2012: £0.0044 per share paid)	**-**	484
Proposed dividend of £Nil per share (2012: £0.0092 per share proposed)	**-**	1,000

Notes to the financial statements - continued

Year ended 31 March 2013

8. Tangible fixed assets

	1 April 2012 £'000	Additions £'000	Written off/ disposals £'000	**31 March 2013 £'000**
Cost				
Land and buildings	30,496	110	17	**30,589**
Cable link	28,948	675	307	**29,316**
Plant and machinery:				
Generation	37,395	9,074	-	**46,469**
Distribution	11,811	274	38	**12,047**
Distribution network	29,466	1,884	84	**31,266**
Motor vehicles, furniture and equipment, minor plant	5,010	521	105	**5,426**
	143,126	12,538	551	**155,113**

	1 April 2012 £'000	Charge for the year £'000	Written off/ disposals £'000	**31 March 2013 £'000**
Depreciation				
Land and buildings	8,490	905	15	**9,380**
Cable link	12,593	1,260	147	**13,706**
Plant and machinery:				
Generation	15,584	1,429	-	**17,013**
Distribution	2,361	352	13	**2,700**
Distribution network	7,704	1,100	27	**8,777**
Motor vehicles, furniture and equipment, minor plant	2,867	586	102	**3,351**
	49,599	5,632	304	**54,927**
Net book value	93,527			**100,186**

Included above are assets in the course of construction of £13,352,000 (2012: £3,924,000), which are not depreciated.

Notes to the financial statements - continued
Year ended 31 March 2013

9. Stocks and work in progress

	2013		2012	
	£'000	£'000	£'000	£'000
Fuel stocks		5,109		5,330
Purchased goods for resale	283		317	
Provision	(3)	280	(5)	312
Other stocks	3,444		3,526	
Provision	(1,743)	1,701	(1,469)	2,057
Work in progress		146		131
		7,236		7,830

10. Debtors and prepayments

	2013	2012
	£'000	£'000
Estimated value of unbilled units	7,867	6,535
Customer accounts outstanding	3,687	3,173
Other debtors	360	683
Prepayments	611	371
	12,525	10,762

Included in "Customer accounts outstanding" is an amount totalling £293,000 (2012: £309,000) due after more than one year.

11. Balances with States Treasury

The Treasury Department of the States of Guernsey is engaged to invest the company's liquid funds in excess of its daily requirements.

Notes to the financial statements - continued

Year ended 31 March 2013

12. Creditors: amounts falling due within one year

	2013	2012
	£'000	£'000
Trade creditors	**4,361**	2,778
Customer payments received in advance	**4,833**	4,646
Employee taxes and Social Security	**168**	157
Deferred income	**146**	137
Accruals and other creditors	**1,104**	911
	10,612	8,629

The company has a £750,000 overdraft facility with Barclays Bank Plc (2012: £750,000), and interest is payable quarterly at 1.75% over UK base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. The facility is due for review on 22 January 2014. The States of Guernsey, by way of resolution at its meeting on 15 December 2011, authorised the Treasury & Resources Department to make an overdraft facility of £5m available to the company for a four year period from 1 January 2012 with interest payable at the States Treasury rate.

13. Creditors: amounts falling due after more than one year

	2013	2012
	£'000	£'000
Deferred income	**4,057**	3,874

14. Provision for liabilities and charges

	2013	2012
	£'000	£'000
Deferred taxation:		
Balance at 1 April	**(1,953)**	(1,591)
Profit and loss account (credit) / charge	**(831)**	1,032
Statement of total recognised gains and losses	**(301)**	(1,394)
Balance at 31 March	**(3,085)**	(1,953)
Which comprises:		
Capital allowances in excess of depreciation	**7,609**	7,659
Short-term timing differences (other)	**(193)**	(138)
Unrelieved trading loss for tax purposes	**(6,797)**	(6,299)
Provision for liabilities and charges	**619**	1,222
Deferred tax asset on pension deficit (note 24)	**(3,704)**	(3,175)

15. Share capital

	2013	2012
	£'000	£'000
Authorised:		
125,000,000 ordinary shares of £1 each	**125,000**	125,000
Issued and fully paid:		
109,208,844 ordinary shares of £1 each	**109,209**	109,209

Two shares were issued on formation of the company and the remaining 109,208,842 shares were issued to equate to the consideration of £109,208,844 for the net assets acquired by the company from the States of Guernsey with effect from 1 February 2002.

Notes to the financial statements - continued

Year ended 31 March 2013

16. Reconciliation of operating (loss) / profit to net cash inflow from operating activities

	2013	2012
	£'000	£'000
Operating (loss) / profit	**(3,411)**	4,668
Depreciation charge	**5,632**	5,521
Pension service cost	**1,812**	1,579
Employer's pension cash contributions	**(1,062)**	(1,234)
Deferred income	**(146)**	(137)
Decrease / (increase) in stocks and work in progress	**594**	(1,832)
Increase in debtors and prepayments	**(1,747)**	(487)
Increase in creditors	**519**	522
	2,191	8,600

17. Reconciliation of net cash flow to movement in net funds

	2013	2012
	£'000	£'000
Increase / (decrease) in cash in the year	**4,379**	(180)
Cash used to (decrease) / increase liquid resources	**(12,483)**	3,050
Change in net funds	**(8,104)**	2,870
Net funds at 1 April	**17,082**	14,212
Net funds at 31 March	**8,978**	17,082

18. Analysis of changes in net funds

	At 1 April 2012	Cash flows	**At 31 March 2013**
	£'000	£'000	**£'000**
Cash			
Cash at bank and in hand	253	4,379	**4,632**
	253	4,379	**4,632**
Balances with States Treasury	16,829	(12,483)	**4,346**
	17,082	(8,104)	**8,978**

Notes to the financial statements - continued
Year ended 31 March 2013

19. Reserves

	2013 **£'000**	2012 £'000
Balance at 1 April brought forward	**(6,989)**	(4,707)
(Loss) / profit for the financial year	**(2,522)**	4,026
Dividend	**-**	(484)
Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**(1,239)**	(5,824)
Balance at 31 March carried forward	**(10,750)**	(6,989)

20. Reconciliation of movements in shareholders' funds

	2013 **£'000**	2012 £'000
Shareholders' funds at 1 April brought forward	**102,220**	104,502
(Loss) / profit for the financial year	**(2,522)**	4,026
Dividend	**-**	(484)
Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**(1,239)**	(5,824)
Shareholders' funds at 31 March	**98,459**	102,220

21. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £6,117,000 as at 31 March 2013 (2012: £14,521,000). These relate to outstanding commitments on capital projects across a range of asset categories.

Cable link commitments
For the import of power from the European Grid, the company has a contract with Electricite de France ("EdF"). The previous contract expired on 31 December 2012. A new electricity import contract with EdF is effective for a 10 year period which commenced from 1 January 2013. The related transmission agreement with Reseau de transport d'electricite ("Rte") also commenced from 1 January 2013. Under the import contract, there is a take or pay commitment, whereby the company is jointly and severally liable, along with the Channel Islands Electricity Grid Limited ("CIEG") and Jersey Electricity plc, for a block of power over the term of the contract. The price at which the take or pay block is charged increases annually over the period of the contract and for calendar year 2014 this equates to a total commitment of €8.3m (2013: €7.9m) for Guernsey Electricity Limited.

Operating lease commitments
Commitments to make payments during the next year in respect of an operating lease are as follows:

	2013 **£'000**	2012 £'000
Land and Buildings		
Lease which expires:		
Within one year	**-**	-
Within two to five years	**12**	12

22. Financial instruments

(a) Import Financial Hedge

Our import contracts with EdF and Rte are denominated in Euros. The company has entered into forward and participating forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	€'000	€'000	€'000	**2013 €'000 Total**	2012 €'000
Forward contracts to purchase Euro	2,415	875	2,282	**5,572**	13,056
	£'000	£'000	£'000	**£'000**	£'000
Contracted prices	2,082	764	1,932	**4,778**	11,359
Closing value at 31 March	2,037	738	1,925	**4,700**	10,882
Unrecognised and unrealised loss	(45)	(26)	(7)	**(78)**	(477)

If the spot exchange rate falls below the forward rate, the company is protected by forward contracts to purchase Euros as follows:

	€'000	€'000	€'000	**2013 €'000**	2012 €'000
Forward contracts to purchase Euro	3,450	1,250	3,260	**7,960**	18,510
Forward exchange rate	1.1600	1.1460	1.1810		

The sterling/euro rate at 31 March 2013 was 1.1853 (2012: 1.1997).

22. Financial instruments - continued

(b) On-island Generation Financial Hedge

The company has entered into a financial hedge on the commodity price of heavy fuel oil used for its on-island generation. The commitment to this is for an annual volume for financial year 2013/14 of 32,500 metric tonnes at an average price of £415.72/metric tonne and for financial year 2014/15 of 5,000 metric tonnes at an average price of £413.00/metric tonne.

(c) 2D Project Hedge

The main contract for the new medium speed diesel engine, 2D, is also denominated in Euros. The company has entered into forward and participating forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	2013	2012
	€'000	€'000
	Total	
Forward contracts to purchase Euro	**174**	10,038
	£'000	£'000
Contracted prices	**148**	8,548
Closing value at 31 March	**147**	8,367
Unrecognised and unrealised loss	**(1)**	(181)

If the spot exchange rate falls below the forward rate, the company is protected by forward contracts to purchase Euros as follows:

	2013	2012
	€'000	€'000
Forward contracts to purchase Euro	**218**	12,330
Forward exchange rate	**1.1731**	

23. Contingent liabilities

(a) Vibration complaints

The company has held discussions with the Environmental Health Department concerning complaints about vibration arising from operating certain of the engines used for on-island generation. A corrective plan has been proposed by Guernsey Electricity. The Department have agreed to this plan of action and will monitor performance against it. The cost of this corrective work is between £20,000 and £30,000. This agreed approach is an alternative to that previously considered. If it is not totally successful, additional measures will have to be considered by the company.

(b) Software licence claim

A claim has been made against the company by one of its suppliers relating to an alleged infringement of software licence terms. The company is taking legal advice in respect of this claim. The directors are of the opinion that the claim can be resisted and have therefore made no provision in the accounts.

24. Pension Scheme

Employee benefit obligations for Guernsey Electricity Limited

The employees of the company are members of the States of Guernsey Public Servants Pension Scheme (PSPS). This is a defined benefits pension scheme funded by contributions from both employer and employee to the PSPS at rates which are determined on the basis of independent actuarial advice, and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

As the PSPS is a multi entity arrangement, the States of Guernsey contracted the Scheme's qualified independent actuaries to identify the actuarial account for each entity and, therefore, the value of the pension fund assets and liabilities attributable to this company. The triennial valuation at 31 December 2010 recommended the decrease of employer's contribution from 17.3% to 14.6% from 1 April 2012 and this was approved by the States of Guernsey. The value of these employer contributions to the Fund from 1 April 2013 to 31 March 2014 are estimated at £1,118,000.

The next triennial actuarial valuation of the PSPS is due as at 31 December 2013.

Description of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund ("the Fund")

The Fund is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary.

The company recognises the requirements of Financial Reporting Standard 17 ("FRS17") Retirement Benefits on the following basis:

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

24. Pension Scheme - continued

The amounts recognised in the balance sheet are as follows:

	2013 £'000	2012 £'000
Fair value of Fund assets	**47,981**	43,184
Present value of funded obligations	**(66,863)**	(59,615)
Deficit in scheme	**(18,882)**	(16,431)
Related deferred tax asset	**3,704**	3,175
Net pension liability	**(15,178)**	(13,256)

The amounts recognised in the profit and loss account are as follows:

	2013 £'000	2012 £'000
Current service cost	**1,812**	1,579
Interest on obligation	**2,650**	2,796
Expected return on Fund assets	**(2,489)**	(2,693)
Expense recognised in the profit and loss	**1,973**	1,682
Actual return on Fund assets	**(4,687)**	(73)

Notes to the financial statements - continued

Year ended 31 March 2013

24. Pension Scheme - continued

Changes in the present value of the defined benefit obligation are as follows:

	2013	2012
	£'000	£'000
Opening defined benefit obligation	**59,615**	51,521
Service cost	**1,812**	1,579
Interest cost	**2,650**	2,796
Contributions by members	**479**	470
Actuarial losses	**3,738**	4,598
Benefits paid	**(1,431)**	(1,349)
Closing defined benefit obligation	**66,863**	59,615

Changes in the fair value of Fund assets are as follows:

	2013	2012
	£'000	£'000
Opening fair value of Fund assets	**43,184**	42,756
Expected return	**2,489**	2,693
Actuarial gains / (losses)	**2,198**	(2,620)
Contributions by employer	**1,062**	1,234
Contributions by members	**479**	470
Benefits paid	**(1,431)**	(1,349)
Closing fair value of Fund assets	**47,981**	43,184

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL):

	2013	2012
	£'000	£'000
Total actuarial losses	**(1,540)**	(7,218)
Total loss recognised in STRGL	**(1,540)**	(7,218)
Cumulative amount of loss recognised in STRGL	**(21,715)**	(20,175)

24. Pension Scheme - continued

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2013	2012
	%	%
Equities	**69**	67
Gilts	**4**	4
Corporate bonds	**15**	15
Property	**7**	6
Other assets	**5**	8

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	31 March 2013	31 March 2012
	% p.a.	% p.a.
Discount rate	**4.5**	4.5
Expected return on Fund assets at 31 March (for following year)	**5.8**	5.8
Rate of increase in pensionable salaries	**4.35**	4.05
Rate of increase in deferred pensions	**3.6**	3.3
Rate of increase in pensions in payment	**3.6**	3.3

Mortality Assumptions

The mortality assumptions are based on standard mortality tables, which allow for future mortality improvements. The assumptions are that a member aged 65 will live, on average, until age 87, if they are male, and until age 90, if female. For a member currently aged 45, the assumptions are that, if they attain age 65, they will live on average until age 89, if they are male, and until age 92, if female.

Description of the basis used to determine the expected rate of return on the assets

The company adopts a building block approach in determining the expected rate of return of the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns, consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

24. Pension Scheme - continued

Amounts for the current and previous periods are as follows:

	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	**66,863**	59,615	51,521	51,168	35,273
Fund assets	**47,981**	43,184	42,756	37,560	28,610
Deficit	**(18,882)**	(16,431)	(8,765)	(13,608)	(6,663)
Experience gains / (losses) on Fund assets	**2,198**	(2,620)	1,860	6,068	(10,805)
Experience gains on Fund liabilities	**28**	932	504	1,208	426
Change in assumptions underlying the Present value of Fund liabilities	**(3,766)**	(5,530)	2,835	(14,464)	355
Total Experience (losses)/gains on Fund liabilities	**(3,738)**	(4,598)	3,338	(13,256)	780

The balance sheet position in respect of the Actuarial Account has worsened, as the effect of the economic assumptions derived from the market has more than offset the increasing asset value.

An important financial factor underlying the change in assumptions item was the change in relationship between the corporate bond discount rate and the market derived assumption for future inflation. The inflation assumption increased by 0.3%, while the discount rate remained the same. The effect of the change in assumptions was to increase the value placed on liabilities. On the other hand, the balance sheet improved due to the actual investment return being higher than expected. The net position was an increase of around £2.5m in the deficit determined under FRS17.

25. Statement of control

The company is wholly owned and ultimately controlled by the States of Guernsey.

26. Related party transactions

There are no disclosable related party transactions in this financial year. Of the company's annual income and expenditure, less than 20% of their respective value is due to transactions with other States entities.

27. Post Balance Sheet Event

On 29 May 2013 the company entered into an Agreement with Jersey Electricity plc as part of the joint arrangement, the Channel Islands Electricity Grid Limited, to participate in the delivery and evaluation of a number of new cable initiatives. These are as follows:

- The "Normandie 3" project which will see the installation of a new cable between Jersey and France in 2014;
- The "Normandie 1" project which will see an overlay of the failed EDF1 cable between Jersey and France. Subject to planning permission from the French authorities it is anticipated that this will be completed in 2016; and
- The "GJ2" project which will involve the full scoping, assessment and evaluation of a project to install a second additional cable between Guernsey and Jersey.

The company's share of the cost of the investment in the Normandie 1 and 3 cables is estimated to be £30m. This will entitle the company to an importation capacity of 60MW. The company is seeking to finance this investment through a debt facility.