Powering Life, Today and Tomorrow

Report and financial statements 2016/17

Guernsey Electricity

Directors, officers and professional advisers

Directors:	IA Hardman *(Non-Executive Chairman)*
	AM Bates *(Chief Executive Officer)*
	JPC Turner *(Chief Financial Officer)*
	S-A David *(Asset Management)*
	RP Lawrence *(Non-Executive)*
	RJ Dutnall *(Non-Executive)*
	CM Holmes *(Non-Executive)*
Secretary:	SB Pattimore
Bankers:	Barclays Bank Plc PO Box 41 Le Marchant House St Peter Port Guernsey GY1 3BE
	HSBC Bank Plc Arnold House St Julians Avenue St Peter Port Guernsey GY1 3AT
Legal advisers:	Mourant Ozannes 1 Le Marchant Street St Peter Port Guernsey GY1 4HP
Independent auditor:	KPMG Channel Islands Limited Glategny Court Glategny Esplanade St Peter Port Guernsey GY1 1WR
Registered office:	PO Box 4 Electricity House North Side Vale Guernsey GY1 3AD
Company number:	38692

As a business charged with delivering a secure and affordable electricity supply to Guernsey, we are absolutely focused on what the organisation needs to deliver to ensure we achieve our customers' and the island's aspirations for the future. The Board of Guernsey Electricity continues to balance the requirements of our customers today against the resources needed to meet the future investment and operational challenges ahead.

Contents

Board members

Ian Hardman

Non-Executive Chairman

Ian became a Non-Executive Director of Guernsey Electricity Ltd in 2011. He has background in banking and, having joined Lloyds Bank in 1973, worked his way up to the position of Senior Islands Manager, responsible for the four retail branches in Guernsey and Alderney. He worked on the offshore merger of Lloyds Bank and TSB Bank Channel Islands in 1996 and was involved with the legal aspects of the takeover of HBOS by LTSB. Ian is an Associate of the Chartered Institute of Bankers and Institute of Chartered Secretaries and Administrators.

Bob Lawrence

Non-Executive Director

Bob is the former Chief Executive Officer of Jersey Telecom Ltd and led it from a State controlled entity into a private limited company that operates in a highly competitive market. He has extensive engineering knowledge as well as the experience of operating and managing within a regulated market similar to the Channel Islands and became a Non-Executive Director of Guernsey Electricity Ltd in 2011.

Bob Dutnall

Non-Executive Director

Bob is a qualified Chartered Accountant with substantial business and commercial experience. His senior management career has involved working for a number of different organisations, particularly in the engineering sector. In 2005 he joined Sportingbet PLC, a FTSE 250 internet gaming company before moving, in 2012, to take on a new part-time role as an Executive Director of betway.com, a privately owned internet gaming group. Bob became a Non-Executive Director of Guernsey Electricity Ltd in 2013.

Christine Holmes

Non-Executive Director

Christine has a post-graduate diploma in marketing and has had an extensive career at a senior level in marketing and public relations. She has held a number of marketing posts at management level within the construction industry and in 1997 was appointed as the Corporate Marketing Manager for Jersey Electricity PLC. Following a period as Group Head of Marketing for the Dandara property group, Christine now operates her own marketing and public relations company, Profile Project Management Ltd. She became a Non-Executive Director of Guernsey Electricity Ltd in 2013.

Alan Bates
Chief Executive Officer

Alan became Managing Director (2010) then Chief Executive Officer (2015) having joined from Manx Gas, where he was the Managing Director. He commenced his career with P&O Cruises as an Engineering Officer followed by 19 years in the oil and gas industry working for Mobil Oil/BP Oil and IEG. He has a degree in Electro Mechanical Power Engineering and an MBA in Executive Leadership. Alan is a Chartered Electrical Engineer (MIET), a Chartered Mechanical Engineer (FIMechE), has qualifications in risk and safety management (IIRSM) and is also a member of the Institute of Asset Managers. Alan is also a Director of CIEG.

Julian Turner
Chief Financial Officer

Julian joined Guernsey Electricity as Chief Financial Officer in 2015. A Deloitte qualified Chartered Accountant with substantial commercial, compliance and process transformation experience, he has held a number of varied finance roles with regional responsibility including EMEA in large multinationals such as Procter & Gamble, Flowserve and GE. He has an MBA from Alliance Manchester Business School. Julian is also a Director of CIEG.

Sally-Ann David
Asset Management Director

Sally-Ann was appointed to the Board in 2011. She is a Chartered Electrical Engineer with over 30 years' experience in the power and submarine cable market. Sally-Ann is fellow of the Institute of Electrical Engineers, has an MBA, and is a Chartered Director. Sally-Ann is also a Director of CIEG.

Chairman's statement

The 2016/17 financial year has been very successful and positive for the company.

Following our return to profit last year we have seen continued progress in operating profit as we strive to keep costs under control and have benefited from advantageous hedged exchange rates. This has allowed tariff levels to remain unchanged for the fifth year in a row and for further investment in our electricity supply infrastructure to meet our strategy of secure, reliable, sustainable and affordable electricity supplies for the island.

Since the Brexit decision in the UK, however, we have seen an adverse change in the exchange rates impacting our energy import costs and the cost of heavy fuel oil has increased substantially. As both these areas have significant impact on the price of electricity, and with further investment in new diesel generators and the direct subsea cable link to France, means we will need to review tariffs in the near future.

As mentioned, we continue to control our costs through our business transformation programme, making Guernsey Electricity fit for the 21st century and beyond.

We also continue to review our employee pension scheme to ensure its sustainability.

We work well with our shareholder, the States Trading Supervisory Board, and I would like to thank the political and Civil Service members of that department for their support and assistance in this last financial year.

Finally, I would like to thank all our dedicated employees for all their hard work, loyalty and commitment during a further year of substantial change.

IA Hardman
Non-Executive Chairman

Special delivery:
The island's new diesel engine 3D arriving and being installed in the last 12 months. The engine, nicknamed Freddie, is now operational and together with sister engine 2D provides essential backup to the cable link supply from France.

Chief Executive Officer’s report

Overview

Guernsey Electricity has delivered another strong operational and financial performance this year. The business, however, remains aware of the significant challenges it, and the energy industry, face in the future. The world of energy supply and demand is changing at an unprecedented pace. As a business charged with delivering a secure and affordable electricity supply to Guernsey, we are absolutely focused on what the organisation needs to deliver to ensure we achieve our customers and the island’s aspirations for the future. The Board of Guernsey Electricity continues to balance the requirements of our customers today against the resources needed to meet the future investment and operational challenges ahead.

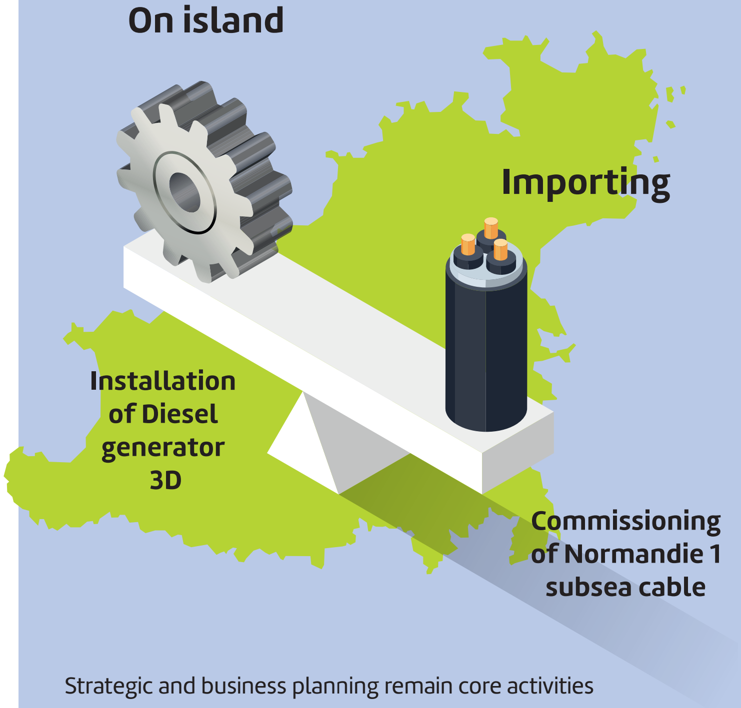
Following a period of substantial change the business is now consolidating its organisational design, systems and processes whilst preparing for significant investment in infrastructure for the island. This consolidation period will allow us to optimise the value from these changes whilst also preparing and planning for the challenges ahead. We understand that for the business to be successful on this journey, the team at Guernsey Electricity must all have a focused and common understanding of what we need to deliver and how we will be successful in achieving these needs. To this end, we have a new vision for the organisation, a revised purpose and an amended set of values which underpin our role to our customers and the island. Guernsey Electricity has seen significant cultural change through its business transformation programme over the last two years to allow it to meet the needs of the future. Whilst we understand change is constant, and nowadays for our industry inevitable in terms of technology, we also understand the need to fully embed the cultural change within our organisation. This will allow us to optimise our performance for the maximum benefit of our customers.

I am pleased to report that the financial performance of the business has resulted in an operating profit of £4.1m (2016: Operating Profit of £4.2m). This level of profitability is essential to fund critical investments in the island’s electricity infrastructure. In this financial year, we have reinvested £19.2m back into our business activities, whilst maintaining tariff levels unchanged for five years.

This recent strong financial performance is due in part to the favourable commodity and foreign exchange markets; however, it has been supported by the relentless internal focus on controlling costs and optimising value. As a business we are aware that these favourable conditions are coming to an end with the adverse foreign exchange rates predicted to further increase commodity costs significantly in the next few years. When this adverse effect is combined with other increases associated with our pension provisions, increased depreciation costs for past investment, and the need to spend substantial amounts on maintaining and improving our assets, the Board will need to make some decisive decisions on what can be achieved in terms of security and the environment for the amount the island can afford to spend. Remaining at the forefront of the Board’s assessment on all expenditure is the affordability to our customers and we remain committed to ensuring changes in tariffs are understood and provide stability and certainty going forward. We are currently working with the States Trading Supervisory Board to ensure our tariff evolution is at a level to adequately fund necessary asset investment through debt and equity, whilst maintaining an appropriate level of focus on cost efficiency within the business. Any near term tariff changes will need to reflect both cost pressures from the wholesale energy markets and foreign exchange rates together with the funding of additional investment required in electricity infrastructure.

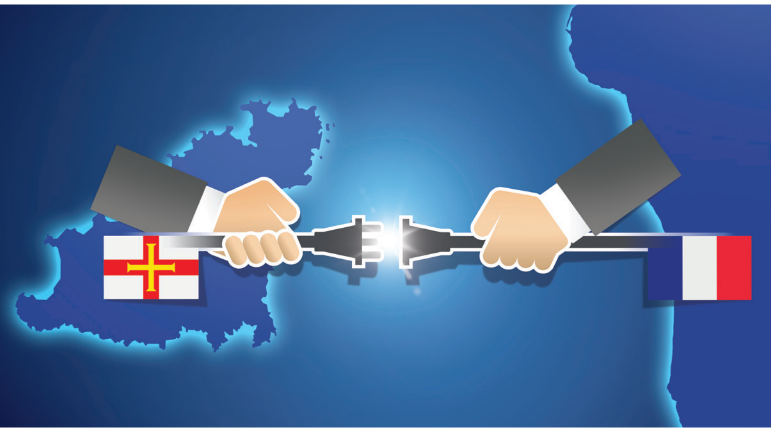
Following a period of substantial change the business is now consolidating its organisational design, systems and processes whilst preparing for significant investment in infrastructure for the island.

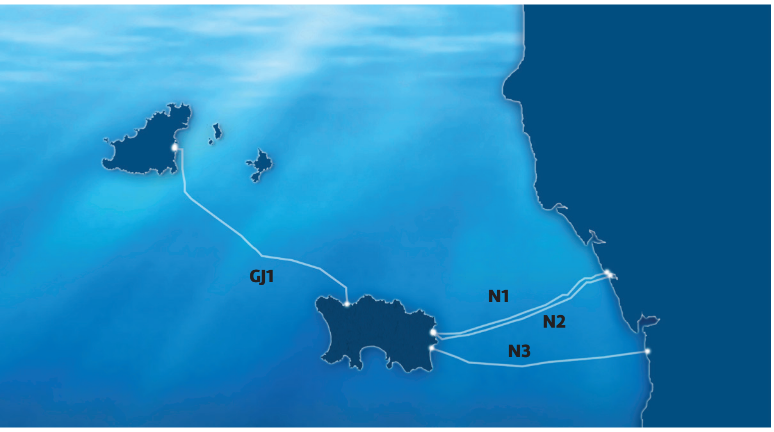
Investment in infrastructure resilience



A key part of achieving our secure, sustainable and affordable energy future is engaging with our customers and other stakeholders to ensure we understand expectations, and to do this we believe a greater level of engagement is required for the island. The Board believes that this initial engagement should be through the development of a robust and pragmatic energy policy for the island. The Board will ensure that any associated major electricity investment decisions receive the required level of scrutiny and approval before committing the organisation to these significant investments. The first of these major investments will be the direct connection of the island to France. To assist in the assessment of these key assets, the business is pushing for greater clarity on the policy for energy for the island. The Board are mindful of the scale of the island and that we cannot afford to do everything, and thus we need an affordable pathway to achieving the 2050 world environmental targets. A revised Energy Policy should allow investment decisions by the energy sector to be focused on meeting these targets.

Strategic and business planning remain core activities for the business. As an organisation we understand that planning is critical to achieving our corporate aims. We continue to ensure we have clarity on the 25 year strategic plans for capital investments as well as the detailed five year view of what the business needs to deliver. The business continues to focus on the required major strategic investments and this year has seen the commissioning of Normandie 1 (subsea cable connection between France and Jersey) with Jersey Electricity, our joint venture partners in the Channel Islands Electricity Grid ("CIEG"). This final part of our importation strategy via Jersey gives additional electricity import capacity to the Channel Islands. For Guernsey, this additional capacity further reduces the requirements for on-island generation and therefore the environmental impact of our operations. The next stage of our import strategy is to gain a second connection to the island. We therefore continue with all the enabling works to allow a direct subsea connection with France.





The CIEG manages four subsea cables, one between Guernsey and Jersey and three between Jersey and Normandy.

Chief Executive Officer's report, continued

The replacement of our ageing on-island fleet of generators saw the installation of 3D. Handover of this latest asset was in May 2017 and completes the initial phase of replacement. The Energy Policy, and our requirements for security, will influence the next phase of replacement. The affordability of a deep water berth will be one of the major factors which will affect the decisions on what replaces the older on-island generating assets.

For the last three years we have reported that the States of Guernsey voted to remove Guernsey Electricity, together with the Post Office, from price regulation by the Guernsey Competition and Regulatory Authority ("GCRA"). We have openly stated that in our opinion this form of independent regulation added little value and imposed an additional unacceptable cost and time burden on a company 100% owned by the States of Guernsey. As highlighted last year, the removal of regulation does not allow the company to operate unchecked in the future. The States Trading Supervisory Board has exercised greater control, scrutiny and supervision to ensure the interest of all stakeholders and approve any significant changes to the company's operations, which includes future price change strategies, in advance of them taking place. Through the appropriate scrutiny and transparency of operations, the Board continues to believe the appropriate level of supervision and oversight will be achieved at an affordable level for the island. However, the Board remains concerned at the length of time the process to be removed from regulation has taken.

I also have to report that the escalating position of the pension liability has now reached a point that positive action has had to be taken and the Board has recently decided to close the existing Career Average Revalued Earnings ("CARE") scheme with all new employees becoming members of the Guernsey Electricity Flexible Pension Plan, a defined contribution scheme. The Board will continue to assess the future funding requirements of the Public Sector CARE Pension Scheme and the impact this has on the business and its customers.

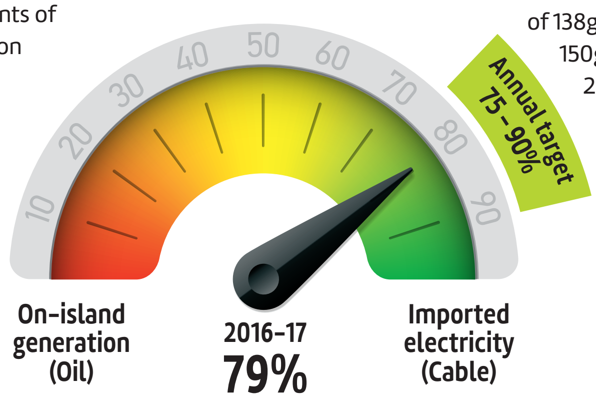
Business performance

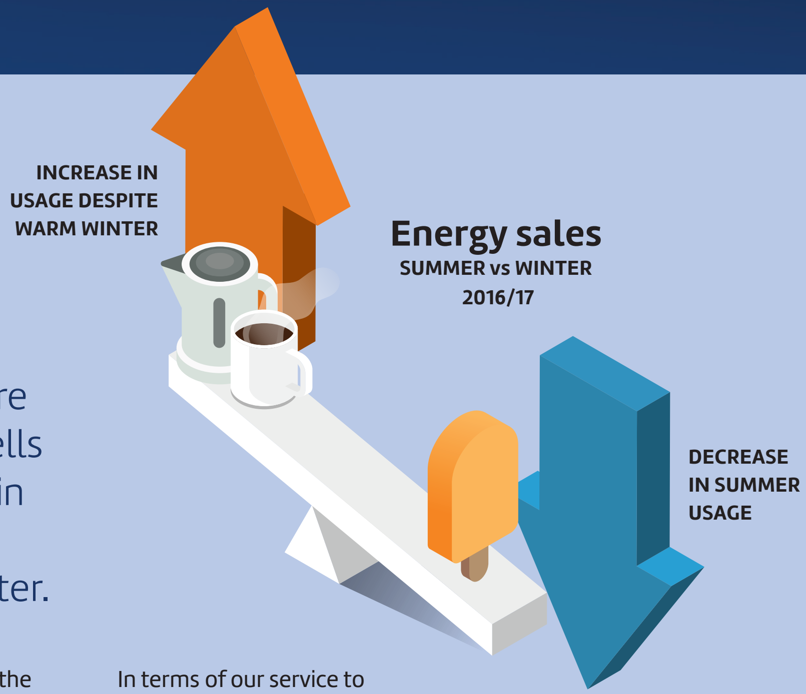
One of the key non-financial business performance metrics for Guernsey is the level of importation of electricity from France and the associated carbon intensity of the business. In the years following the failure of GJ1, a limited amount of electricity was imported to the island. As a result, and whilst levels have been increasing since the failure in 2012, the level of importation continued to be dictated by asset reliability and condition, rather than by any economic or environmental factors. The importation levels for the previous four years has been 77% (2016), 58% (2015), 41% (2014) and 28% (2013) of our total supply to the island. This clearly shows an improvement since the subsea cable failure and we continue to plan for imports to meet, or exceed, 75% of our supply. I am pleased to report that importation is now not limited by reliability or condition, rather by the capacity of the assets with a calculated maximum import level of over 90% of the island's electricity annual demand if required. However, as experienced in 2012, the risk of cable failure has a significant adverse effect and we need to ensure a second connection to the island is brought into service to mitigate this risk.

This year we have again benefited from the historically low price of the heavy fuel oil used at the power station, and the stable French electricity import prices. However, these positive impacts have been more recently offset by adverse exchange rates following the Brexit vote. Despite this adverse effect, our forward hedging policy did allow us to be in the position whereby we could optimise the level of importation and on-island generation to maintain affordability. By balancing the factors to optimise, these being the relative costs of generation and importation, the condition and security of the assets, and finally the environmental impact of our activities, Guernsey Electricity has achieved for this financial year an importation level of 79% of total island demand with a carbon intensity of 138gCO2equiv./kWh (2016: 150gCO2equiv./kWh, 2015: 275gCO2equiv./kWh).

Environment vs Affordability:

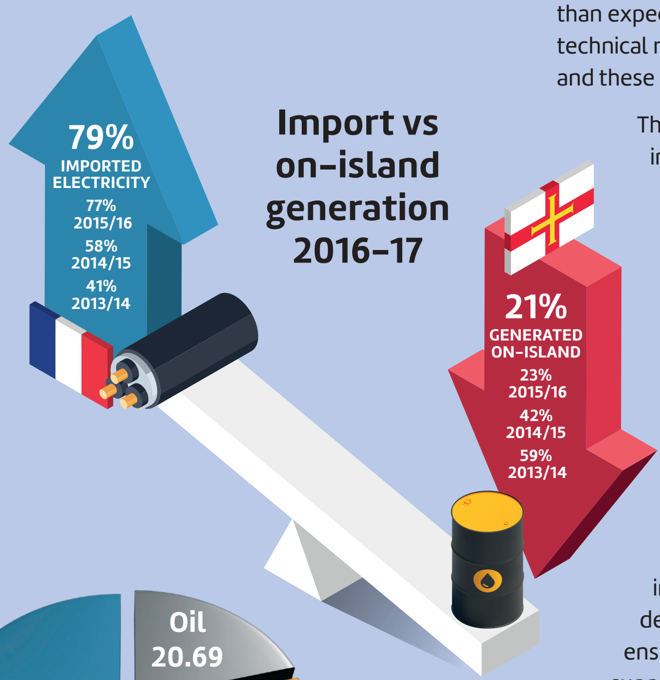
Imported electricity target

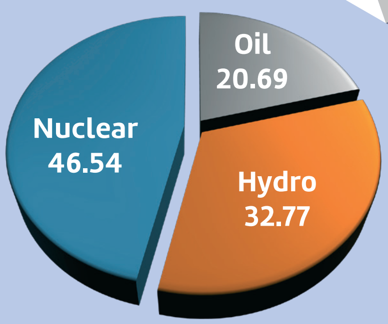




2016 was again one of the mildest years on record. There were no particularly cold spells and the winter was once again very mild although slightly colder than the previous winter.

As with previous years, another factor affecting the financial performance was the mild weather over the year. 2016 was again one of the mildest years on record. There were no particularly cold spells and the winter was once again very mild, although slightly colder than the previous winter. In spite of more units of electricity sold over the winter period, this has been more than offset by the decline in the summer usage. The overall result is that we have seen an underlying 2.6% reduction in electricity usage by our customers which has led to a reduction in electricity sales of £1.3m compared to last year.





In terms of our service to our customers, I unfortunately have to report that customers, both domestic and commercial, experienced 86 minutes loss of supply on average compared to 25.5 minutes lost during the previous financial year. This significant increase was associated with a single incident on Liberation Day in 2016 when the imported supply from France to Jersey tripped out leaving Guernsey disconnected from the CIEG Grid. The restoration process for Guernsey, which had local generation running at the time, took longer than expected and resulted in 56.4 minutes lost. A technical review has identified some improvements, and these will be completed by the end of this year.

The continuing review and improvement in risk mitigation and standby procedures have enabled us to continue to meet customers' demands for electricity supply. We continue to assess the future guaranteed and overall service standards we provide as a business, and expect to publish a revised set of standards as we become an unlicensed electricity supply operator, which will demonstrate the additional value we aim to deliver as a business.

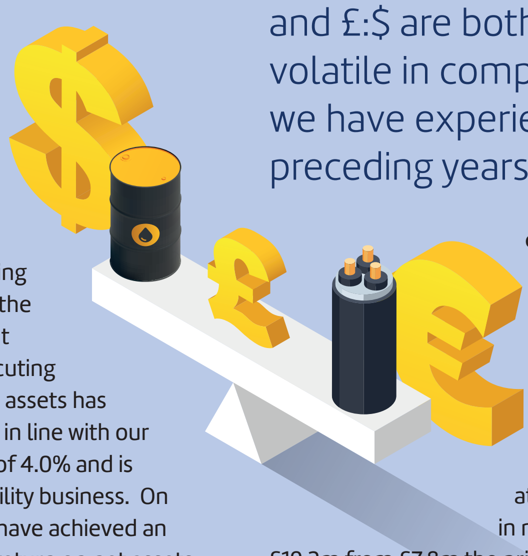
We continue to consolidate the balance between upgrading our critical infrastructure and our commitment to deliver efficient and effective activities to ensure we provide an affordable electricity supply to our customers.

The transformation programme remains an integral part of aligning the business to our customers, the energy market and the island's expectations.

Chief Executive Officer’s report, continued

Financial performance

The return to profitability in the prior year has been sustained with a current year operating profit of £4.1m being achieved (2016: Operating Profit of £4.2m). The improvement has come from being able to import higher levels than in previous years, and a continuation of recent lower wholesale costs of generation reflecting the relatively low heavy fuel oil prices and the favourable £/€ hedged exchange rate vs spot rate. The results reflect an excellent performance and show the significant progress the company is making in transforming the operational performance of the business, managing its significant asset base and successfully executing strategic projects. Return on net assets has been 4.8% (2016: 4.3%), which is in line with our five-year rolling average target of 4.0% and is a key efficiency measure for a utility business. On a cumulative five-year basis we have achieved an operating profit of £2.2m and a return on net assets of 2.3%.



In terms of financial performance, consideration of the returns from the business on a five-year rolling average basis allows the Board to assess the underlying financial dynamics created by weather, underlying demand and the wholesale markets and changes that may be required to tariff levels.

The Board remains committed to providing certainty and stability to tariffs whilst ensuring that in the long run the tariffs reflect the costs the business incurs through wholesale costs, investments and operational activities.

The company continues to benefit from a strong statement of financial position with our fixed asset base of £127.8m increasing by £12.1m from the previous year – the largest changes being the completion of our investment in the Normandie 1 cable from Jersey to France and significant spend on our new generating asset, 3D. The net cash outflow for the year of £3.8m compared with a net cash inflow of £6.4m in the previous year is largely attributable to an increase in net capital expenditure to £19.2m from £7.8m the prior year. Cash inflow from operating activities of £12.7m remained in line with the prior year.

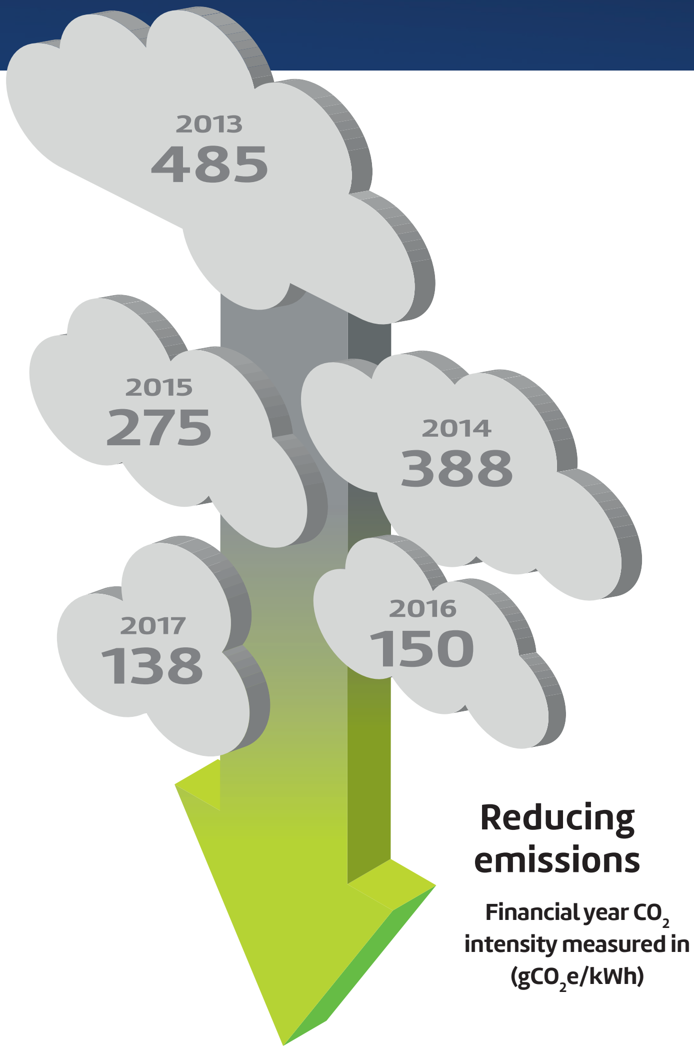
Tariff levels have remained unchanged for the fifth year in a row despite increasing cost pressures.

Whilst we continue to see some stability in the price of imported electricity and crude oil, the foreign exchange £:€ and £:$ are both adverse and volatile in comparison to what we have experienced in the preceding years.

At the year-end, we had net debt of £8.2m compared to net cash of £3.6m last year. This comprised £14.0m loans (2016: £6.0m) and closing cash balances of £5.8m (2016: £9.6m); these amounts include balances held with the States of Guernsey of £2.5m (2016: £7.2m).

Shareholder’s funds have decreased by £12.6m, from £98.2m to £85.6m. This was a result of £3.0m of post-tax profits for the year and the actuarial loss in the pension scheme, net of the movement in deferred tax relating to the pension deficit of £10.5m, together with distributions to the shareholder of £4.0m in respect of a buyback of shares and £1.0m in the form of a dividend.

The pension deficit reported under Section 28 of FRS 102 Employee Benefits, has increased from £26.1m to £40.7m. This contrasts with the Actuarial Valuation of the fund which was completed in 2013 (up to 31 December 2013) which showed a surplus of £3.4m. These two valuations are prepared on different bases for different purposes as well as being at different time points.



The key difference is the discount rate used which accounts for the significant majority of the variance between the two methods. The Actuarial Valuation uses best estimates of long-term future returns and scheme costs and liabilities to determine the required level of future contributions. The accounting valuation used in these accounts is prepared under Section 28 of FRS 102. Under FRS 102 a single rate is used to discount the net defined benefit liability. It is completely prescriptive in respect of the basis of valuation and does not take account of anything other than current values.

The company is part of the States of Guernsey Pension Scheme and we assessed the financial benefits created by the changes recently made to the States' Public Servants Pension Scheme. The current position created longer term affordability and sustainability concerns for the business and the Board recently communicated its decision to close the CARE scheme to new employees and instead offer a defined contribution scheme. We continue to ensure that we obtain and review options for mitigating future impacts of the scheme on tariffs. Understanding costs, and where further value can be obtained within the business, remain a key matter for the organisation.

We reported last year that tariff levels remained unchanged since October 2012, and whilst the underlying cost drivers have changed over this period Guernsey Electricity has provided stability and certainty around its tariff levels. Guernsey Electricity however understands that the tariffs and their relationship with the cost drivers, particularly the wholesale energy markets, are of interest to our customers. The Board remains concerned about future commodity costs and whilst we continue to see some stability in the price of imported electricity and crude oil, the foreign exchange £:€ and £:$ are both adverse and volatile in comparison to what we have experienced in the preceding years. Even with our current forward hedged position the impact of Brexit will start to put pressure on tariff levels. The Board is also mindful of the significant investment in the business and needs to continue balancing these investment requirements against the affordability of electricity to our customer. Our tariffs need to be clear in terms of the costs of these investments. We have focused on controlling these costs, and where economies of scale are such that further reduction is not possible we are looking at where additional value can be added. In this regard we will be working actively with our new shareholder to identify opportunities and synergies across the States-owned utility sector.

The Board remains committed to providing certainty and stability to tariffs whilst ensuring that in the long run the tariffs reflect the costs the business incurs through wholesale costs, investments and operational activities.

Chief Executive Officer's report, continued

Guernsey Electricity, Five-year Performance Summary

	2017 Actual £m	2016 Actual £m	As Restated* 2015 Actual £m	UK GAAP 2014 Actual £m	2013 Actual £m
INCOME					
Sales of Electricity	50	52	52	53	53
Other Sales Income	4	4	4	3	4
TOTAL FOR INCOME	**54**	**56**	**56**	**56**	**57**
EXPENSES	*50*	**52**	58	56	60
Operating Profit/(Loss)	4	4	(2)	–	(3)
Net gains/(losses) on derivatives at fair value	–	1	–	–	–
Finance Income/(Cost)	–	(1)	(1)	–	–
Profit/(Loss) Pre Tax	4	4	(3)	–	(3)
Earnings before Interest, Tax, Depreciation and Amortisation	12	12	4	5	2
Net cash/(debt)	(8)	4	(3)	(2)	9
Capex (cashflow value)	20	8	9	19	11
Pension Deficit**	(41)	(26)	(27)	(22)	(19)
Total Units Generated & Imported (GWh)	371	372	375	383	400
% Import	79%	77%	58%	41%	28%
% Generation	21%	23%	42%	59%	72%
Customer minutes lost	30 ***	26	32	37	69

* 2015 results have been restated under new accounting standard FRS102 comparable to 2016 results. Prior years show results under previous reporting standards.

** Pension deficit shown gross of related deferred tax.

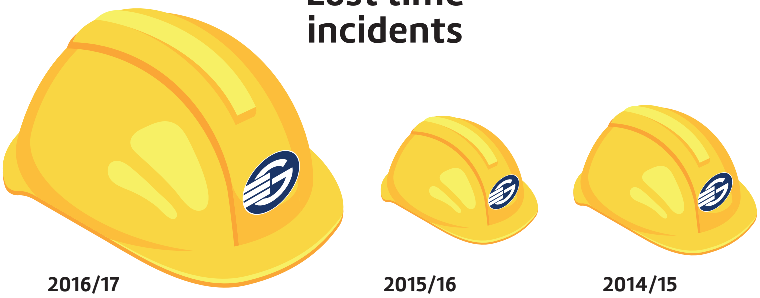
*** Excluding the Liberation Day fault.

Our community

To ensure that Guernsey Electricity is a responsible member of the island's community, we have undertaken a series of initiatives. We teamed up with the St Peter's Floral Group to support their "From seed to soup" project to teach young people about growing tomatoes the old-fashioned way. Guernsey Electricity employees also got involved by clearing the greenhouse where the tomatoes were being grown. Employees have also volunteered this year by cleaning litter from Bordeaux Beach and laying hardcore and soil on the dunes at Richmond.

The Guernsey Electricity Community Fund was established in 2015 and is administered by our Community Liaison Group to support projects benefiting parishioners in Vale and St Sampson's. This year the fund donated a total of £3,000 to Vale Primary School for a new outdoor learning space, St Mary & St Michael School to help upgrade their school library, the 5th Guernsey Scouts to pay for renovations to their hut and finally to the GO2 Charity Shop to improve the garden behind the shop for its employees. Additionally, our annual calendar raised over £1,500 for Wigwam.

Lost time incidents



2016/17	2015/16	2014/15
26	12	14

Our people

People are at the heart of our business and we're proud to say that the average length of service for our employees is 13 years. Every year we celebrate long service and this year is no exception, we have recognised 23 employees who have been with us for at least 20 years, 18 employees who have served at least 30 years and 5 employees who have worked for us for a staggering 40 years. Additionally, we record the number of Lost Time Injuries (LTI's) sustained by employees annually and we are pleased that the average days lost over the last three years is 17 which is below the target of 28.2 days in the same period.

Community spirit: We have been busy within the community this year. A large group of employees got their hands dirty clearing a greenhouse for the St Peters Floral Group, we planted flowers around the power station site with the help of students from Vale School and we also supported the Youth Award at the annual Community Awards.

Chief Executive Officer’s report, continued

Environmental Sustainability Performance

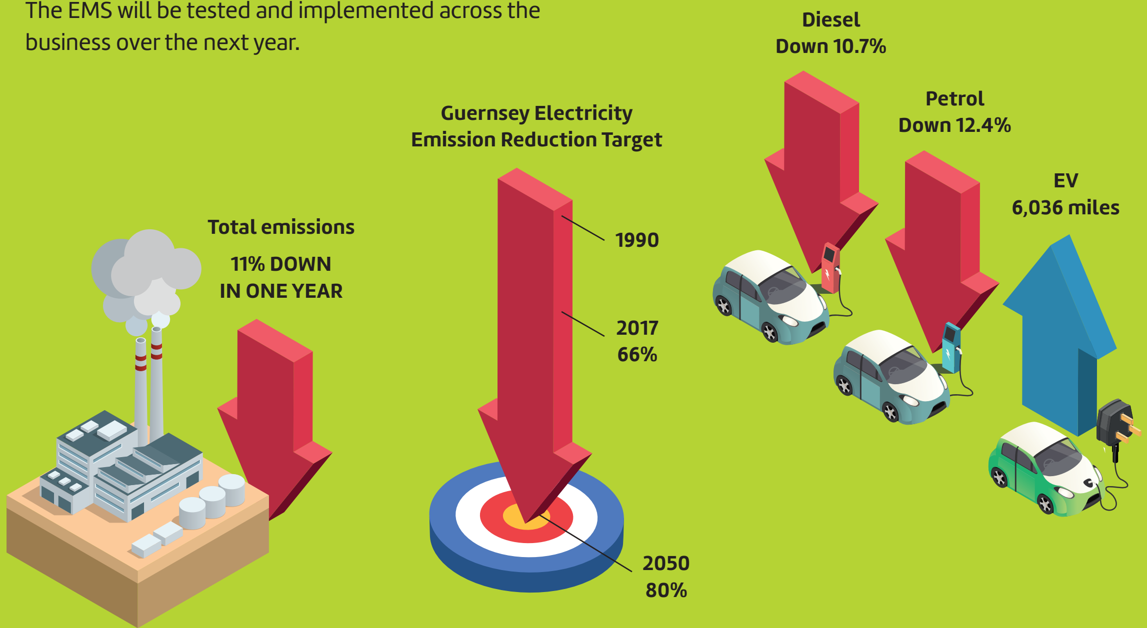
There has been a strong focus on environmental management this year. The company Environmental Sustainability Strategy for the next five years reflects a period which is set to be challenging yet thought-provoking as we strive to respond to a number of internal and external drivers, including evolving carbon emission targets and environmental regulation, and changes in the fuel market.

In 2015, the Vale Power Station became classified as a ‘lower tier’ Control of Major Accidents and Hazards Regulation 2015 (COMAH) establishment. Pending water quality and air pollution regulation will require the site to plan for and operate under an Environmental Pollution and Prevention Control (EPPC) Licence.

In response to the above, the company has developed an environmental management system (EMS) in accordance with ISO 14001:2015, the internationally recognised industry best practice standard for EMS. The EMS will be tested and implemented across the business over the next year.

As a signatory of the Kyoto Protocol and UN Convention on Climate Change Guernsey has committed to an 80% reduction in carbon emissions on 1990 levels, which equates to a target level of 85g CO2 for Guernsey Electricity which we plan to achieve by 2050. Our environmental performance this year has focussed on carbon emissions. As our EMS becomes more embedded within the company, we will expand our reporting to include water usage, waste and recycling, and wider emissions.

Community based environmental sustainability initiatives that Guernsey Electricity and its employees have supported over the last year include the annual Marine Conservation Society beach cleans around Guernsey, wildlife planting and the installation of small bird boxes around the Vale Power station site with the help of La Société Guernesiaise and Vale school.



Our environmental performance this year has focussed on carbon emissions.

The GEL team

Whilst this year has been extremely successful for the business, it has not been without its challenges. Transformational changes are extremely challenging and can create significant uncertainty for employees. Once again, I would like to thank all of my colleagues who have engaged with and helped in taking the company forward to deliver the changes required. I also appreciate how all the company's employees continue to operate professionally, and remain loyal and committed to the company and bring our values to life through their behaviours. I would also like to again record recognition of the key role the Board has played in providing significant guidance whilst dealing with the challenges faced by the company over what continues to be a demanding period.

I would stress that the company and its employees remain dedicated to providing a high level of service to its customers and that we will continue to deal with the challenges we face whilst striving to improve what we do in the future.

The future

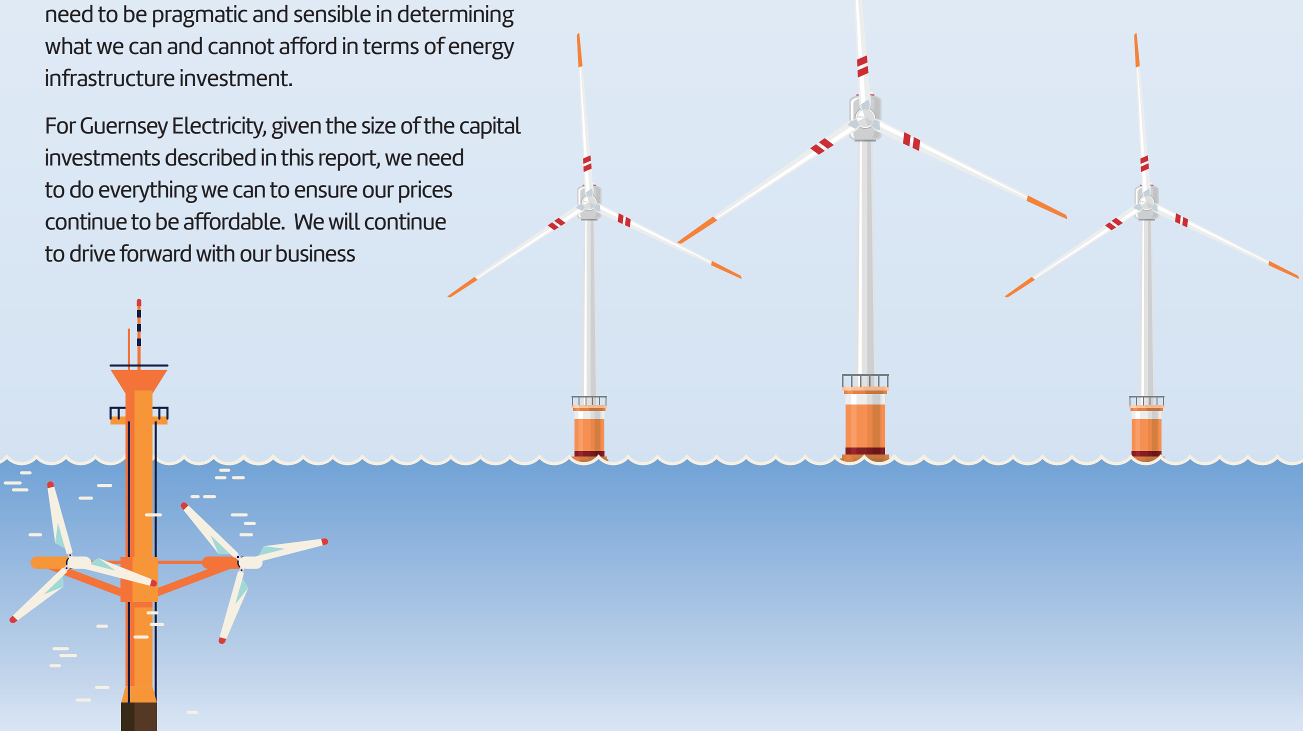
The island's aspiration for a green and sustainable future, and therefore how we provide for and use energy, is at a crossroads. The States need to be clear and decisive in regards to how we meet our 2050 environmental targets and provide the appropriate policy guidance to allow the energy sector to plan for the future. At the forefront of this policy direction has to be the affordability of the journey. We as an island need to be pragmatic and sensible in determining what we can and cannot afford in terms of energy infrastructure investment.

For Guernsey Electricity, given the size of the capital investments described in this report, we need to do everything we can to ensure our prices continue to be affordable. We will continue to drive forward with our business transformation programme to deliver this. We are also committed to ensuring we understand customers' needs and expectations and will continue to improve the service we provide and the way in which we communicate with customers.

We are focused on controlling costs, and where economies of scale are such that further reduction is not possible, we are looking at where additional value can be added. In this regard we will be working actively with our new shareholder to identify opportunities and synergies across the States-owned utility sector.

It remains clear that the most economically and environmentally long-term way to manage the affordability of supply to our customers is undoubtedly through imports from France. While we have only one cable with which to import power, there will continue to be risks to delivering supplies through import. So our strategy remains a second connection to the island, preferably via a direct link to France, and we are working hard to deliver this, although it will be early in the next decade before this second connection will be in place. Therefore we have to be in a position to generate locally to meet the whole island's demand if necessary and will invest in this pragmatically in the intervening period.

Alan Bates
Chief Executive Officer



Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2017. These comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, the cash flow statement and notes to the financial statements set out on pages 32 to 55.

Incorporation

Guernsey Electricity Limited (the "company") 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.

Dividend

During the year, a dividend of £1,044,000 was paid (2016: £Nil paid), representing £0.00956 per share (2016: £Nil per share paid). At the 2017 Annual General Meeting, the company will be proposing a dividend of £749,000 (2016: £1,044,000 proposed) representing £0.00712 per share (2016: £0.00956 per share proposed).

Customers

The number of customers as at 31 March 2017 is 30,347 (2016: 30,248).

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 79% (2016: 77%) of the island's electricity needs in the year ended 31 March 2017 and 21% (2016: 23%) was generated on the island, as shown by the units analysis below:

	2017	2016
Units imported MWh	**294,310**	284,892
Units generated MWh	**76,975**	87,354
Total units imported/generated MWh	**371,285**	372,246

Average price

The average price per kWh sold in the year ended 31 March 2017 was 14.74 pence (2016: 14.90 pence).

Reliability

The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power outages can be caused by failures of generators, the distribution network or the cable link. In the year ended 31 March 2017, customers lost 56.35 minutes due to generation/importation activity (2016: 3.02 minutes) and 29.52 minutes were lost per customer in respect of distribution (2016: 22.49 minutes).

Directors and their interests

The directors of the company, who served during the year and to date, are as detailed on page 2. The directors have no beneficial interests in the shares of the company.

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 they ought to have taken as a director to make themself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

KPMG Channel Islands Limited have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors

IA Hardman
Director

AM Bates
Director

11th July 2017

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 April 2016.

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.

There is a Memorandum of Understanding between the shareholder and the company setting out matters which can be dealt with by the company and those which should be referred back to it together with inclusion of the shareholder expectations in respect of corporate governance. 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 ten Board meetings held during 2016/17. 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 Chief Executive Officer. There is a clear division of responsibilities between the two positions with the Chairman responsible for the running of the Board and the Chief Executive Officer responsible for the running of the company's business.

Ian Hardman spends on average 1.5 days 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.

Robert Lawrence is the Deputy Chairman appointed by the Board.

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 currently four Non-Executive Directors and three 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
AM Bates	10	10
JPC Turner	10	10
S-A David	10	10
RP Lawrence	8	10
IA Hardman	10	10
RJ Dutnall	8	10
CM Holmes	6	10

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 in the following relevant sections.

Corporate governance, continued

Performance evaluation

The Board undergoes an annual evaluation of its performance. The last assessment was for the period up to 31 March 2016 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 which may be extended by re-appointment in accordance with the company's Articles and the Memorandum of Understanding with the shareholder's representative.

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 States Trading Supervisory Board.

Remuneration & Nominations Sub-Committee

The Remuneration & Nominations Sub-Committee, which is chaired by Robert Lawrence, consists solely of a minimum of two Non-Executive Directors. 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.

No director is permitted to be involved in deciding the amount of his or her own remuneration. The Remuneration & Nominations Sub-Committee considers that the policy and 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 job descriptions and objective criteria for Board appointments and succession planning.

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

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 (and re-appointment where required by the company's Articles of Incorporation) to the Board and holders of any executive office.

There were four Remuneration & Nominations Sub-Committee meetings held in the year.

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

Chairman: RP Lawrence

Members: IA Hardman

CM Holmes

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 2016/17 the executive team continued to identify, monitor and review the risks facing the business, so as to be able to put into place and maintain robust controls and actions to manage them. The Board is updated regularly on risk matters. The risk management process was the responsibility of the Chief Financial Officer during the year.

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 with the purpose of providing 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 UK Consulting LLP (formerly Baker Tilley), a leading entity in providing such services. The Chief Financial Officer, in association with RSM UK Consulting LLP, reports on all internal audit work in accordance with the plan 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.

Corporate governance, continued

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. There were four Audit & Risk Sub-Committee meetings in the year.

The Board has delegated responsibility to the Audit & Risk Sub-Committee for reviewing the effectiveness of the system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law. Whilst the Sub-Committee has no executive powers, it has wide ranging terms of reference and reports to the Board on a regular basis. It is empowered to make recommendations to the Board where such are considered necessary to ensure the proportionate and relevant application of good practice principles in corporate governance and the management of the company's relationship with the company's external auditor.

The Audit & Risk Sub-Committee members comprise Non-Executive Directors. Robert Dutnall is the Chairman of the Audit & Risk Sub-Committee and the Board is satisfied that the Sub-Committee has through its membership, access to recent and relevant 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.

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

Chairman:	RJ Dutnall
Members:	IA Hardman
	CM Holmes

Land & Property Sub-Committee

Julian Turner is the 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 Chairman of the Board together with all of the Executive Directors. There were eight Land & Property Sub-Committee meetings held in the year.

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 (subsequently the Treasury & Resources Department) to undertake, on behalf of the States, the role of shareholder representative.

Following the re-organisation of the States of Guernsey and the introduction of "The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016" and the General Election of Deputies held in April 2016, the powers, duties and responsibilities of the Treasury & Resources Committee in relation to the company were transferred to the States Trading Supervisory Board. The shareholder functions, including holding equally the issued share capital of the company in trust on behalf of the States of Guernsey, of the Minister and Deputy Minister of the Treasury & Resources Department have also been transferred to the President and Vice President of the States Trading Supervisory Board by virtue of section 1.(1) The Organisation of States' Affairs (Transfer of Functions) Ordinance 2016.

Provision is also in place for the States to give guidance to the States Trading Supervisory Board on the policies it wishes to be pursued in fulfilling its role. Each year, the company submits its forward plan to the States Trading Supervisory Board. 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.

On 13 December 2016, the company completed a share buyback of £4 million of company shares from the States of Guernsey as mentioned in the 2017 Budget Billet as follows;

"the States of Deliberation Guernsey, at its meeting held on the 2 November 2016 (Billet xxvi October 4 2016) resolved "To authorise the Policy & Resources Committee, pursuant to Section 2(4) of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, to agree to and implement the Board of Guernsey Electricity Limited's proposal to repurchase £4 million of shares reducing the shareholding of the States accordingly, and subject to Guernsey Electricity Limited complying with its obligations under the Companies (Guernsey) Law, 2008".

In addition, in order to achieve the desired outcome, it was necessary for the company, guided and assisted by its lawyers and in consultation with the States Trading Supervisory Board, to replace completely its Articles of Incorporation and amend its Memorandum of Incorporation.

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, including FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*.

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.

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

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 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, 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, including FRS 102: *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 26, 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 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 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the 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 2017 and of its result 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 Accountants, Guernsey

12th July 2017

Statement of comprehensive income

for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Revenue	4	**54,472**	56,222
Cost of sales		**(40,500)**	(41,317)
Gross profit		**13,972**	14,905
Net operating expenses		**(9,878)**	(10,703)
Operating profit	5	**4,094**	4,202
Net (losses)/gains on derivatives at fair value		**(216)**	1,142
Finance income	6	**919**	205
Finance cost	6	**(217)**	(216)
Other finance cost	20	**(890)**	(853)
Profit on ordinary activities before taxation		**3,690**	4,480
Taxation	7	**(694)**	(303)
Profit for the financial year after taxation		**2,996**	4,177
Other comprehensive income:			
Remeasurement of net defined benefit liability	20	**(10,502)**	2,531
Total comprehensive income for the financial year		**(7,506)**	6,708

All activities derive from continuing operations.

The notes on pages 32 to 55 form an integral part of these financial statements.

Statement of financial position

at 31 March 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Property, plant and equipment	*9*	**127,777**	115,670
Current assets			
Inventories	*10*	**6,347**	4,645
Trade receivables	*11*	**17,161**	16,702
Balances with States Treasury	*13*	**2,538**	7,185
Cash		**3,233**	2,425
		29,279	30,957
Trade payables: amounts falling due within one year	*14*	**(12,493)**	(12,029)
Net current assets		**16,786**	18,928
Total assets less current liabilities		**144,563**	134,598
Trade payables: amounts falling due after more than one year	*15*	**(18,253)**	(10,290)
Pension deficit	*20*	**(40,674)**	(26,122)
Net assets including pension deficit		**85,636**	98,186
Share capital	*16*	**105,209**	109,209
Reserves		**(19,573)**	(11,023)
Total equity		**85,636**	98,186

The financial statements on pages 28 to 55 were approved by the Board of Directors on 11th July 2017.

Signed on behalf of the Board of Directors

IA Hardman
Director

AM Bates
Director

The notes on pages 32 to 55 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 March 2017

	Share capital £'000	Reserves £'000	Total equity £'000
1 April 2015	**109,209**	**(17,731)**	**91,478**
Profit for the financial year	–	4,177	4,177
Other comprehensive income for the year			
Remeasurement of net defined benefit liability	–	2,531	2,531
Total comprehensive income for the year	–	6,708	6,708
31 March 2016	**109,209**	**(11,023)**	**98,186**
Profit for the financial year	–	2,996	2,996
Other comprehensive income for the year			
Remeasurement of net defined benefit liability	–	(10,502)	(10,502)
Total comprehensive income for the year	**–**	**(7,506)**	**(7,506)**
Transactions with owners recognised directly in equity			
Share buyback (note 16)	(4,000)	–	(4,000)
Dividend (note 8)	–	(1,044)	(1,044)
Total transactions with owners recognised directly in equity	**(4,000)**	**(1,044)**	**(5,044)**
31 March 2017	**105,209**	**(19,573)**	**85,636**

The notes on pages 32 to 55 form an integral part of these financial statements.

Cash flow statement

for the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Net cash inflow from operating activities	*17*	**12,673**	14,461
Cash flow from investing activities			
Finance income		**828**	206
Payments to acquire property, plant and equipment		**(20,279)**	(8,316)
Proceeds of disposal of property, plant and equipment		**39**	204
Customers' contributions towards capital expenditure		**171**	116
Net cash outflow from investing activities		**(19,241)**	(7,790)
Cash flow from financing activities			
Finance cost		**(205)**	(223)
Amounts drawn under medium term credit facility		**8,000**	–
Dividends paid	*8*	**(1,044)**	–
Share buyback	*16*	**(4,000)**	–
Net cash inflow/(outflow) from financing activities		**2,751**	(223)
(Decrease)/increase in cash and cash equivalents during the year		**(3,817)**	6,448
Cash and cash equivalents at the beginning of the year		**9,610**	3,115
Exchange (losses)/gains on cash and cash equivalents		**(22)**	47
Cash and cash equivalents at the end of the year		**5,771**	9,610
Cash and cash equivalents consists of:			
Balances with States Treasury		**2,538**	7,185
Cash		**3,233**	2,425
		5,771	9,610

Movements in balances with States Treasury and the other income are deemed liquid resources in accordance with section 7 of FRS 102 (Statement of Cash Flows).

The notes on pages 32 to 55 form an integral part of these financial statements.

Notes to the financial statements

Year ended 31 March 2017

1. General information

Guernsey Electricity Limited was incorporated on 24 August 2001 and is registered in Guernsey. The company is governed by the provision of the Companies (Guernsey) Law, 2008. The address of its registered office is PO Box 4, Electricity House, North Side, Vale, Guernsey, GY1 3AD.

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.

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

The company is classified as a Public Benefit Entity given that its primary objective is to seek value and an appropriate return that provides best value to the island's economy whilst striking a balance with its enabling role in supporting the social, economic and environmental objectives for the long term benefit of the island and its community.

2. Statement of compliance

The financial statements give a true and fair view, have been prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and are in compliance with the Companies (Guernsey) Law, 2008.

3. Principal accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention as modified by the fair value for derivative financial instruments.

Going concern

On the basis of their assessment of the company's financial position and resources, the directors believe that the company is well placed to manage its business risks. The company is a cash generative business receiving in the order of £5m per month from its customers and the business is profitable. The company has a revolving credit loan facility with HSBC which offers a credit line of £20m (which can be extended to £30m) which will enable it to fund its currently approved capital investment projects. As at 31 March 2017, only £14m had been drawn on this facility (2016: £6m). The company has a strong statement of financial position as at the end of the financial year and a net assets position of £85.6m. Therefore, the directors 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.

Revenue

a) 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.

b) Sales of goods, commercial and hire purchase

The company operates a retail sales section offering white and brown goods to customers across the Bailiwick of Guernsey. Sales of goods are recognised on sale to the customer, as this is the point at which the company recognises the transfer of risks and rewards.

The company operates a commercial contracting section providing electrical and plumbing services to domestic, commercial and industrial clients. Revenue is recognised as the service is provided.

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 revenue at the inception of the hire purchase transaction and interest is included in finance income over the finance period of the transaction on an effective interest rate basis.

c) Rental income

Rental income is accrued on a time basis by reference to the agreements entered.

d) Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the statement of comprehensive income over the estimated life of the assets to which they relate.

e) Other income

This represents minor income streams including, but not limited to, consultancy services, discounts received and the sale of waste heat. These sales are valued as the service is provided or receipt is due.

Employee benefits

The company provides a range of benefits to employees, including a defined benefit pension plan and holiday pay.

Short term benefits

Short-term employee benefits such as salaries and compensated absence are recognised as an expense in the year employees render services to the company. Holiday leave accruals are recognised at each balance sheet date to the extent that employee holiday allowance has been accrued but not taken, the expense being recognised as staff costs in the statement of comprehensive income.

Classifications

Certain amounts in these financial statements have been reclassified to conform to the 2017 presentation.

Pension costs

The employees' pension scheme is a defined benefits scheme. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

Notes to the financial statements, continued

Year ended 31 March 2017

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

The company applies employee benefits, Section 28 of FRS 102. In so doing, current service cost and any past service cost is charged to the statement of comprehensive income, together with finance costs/income for the scheme which are charged/credited to the statement of comprehensive income. The difference between the expected and actual actuarial gains and losses are charged to other comprehensive income.

Annually, the company engages independent actuaries to calculate the defined benefit obligation. 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. 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 Section 28 of FRS 102.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'Other finance cost'.

Leases

Operating lease rentals are charged to the statement of comprehensive income in equal annual amounts over the lease term.

Finance income/cost

Finance income and finance costs are accounted for on an accruals basis using the effective interest rate.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

a) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. The pension scheme deficit shown in the accounts is gross of the deferred tax asset.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. 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. Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the statement of comprehensive income and included within the operating profit.

Depreciation is calculated so as to write off the cost of property, plant and equipment 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. Major overhauls of generating assets are treated as separate components and depreciated on the basis of elapsed running hours for the relevant asset.

The estimated lives are as shown below:

		Estimated life in hours	Estimated life in years
Buildings			40
Buildings Equipment			10
Cable Link			25 – 30
Plant and machinery:	– Generation		25 – 35
	– Overhauls	24,000	
	– 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

During the year the major overhaul costs relating to medium speed diesel engines were separated out from generation plant and machinery and depreciated on the basis of elapsed running hours.

Notes to the financial statements, continued

Year ended 31 March 2017

Joint arrangements

The Channel Islands Electricity Grid Limited is a jointly controlled operation between Jersey Electricity plc and Guernsey Electricity Limited who each own an equal 50% shareholding. The company was formed to manage the project and the ongoing operation of the cable links between Guernsey, Jersey and France. In accordance with Section 15 of FRS 102, "Investments in joint ventures", 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 jointly controlled operation.

The Channel Islands Electricity Grid Limited is considered to meet the definition of a jointly controlled operation. As a result, for its interest in the Channel Islands Electricity Grid Limited, Guernsey Electricity Limited recognises the following in its financial statements in accordance with FRS 102, paragraph 15.5:

(a) the assets that it controls and the liabilities that it incurs; and;

(b) the expenses that it incurs and its share of any income earned by the joint venture.

The jointly controlled operation assets are included within property, plant and equipment.

Impairment of non-financial assets

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit). The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's (or asset's cash generating unit) continued use.

The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income.

Inventories

Inventories are valued at the lower of cost and estimated selling price less cost to complete and sell. Inventories are valued at weighted average cost. 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 inventories relating to strategic plant, based upon the remaining useful economic life of the assets to which they relate. The cost of work in progress includes costs directly related to the units of production and a systematic allocation of fixed and variable production overheads. Inventories are recognised as a cost of sale in the period in which the related revenue is recognised.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the statement of comprehensive income. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the statement of comprehensive income.

Foreign exchange

a) Functional and presentation currency:

The company's functional and presentation currency is Sterling, being the primary economic environment in which the company operates. All amounts in the financial statements have been rounded to the nearest £1,000.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Financial instruments

a) Financial assets

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Notes to the financial statements, continued

Year ended 31 March 2017

b) Financial liabilities

Basic financial liabilities, including trade and other payables and short term loans, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

c) Derivatives

Derivatives, including interest rate swaps, heavy fuel oil commodity swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in the statement of comprehensive income.

The company enters into forward exchange contracts to mitigate the risk of fluctuations in the currency rate between the Euro and Sterling in meeting its financial obligations for the import of electricity units from the European grid and on major infrastructure projects. 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.

These contracts are measured at fair value utilising the third party market valuations provided by the relevant counterparties on the basis of 'exit' model methodologies.

The company does not currently apply hedge accounting.

d) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, balances with States Treasury, highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within trade payables in current liabilities.

Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) *Revenue*

Sales of electricity include an estimate for the value of unbilled units at the year end which represents the estimated units consumed by customers since the last billing date. These unbilled units are valued at current tariff rates. See note 4 for the value of unbilled units included in sales of electricity

(ii) *Property, plant and equipment (note 3 and note 9)*

a) Recognition

The costs of property, plant and equipment are only recognised as an asset when there is sufficient certainty that the asset will be completed. For significant projects, an assessment is made at least annually, or at the time of key project milestones, and the associated costs are recognised in the statement of comprehensive income until such time that management considers it probable that the project will proceed to completion.

b) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 9 for the carrying amount of the property, plant and equipment.

c) Impairment/disposals

At each statement of financial position date, non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset or the asset's cash generation unit ("CGU") may be impaired. If there is such an indication, an estimation of the recoverable amount of the asset or CGU is determined which requires estimation of the future cash flows from the asset or CGU and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

(iii) Retirement benefit obligations – see note 3 and note 20

(iv) Financial instrument derivatives – see note 3 and note 19

(v) Joint arrangement – see note 3

4. Revenue

	2017 £'000	2016 £'000
Sales of electricity	**50,584**	51,917
Sale of goods, commercial and hire purchase	**3,240**	3,613
Rental income	**292**	306
Deferred income	**171**	167
Other income	**185**	219
	54,472	56,222

All sales of electricity arise from customers in the island of Guernsey. Sales of goods, commercial and hire purchase 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.

The value of unbilled units included in sales of electricity above is £6,368,000 (2016: £7,802,000).

Notes to the financial statements, continued

Year ended 31 March 2017

5. Operating profit

Operating profit is after charging /(crediting):

		2017 £'000	2016 £'000
Depreciation (note 9)		**7,777**	6,991
Rentals under operating leases		**13**	13
Auditor's remuneration	– statutory audit	**43**	43
	– non-audit services	**–**	1
Bad debts		**42**	44
Director fees, salaries and other benefits		**696**	778
Regulatory costs	– external	**–**	17
	– internal	**15**	10
Loss on disposal of assets		**537**	1,349

The amount of inventories recognised as an expense/(credit) during the period is as follows:

	2017 £'000	2016 £'000
Inventory write-offs	**35**	41
Inventory discrepancies	**10**	8
Inventory provision	**323**	(29)

6. Finance and income cost

	2017 £'000	2016 £'000
Finance income:		
Deposits with banks and States Treasury	**780**	60
Hire purchase	**139**	145
	919	205
Finance cost:		
Medium term credit facility	**216**	215
Other interest payable	**1**	1
	217	216

7. Taxation

The company's profits, or losses, from the activities subject to licence from the Guernsey Competition and Regulatory Authority 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.

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 18.4836% (2016: 18.9352%) 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 2017.

The deferred tax charge / (credit) in the statement of comprehensive income for the year is:

	2017 **£'000**	2016 £'000
Timing differences on capital allowances and depreciation	**(28)**	283
Short term timing differences (pension)	**(182)**	(856)
Short term timing differences (other)	**(56)**	(13)
Movement on unrelieved trading losses	**960**	889
	694	303

8. Dividend

During the year, a dividend of £1,044,000 was paid (2016: £Nil paid), representing £0.00956 per share (2016: £Nil per share paid). At the 2017 Annual General Meeting, the company will be proposing a dividend of £749,000 (2016: £1,044,000 proposed) representing £0.00712 per share (2016: £0.00956 per share proposed).

Notes to the financial statements, continued

Year ended 31 March 2017

9. Property, plant and equipment

Cost	1 April 2016 £'000	Additions £'000	Written off/ disposals £'000	**31 March 2017 £'000**
Land and buildings	33,170	502	3	**33,669**
Cable link	51,495	4,987	1,053	**55,429**
Plant and machinery: – Generation	48,884	11,760	15	**60,629**
– Distribution	13,092	464	2	**13,554**
Distribution network	35,535	1,733	249	**37,019**
Motor vehicles, furniture and equipment, minor plant	5,544	1,014	258	**6,300**
	187,720	20,460	1,580	**206,600**

Depriciation	1 April 2016 £'000	Charge for the year £'000	Written off/ disposals £'000	**31 March 2017 £'000**
Land and buildings	11,870	1,071	4	**12,937**
Cable link	18,373	2,197	576	**19,994**
Plant and machinery: – Generation	22,382	2,320	7	**24,695**
– Distribution	3,800	393	1	**4,192**
Distribution network	12,100	1,349	158	**13,291**
Motor vehicles, furniture and equipment, minor plant	3,525	447	258	**3,714**
	72,050	7,777	1,004	**78,823**
Net book value	115,670			**127,777**

Included above are assets in the course of construction of £12,688,000 (2016: £6,158,000), which are not depreciated.

10. Inventories

	2017		2016	
	£'000	**£'000**	£'000	£'000
Fuel inventories		**3,390**		1,949
Purchased goods for resale	**286**		213	
Provision	**(5)**	**281**	(8)	205
Other inventories	**4,772**		4,227	
Provision	**(2,190)**	**2,582**	(1,864)	2,363
Work in progress		**94**		128
		6,347		4,645

The replacement cost of inventories was greater/(less) than the statement of financial position carrying amounts as follows:

	2017 £'000	2016 £'000
Fuel inventories	**252**	(100)

There is no significant difference between the replacement cost of purchased goods for resale, other inventories and work in progress and their carrying amounts.

11. Trade receivables

	2017 £'000	2016 £'000
Estimated value of unbilled units	**6,368**	7,802
Customer accounts outstanding	**3,147**	3,163
Other receivables	**716**	424
Prepayments	**1,015**	990
Deferred tax asset (note 12)	**5,161**	3,466
Derivative financial instruments (note 19)	**754**	857
	17,161	16,702

Included in "Customer accounts outstanding" is an amount totalling £317,000 (2016: £305,000) due after more than one year, relating to goods and services purchased by customers under interest free and hire purchase agreements.

Under FRS 102, the pension scheme deficit is presented in the statement of financial position gross of deferred tax. The deferred tax relating to the pension scheme deficit is recognised as part of the net deferred tax asset included within trade receivables.

Notes to the financial statements, continued

Year ended 31 March 2017

12. Deferred tax asset

Deferred tax assets comprise of:	**2017 £'000**	2016 £'000
Deferred taxation:		
Balance at 1 April	**3,466**	4,351
Statement of comprehensive income (charge)/credit	**(694)**	(303)
Statement of other comprehensive income	**2,389**	(582)
Balance at 31 March	**5,161**	3,466
Which comprises:		
Capital allowances in excess of depreciation	**8,650**	8,678
Short-term timing differences (other)	**(267)**	(211)
Unrelieved trading loss for tax purposes	**(6,026)**	(6,986)
Deferred tax liability	**2,357**	1,481
Deferred tax asset on pension deficit (note 20)	**(7,518)**	(4,947)
Net deferred tax assets	**5,161**	3,466

13. 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.

14. Trade payables: amounts falling due within one year

	2017 £'000	2016 £'000
Trade payables	**4,495**	3,822
Customer payments received in advance	**6,303**	6,279
Employee taxes and Social Security	**183**	166
Deferred income	**171**	167
Accruals and other payables	**1,228**	1,595
Derivative financial instruments (note 19)	**113**	–
	12,493	12,029

The company has a £1m overdraft facility with Barclays Bank Plc (2016: £1m), 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. As at 31 March 2017, £nil was drawn on the Barclays Bank Plc overdraft facility (2016: £nil).

15. Trade payables: amounts falling due after more than one year

	2017 £'000	2016 £'000
Deferred income	**4,253**	4,290
Amount drawn under medium term credit facility	**14,000**	6,000
	18,253	10,290

Terms of the medium term credit facility are detailed in note 19.

16. Share Capital

	2017 £'000	2016 £'000
Authorised:		
125,000,000 ordinary shares of £1 each	**125,000**	125,000
Issued and fully paid:		
105,208,844 ordinary shares of £1 each (2016: 109,208,844 ordinary shares of £1 each)	**105,209**	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.

The ordinary shares do not confer any rights or preferences other than the right to vote, the right to participate in dividends or distributions that the company may make and such other rights, generally from time to time, including but not limited to, the rights, if any, to the repayment of capital as may be laid down in the company's Articles of Incorporation.

Dividends and distributions in particular, are subject to the provisions of Guernsey Company law and specifically, the Companies (Guernsey) Law, 2008 as amended or replaced.

The ordinary shares are subject to certain restrictions, including specifically, a restriction on the transfer of shares. In all cases, such restrictions are as laid down in the company's Articles of Incorporation and the provisions of any ordinance made by the States of Guernsey in exercise of its powers under the States Trading Companies (Bailiwick of Guernsey) Law 2001, as amended or replaced from time to time.

Notes to the financial statements, continued

Year ended 31 March 2017

On 13 December 2016, the company completed a share buyback of £4 million of company shares from the States of Guernsey as mentioned in the 2017 Budget Billet as follows;

"the States of Deliberation Guernsey, at its meeting held on the 2 November 2016 (Billet xxvi October 4 2016) resolved "To authorise the Policy & Resources Committee, pursuant to Section 2(4) of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001, to agree to and implement the Board of Guernsey Electricity Limited's proposal to repurchase £4 million of shares reducing the shareholding of the States accordingly, and subject to Guernsey Electricity Limited complying with its obligations under the Companies (Guernsey) Law, 2008".

This had the effect of reducing the company's issued share capital from £109,208,844 to £105,208,844. The share capital remains divided equally between the nominee shareholders.

17. Reconciliation of operating profit to net cash flow from operating activities

	2017 £'000	2016 £'000
Profit for the financial year	**2,996**	4,177
Tax on profit on ordinary activities	**694**	303
Net finance costs	**188**	864
Net losses/(gains) on derivatives at fair value	**216**	(1,142)
Operating profit	**4,094**	4,202
Depreciation charge	**7,777**	6,991
Loss on disposal of fixed assets	**537**	1,349
Exchange loss/(gain) on cash and cash equivalents	**22**	(47)
Pension service cost	**1,595**	2,455
Pension cost of benefit changes	**–**	896
Pension gains on curtailments	**–**	(152)
Employer's pension cash contributions	**(861)**	(1,867)
Pension administration costs	**36**	36
Deferred income	**(171)**	(167)
(Increase)/decrease in inventories	**(1,702)**	1,103
Decrease in receivables	**1,225**	167
Increase/(decrease) in payables	**121**	(505)
	12,673	14,461

18. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £10,356,000 as at 31 March 2017 (2016: £14,149,000). 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 Electricité de France ("EDF"). The existing electricity import contract with EDF is effective for a 10 year period which commenced from 1 January 2013 – this period was extended for a further 5 years on 25 June 2017. The related transmission agreement with Réseau de transport d'électricité ("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 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 2018 this equates to a total commitment of €10.6m (2017: €10.0m) for Guernsey Electricity Limited.

Operating lease commitments

The company had no future minimum lease payments under non-cancellable operating leases.

Notes to the financial statements, continued

Year ended 31 March 2017

19. Financial instruments

(i) The categories of financial assets and financial liabilities, at the reporting date, in total, are as below:

	Note	2017 £'000	2016 £'000
Financial assets at fair value through profit or loss			
Derivative financial instruments:	*11*		
– Interest rate cap		–	–
– Forward foreign currency contracts		**669**	819
– On-island generation fuel hedge contracts		**85**	38
Financial assets that are debt instruments measured at amortised cost			
Estimated value of unbilled units	*11*	**6,368**	7,802
Customer accounts outstanding	*11*	**3,147**	3,163
Other receivables	*11*	**716**	424
Cash and cash equivalents		**5,771**	9,610
Financial liabilities measured at amortised cost			
Trade payables	*14*	**4,495**	3,822
Customer payments received in advance	*14*	**6,303**	6,279
Deferred income	*14,15*	**4,424**	4,457
Accruals and other payables	*14*	**1,228**	1,595
Amount drawn under medium term credit facility	*15*	**14,000**	6,000
Financial liabilities measured at fair value through profit or loss			
Derivative financial instruments – Forward foreign currency contracts	*14*	**113**	–

Financial Assets at fair value through profit and loss

(a) Classification of financial assets at fair value through profit or loss

Derivative financial instruments – Interest Rate Cap

The company has entered into an interest rate cap to hedge part of the interest rate risk associated with the £20m revolving credit facility. An interest rate cap of 3% has been applied to a notional amount of £4.5m (2016: £7.3m) and is referenced against the three month sterling LIBOR rate. The valuation of this instrument as at 31 March 2017 was £nil (2016: £nil). The loss included within the profit and loss account was an expense of £nil (2016: £9,000).

Financial Assets that are debt instruments measured at amortised cost

(a) Classification of financial assets that are debt instruments measured at amortised cost

Trade receivables include receivables arising out of estimated value of unbilled units, Customer accounts outstanding and other receivables. Trade receivables generally arise from transactions within the usual operating activities of the company. They represent undiscounted amounts of cash expected to be received (within a year) except for customer accounts outstanding which are due after more than one year.

Cash and cash equivalents include cash at bank and in hand and balances with States Treasury with original maturities of three months or less.

(b) Fair values of financial assets that are debt instruments measured at amortised cost

The carrying amounts of financial assets and liabilities measured at amortised cost are assumed to be the same as their fair values due to their short-term nature.

Financial liabilities measured at amortised cost

The carrying amounts of trade payables, Customer payments received in advance, Deferred income, Accruals and other payables are assumed to be the same as their fair values due to their short-term nature.

Loan Commitment – Revolving credit facility

The company entered into a five year, £20m revolving credit loan facility with HSBC to finance its share of the cost of the 'Normandie 3' project relating to the installation of a new sub-sea cable interconnector between Jersey and France. The loan incorporates an option to increase the credit facility to £30m for the purpose of the future financing of key infrastructure expenditure. Interest is charged at LIBOR plus an agreed premium. A commitment fee is payable on any undrawn amount in line with the terms of the arrangement. As at 31 March 2017, the company had utilised £14.0m of the loan (2016: £6.0m). The drawn amount has been classified as a financial liability measured at amortised cost.

Financial liabilities measured at fair value through profit or loss

Derivative financial instruments – Participating Forward Contracts

(a) Import Financial Hedge

Import contracts with EDF and RTE are denominated in Euros. The company manages the currency risk through derivative contracts. The company has entered into forward contracts for the purchase of the Euro. The company's commitment to forward contracts at the balance sheet date was as follows:

	2017		2016	
	€'000	**£'000**	€'000	£'000
Forward contract to purchase Euro	**24,250**	**20,362**	6,600	5,089

In addition, at the previous year end, the company had purchased and written options which had the economic effect of committing it to purchase Euro at contracted rates with the option to purchase additional Euro should exchange rates had moved against the company as follows:

	2017		2016	
	€'000	**£'000**	€'000	£'000
Committed purchase of Euro	–	–	5,950	4,295
Options for additional purchases	–	–	2,550	1,840
Contracts to purchase Euro	–	–	8,500	6,135

The options were exercised where the exchange rate fell below the relevant strike prices which ranged from 1.3680 to 1.4020.

Notes to the financial statements, continued

Year ended 31 March 2017

(b) 3D Project Hedge

The main contract for the new medium speed diesel engine, 3D, was also denominated in Euros. The company entered into forward exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	2017		2016	
	€'000	**£'000**	€'000	£'000
Forward contract to purchase Euro	**354**	**283**	–	–

As at 31 March 2017, the outstanding contracts for both Import and 3D hedges all mature within 23 months of the year end. These contracts are measured at fair value utilising the third party market valuations provided by the relevant counterparties. The loss included within the profit and loss account was an expense of £263,000 (2016: The gain included within the profit and loss account was a credit of £1,114,000).

(c) On-island Generation Financial Hedge

The company has entered into financial hedges on the commodity price of heavy fuel oil used for its on-island generation. As at 31 March 2017 these contracts had expired although payment was yet to be received, no further contracts were outstanding. The March portion of these contracts is included as a financial asset with an associated unrealised gain where a valuation was provided by the relevant counterparty. These represent a financial asset of £85,000 in the financial statements. Where the hedge was not included in these valuations receipt of a realised gain has been accrued (£21,000).

The prior year financial statements reported a commitment for 3,500 metric tonnes at a fixed price of £132.25/metric tonne amounting to a total hedged position of £463,000.

Determination of fair value on contracts

These contracts are measured at fair value utilising the third party market valuations provided by the relevant counterparties on the basis of 'exit' model methodologies.

20. Pension Scheme

Nature of the Guernsey Electricity Limited actuarial account

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 at rates which are determined on the basis of independent actuarial advice. 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 actuarial account operated by the company provides retirement benefits based on final pensionable pay for service to 29 February 2016 and based on career average revalued earnings from 1 March 2016. Some protected members will continue to accrue benefits from 1 March 2016 linked to final pensionable pay. Employees recruited after 1 May 2015 accrue benefits based on career average revalued earnings. The actuarial account forms part of the PSPS. The PSPS is currently open to both future accrual and new members, however, the Board has recently decided to close the existing CARE scheme to all new employees who will become members of a new defined contribution scheme, the Guernsey Electricity Flexible Pension Plan.

The triennial actuarial valuation of the company's actuarial account carried out as at 31 December 2013 indicated that the actuarial account was in surplus. As such, the company reduced its contribution rate from 14.6% to 11.5% of pensionable pay with effect from 1 April 2015. This contribution rate was approved by the States of Guernsey.

The calculations for the FRS 102 disclosures have been carried out by running full actuarial calculations as at 31 March 2017.

Funding policy

The company's actuarial account is funded by means of regular contributions to cover current benefit accrual, with the rates of contribution set after each triennial actuarial valuation. The funding method currently employed is the Projected Unit Method, which sets contribution rates based on the benefits expected to be accrued in the year following the valuation date. This contribution rate is then adjusted to take account of any surplus or shortfall in the actuarial account. The States of Guernsey determine the level of contributions payable to the actuarial account following advice from the scheme's actuary. The triennial valuation of the PSPS as at 31 December 2016 is still in progress and consequently, the results of this latest valuation were not available at the time of reporting.

Actuarial account amendments

There have been no amendments to the actuarial account during the year and no special events have occurred.

Employee benefit obligations for Guernsey Electricity Limited in respect of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund

The amounts recognised in the statement of financial position are as follows:

	2017 £'000	2016 £'000
Fair value of actuarial assets	**62,301**	54,726
Present value of funded obligations	**(102,975)**	(80,848)
Net underfunding in actuarial account	**(40,674)**	(26,122)
Related deferred tax asset	**7,518**	4,947
Net defined pension liability	**(33,156)**	(21,175)

The amounts recognised in the statement of comprehensive income are as follows:

	2017 £'000	2016 £'000
Service cost	**1,595**	2,455
Cost of benefit changes	**–**	896
Curtailment gains	**–**	(152)
Net interest on net defined benefit liability	**890**	853
Expense recognised in the statement of comprehensive income	**2,485**	4,052

Notes to the financial statements, continued

Year ended 31 March 2017

The net interest on net defined benefit liability is comprised as follows:

	2017 £'000	2016 £'000
Interest on obligation	**2,784**	2,665
Interest on assets	**(1,894)**	(1,812)
Net interest on net defined benefit liability	**890**	853

The amounts recognised as remeasurements in other comprehensive income are as follows:

	2017 £'000	2016 £'000
Return on assets (not included in interest)	**6,937**	(1,987)
Actuarial (losses)/gains on obligation	**(19,829)**	5,100
Total remeasurements recognised in other comprehensive income	**(12,892)**	3,113
Cumulative amount of remeasurements recognised in other comprehensive income	**(11,808)**	1,084
Actual return on actuarial account assets	**8,831**	(175)

The following other costs will also need to be charged in the relevant sections of the accounts.

	2017 £'000	2016 £'000
Administration expenses paid from actuarial account	**36**	36
Other items	**36**	36

In addition, the company should charge any other administration expenses relating to the actuarial account which are paid directly from company funds.

The company contributed £861,000 to the actuarial account over the year from 1 April 2016 to 31 March 2017. Members of the actuarial account contributed £536,000 to the actuarial account over the same period.

The company expects to contribute £903,000 to the actuarial account over the next year from 1 April 2017 to 31 March 2018. Contributions by members of the actuarial account are expected to total £557,000 over the same period.

Changes in the present value of the actuarial account's defined benefit obligation are as follows:

	2017 £'000	2016 £'000
Opening defined benefit obligation	**80,848**	81,903
Service cost	**1,595**	2,455
Contributions by members	**536**	465
Cost of benefit changes	**–**	896
Curtailment gains	**–**	(152)
Benefits paid	**(2,617)**	(2,284)
Interest on obligation	**2,784**	2,665
Experience gains	**(3,487)**	(859)
Losses/(gains) from changes in assumptions	**23,316**	(4,241)
Closing defined benefit obligation	**102,975**	80,848

The weighted average duration of the liabilities of the actuarial account was 22 years as at 31 March 2017.

Changes in the fair value of actuarial account assets are as follows:

	2017 £'000	2016 £'000
Opening fair value of actuarial account assets	**54,726**	54,889
Interest on assets	**1,894**	1,812
Return on assets (not included in interest)	**6,937**	(1,987)
Contributions by employer	**861**	1,867
Contributions by members	**536**	465
Benefits paid	**(2,617)**	(2,284)
Administration expenses	**(36)**	(36)
Closing fair value of actuarial account assets	**62,301**	54,726

Notes to the financial statements, continued

Year ended 31 March 2017

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

	2017	2016
	%	%
Equities & alternatives	**75**	76
Bonds & fixed interest securities	**14**	13
Property	**7**	7
Other assets	**4**	4

All of the actuarial account's assets have a quoted market price in an active market. The actuarial account holds no financial instruments issued by the company nor does it hold any property or other assets used by the company.

Principal actuarial assumptions used for the FRS 102 disclosures:

	31 March 2017	31 March 2016
	% p.a.	% p.a.
Discount rate at end of year	**2.60**	3.50
Discount rate at start of year	**3.50**	3.30
Inflation	**3.40**	3.10
Rate of increase in pensionable salaries	**4.15**	3.85
Rate of increase in deferred pensions	**3.40**	3.10
Rate of increase in CARE benefits	**3.40**	3.10
Rate of increase in pensions in payment	**3.40**	3.10

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 86 if they are male and until age 89 if female. For a member currently aged 45, the assumptions are that if they attain age 65 they will live on average until age 88 if they are male and until age 91 if female.

Amounts for the current and previous period are as follows:

	31 March 2017	31 March 2016	31 March 2015
	£'000	£'000	£'000
Defined benefit obligation	**102,975**	80,848	81,903
Actuarial Account assets	**62,301**	54,726	54,889
Deficit	**(40,674)**	(26,122)	(27,014)
Experience gains/(losses) on Actuarial Account assets	**6,937**	(1,987)	2,508
Experience gains on Actuarial Account liabilities	**3,487**	859	1,916
(Losses)/gains from changes in assumptions	**(23,316)**	4,241	(6,454)
Total Experience (losses)/gains on Actuarial Account liabilities	**(19,829)**	5,100	(4,537)

21. Statement of control

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

22. Related party transactions

There are no disclosable related party transactions in this financial year. See note 5 for disclosure of Directors' remuneration.

23. Subsequent events

There were no subsequent events requiring disclosure in the financial statements.

Guernsey Electricity
www.electricity.gg

PO Box 4
Electricity House
North Side, Vale
Guernsey, GY1 3AD