# Guernsey Electricity Limited

**Report and financial statements**

**31 March 2015**

# Guernsey Electricity Limited

## Contents

# Guernsey Electricity Limited

## Directors, officers and professional advisers

| | | |
|---|---|---|
| **Directors:** | Advocate IH Beattie | (non-executive chairman) |
| | AM Bates | (managing,-chief executive officer from 1 January 2015) |
| | DS Hipple | (finance) resigned 31 March 2015 |
| | JPC Turner | (chief financial officer from 11 June 2015) |
| | RW Beebe | (operations) resigned 26 February 2015 |
| | S-A David | (corporate strategy,- asset management from 10 February 2015) |
| | MJ Mann | (non-executive) retired 1 July 2014 |
| | RP Lawrence | (non-executive) |
| | IA Hardman | (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

# Guernsey Electricity Limited

## Chairman's statement

The 2014/15 financial year has been a very positive year for Guernsey Electricity despite being extremely challenging. In spite of a number of critical operational issues the company is moving forward towards its goal of secure, reliable, sustainable and affordable electricity supplies for the Island.

Further deterioration of the subsea cable between Guernsey and Jersey created real concern regarding the reliability of the cable, and a decision to carry out a preventative repair was made late last year. The loss of the cable in an unplanned way as was seen in 2012 would have resulted in significant disruption and cost, to our customers and the Island, and the Board and shareholder deemed this to be an unacceptable risk to our stakeholders. The repair was undertaken successfully, on time and on budget. Testing of the cable after the repair has shown the repair to be wholly successful and a fully operational cable, with no restrictions, allows the organisation to focus on planning for the future.

Whilst carrying out this major repair to the cable, our dedicated staff were able to continue to deliver electricity supplies and a high quality service to our customers. Completing this repair was an important step in ensuring the continued security of imported supplies.

Working with our colleagues at Jersey Electricity, I am pleased to report that we have been able to commission a new cable between Jersey and France. This additional cable, known as Normandie 3, will provide us with access to a higher level of imports which should enable us to meet almost all of the Island's demand without having to use our on-island generators. Our plans now are directed to delivering increased resilience of imported supplies and we will be making proposals to our shareholder this year to support further investment. It is critical that we install a second cable to Guernsey, preferably direct from France.

The company has begun a business review to ensure that it continues to be as efficient and effective as possible. This will lead to changes but the Board is certain that this is in the best interests of the company and its customers.

I shall be retiring as chairman in July 2015. I have served as a director since 1 August 2002 and was appointed chairman following the tragic death of Ken Gregson on 16 March 2011. I have been proud to have served Guernsey Electricity and in turn its shareholder the States of Guernsey during that time. I leave safe in the knowledge that the company is well placed to deal with the many exciting challenges and opportunities in future years.

Ian Hardman, who has been a director since 2011, will become chairman upon my retirement.

There are a number of changes to the Board which I would like to note. David Hipple, our finance director, left the board on 31 March and Bob Beebe, our operations director, left the Board on 26 February. David has returned to England to mix retirement with consultancy work and Bob is retiring from the company this year after 25 years' service. I would like to thank them both for their commitment to the company. Julian Turner, who joined us on 1 May 2015, was appointed to the Board as Chief Financial Officer on 11 June 2015.

The success of this year could not be achieved without the continued loyalty and commitment of our dedicated staff and I would like to take this opportunity to thank them for their support.

# Guernsey Electricity Limited

## Chief executive officer's report

### Overview

This has been another eventful and challenging year for Guernsey Electricity.

The year commenced with significant concerns relating to the security of imported electricity and the subsequent impact of required on-island operational activities on our neighbours. Fortunately the year ended with a successful repair to the subsea cable with no further issues apparent and the successful commissioning of additional electricity import capacity to the Channel Islands significantly reducing the requirements for on-island generation.

To achieve this, the strategic focus of the business remained on how we could secure and increase electricity importation capacity to Guernsey. We also ensured the organisation had all the required information and evidence to take the optimal strategic decisions for our customers and the Island. We obtained approval to fund a replacement importation cable between Guernsey and Jersey if required and also continued to investigate and analyse the reliability issues with the existing subsea cable. In addition, increased levels of importation capacity were obtained by our joint investment in a further connection between France and Jersey, which enables Guernsey Electricity to import more electricity than ever before.

Unfortunately, continued testing of the existing Guernsey-Jersey cable, GJ1, during the year, revealed further failure of some of the fibre optics. This was the same symptom which ultimately led to the complete failure of the power cable in 2012. Therefore, to mitigate the risk of complete failure and facilitate greater understanding of the failure mechanism we decided to carry out a preventative repair in January 2015. This was carried out successfully and we only needed to have the cable out of service for a period of less than four weeks. Our forensic analysis has subsequently revealed that the power cable would inevitably have failed within a very short period of time. A repair after a failure would have led to the cable being out of service for at least 3 months. More importantly, our testing since re-energising the cable has revealed no further reliability issues of concern. This new information and the improved reliability allowed us to reconsider our approach to the next new subsea cable to Guernsey. In accordance with our importation strategy we are now progressing with the business case for a direct connection to France as well as maintaining the option for the replacement of the existing connection to Jersey.

In financial terms, the cable repair had a net cost to Guernsey Electricity (after deducting the contribution from Jersey Electricity who are part owners of the cable) of £3.5m. The repair cost was substantially lower than in 2012 due to the company having a power cable maintenance agreement which allowed beneficial commercial terms for the repair to be negotiated. The forensic analysis carried out after the repair shows that the cable had to be repaired and therefore the cost mitigated future higher repair costs, however this has resulted in an overall loss before tax for the year of £2.1m. In spite of this, we are pleased to report that we have once again been able to hold our tariffs at the levels that were set more than two years ago in October 2012. The successful repair does mean that the Island is now importing substantial amounts of electricity, and subject to there being no further issues with this cable, or other material adverse events, our financial performance should improve next year.

### Business Performance

Due to our concerns in respect of the importation cable which limited the amount of electricity it was possible to import, and because we carried out the repair in January this year, our actual import level of electricity has been significantly lower than we had planned. As a result whilst the level was higher than the last two previous years we only imported 218,002 MWh, which represents just 58% (41% last year and 28% the year before) of our total supply to the Island. Whilst this is an improvement on previous years we had planned for imports to meet 75% of our supply and less imported power has further adversely affected our financial performance.

In terms of the operational impact of these issues we have had to utilise the power station for more on-island generation than had been originally planned and whilst carrying out the repairs to the GJ1 cable earlier this year, it was necessary for us to generate on-island to meet all of our customers' electricity needs. This required us to run engines 24 hours a day for the period of the cable outage. We remain very conscious of the impact this has on some of our neighbours who live close to the power station site.

Another factor affecting the financial performance was the mild weather over the year. 2014 was the mildest year on record. There were no particularly cold spells and the winter was once again quite mild, although slightly colder than the previous winter. The result is that we have seen a 4.9% reduction in electricity usage by our customers which has led to a reduction in electricity sales of £2.4m compared to budget.

Whilst focusing on the critical infrastructure issues we also recognise that we have to ensure that we continue to provide an affordable electricity supply to our customers. We have therefore begun a fundamental review of our activities to ensure that as a business we are fit for the future and able to provide services in the most efficient and effective way. We commissioned a business wide performance review which will make some major changes to our operations and will also ensure that we become more strongly focussed on our customers and how to optimise the investment in, and performance of, our assets. This business performance review will lead to improvements but unfortunately will lead to some job losses across the company. It is a step we have to go through to improve our company for the future.

In spite of the issues with our import cable, I am pleased to report that customers, both domestic and commercial, only experienced 31.6 minutes loss of supply on average compared to 37.2 minutes lost during the previous financial year. The risk mitigation and standby procedures we have introduced, and which we continually monitor, have enabled us to continue to meet customers' demands for electricity supply.

In April, the States of Guernsey voted to remove Guernsey Electricity, together with the Post Office, from price regulation by CICRA. As a company wholly owned by the States, this form of independent regulation added no value and imposed an additional unacceptable cost and time burden on the company. The removal of regulation of course does not allow the company to operate unchecked in the future though. The Treasury and Resources Department, through a Supervisory Sub-Committee will exercise greater control over the company as its shareholder. It will do so in the interest of all stakeholders and will approve any significant changes to the company's operations, including future price changes, in advance of them taking place.

**Major Projects**

In October 2014, along with our partners in the Channel Islands Electricity Grid (CIEG), Jersey Electricity, we commissioned and began using a second cable between Jersey and France, called Normandie 3 (N3). This provides Guernsey with an extra 24 MW of entitled import capacity and moving forward, this should allow us to import almost all of Guernsey's power needs other than during the coldest parts of the winter. It means that as long as the cables operate successfully we will be able to minimise the amount of on-island generation and consequently minimise the impact of our power station activities on our neighbours and the wider community. Of course it is critical for us to install a second import cable to the Island to enhance the security and resilience of our imports and this is why the work on the project to provide a second cable connection to the Island is a priority for us.

This year we have continued to work on ensuring that our newest generator, the medium speed diesel engine, 2D, operates as effectively as possible. Working with the supplier and Environmental Health, we have successfully carried out a number of improvements to further reduce its noise during operation. This engine has as minimal impact as possible on our neighbours and is the quietest engine in our fleet.

**Financial Performance**

The last year has seen a significant improvement in the company's trading performance although the overall results show an operating loss of £2.4m compared with an operating loss of £0.3m the previous year. Before the cost of the cable repair is factored in, the current year shows an operating profit of £1.1m compared to last year's loss. The improvement has come from lower costs and in particular the increase in imports from 41% last year to 58% this year. Our costs therefore, show a reduction in generation expenditure and an increase in lower priced imports, however due to the restrictions in our import capacity it has still been necessary to generate locally to meet 42% of customer demand.

Overall loss before tax was £2.1m, compared to a prior year loss of £0.2m. The results reflect an excellent performance given the operational difficulties and the £3.5m cost of the cable repair, and show the progress that the company is making.

The company continues to benefit from a strong balance sheet with our fixed asset base of £115.1m increasing by £2.8m from the previous year, the largest change being the completion of our investment in the Normandie 3 (N3) cable from Jersey to France.

The net cash outflow for the year of £1.1m compared with £10.7m in the previous year is largely attributable to a reduction in net capital expenditure to £8.9m from £18.7m the prior year. This was due principally to the majority of the capital investment in the N3 cable being incurred in the previous year. Cash inflow from operating activities of £7.6m remained in line with the prior year.

At the year-end we had net debt of £2.9m compared to £1.8m last year. This comprised £6.0m loans and closing cash balances of £3.1m; these amounts include balances held with the States of Guernsey of £2.5m (2014: £3.5m).

Shareholder's funds have decreased by £4.5m, from £96.4m to £91.9m. This was a result of £1.8m of post-tax losses for the year and the actuarial loss in the pension scheme, net of the movement in deferred tax relating to the pension deficit of £2.7m.

The net pension deficit after deferred tax, reported under Financial Reporting Standard 17 ("FRS 17") Retirement Benefits, has increased from £18.1m to £22.3m. This contrasts with the Actuarial Valuation of the fund which was completed in 2014 (up to 31 December 2013) which showed a surplus of £3.4m. These two valuations are prepared on different bases for different purposes. 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 accounting standard FRS17. 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 await the outcome of the current changes proposed for the States' Public Servants Pension Scheme; we support the position that the scheme as it currently stands is no longer affordable or sustainable.

**The Team**

This has been a difficult year for Guernsey Electricity. External pressures and events and internal changes are challenging. However, I would like to thank all of the staff for continuing to operate professionally, and remaining loyal and committed to the company. I would also like to record recognition of the key role the chairman has played in providing significant guidance to the Board in dealing with the challenges faced by the company over what has been a demanding period. Ian is retiring from the Board with these challenges clearly understood and the future strategy for the business embedded in our long term plans.

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**

For Guernsey Electricity, the strategic and operational focus of our activities continues to be the delivery of a reliable, efficient and affordable electricity service to our customers. While 2014/15 has seen large fluctuations in the market price of oil, it remains clear that the most economically and environmentally favourable way to supply 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 has prioritised 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 late this 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.

A key challenge for the company is that even with a robust and resilient cable network in place we are required to maintain an on-island generation facility under the N-2 security of supply standard as recently confirmed by the States of Guernsey. This standard requires Guernsey Electricity to ensure sufficient on-island generation capacity to meet maximum demand in the event of the loss of its two largest sources of supply. So as well as working to deliver the project for the second cable, we also need to ensure that we have a plan in place to replace some of the older engines in our fleet.

Guernsey is a small Island with only 30,000 customers. Given the size of the capital investments described above we need to do everything we can to ensure our prices continue to be affordable. We will continue to drive through 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.

# Guernsey Electricity Limited

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2015. These comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, cash flow statement and notes to the financial statements set out on pages 22 to 38.

**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.

**Customers**

The number of customers as at 31 March 2015 is 30,077 (2014: 29,812).

**Units**

Importation through the cable link between Guernsey, Jersey and the European grid provided 58% (2014: 41%) of the Island's electricity needs in the year ended 31 March 2015 and 42% (2014: 59%) was generated on the Island, as shown by the units analysis below:

| | **2015** | 2014 |
|---|---|---|
| Units imported MWh | **218,002** | 155,964 |
| Units generated MWh | **156,856** | 227,057 |
| **Total units imported/generated MWh** | **374,858** | 383,021 |

**Average price**

The average price per kWh sold in the year ended 31 March 2015 was 15.10 pence (2014: 14.92 pence) and this change was primarily as a result of the change in the mix of sales during the year driven largely by weather patterns.

**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. Customers lost nil minutes due to generation/importation activity (2014: 10.80 minutes) and 31.55 minutes were lost per customer in respect of distribution (2014: 26.35 minutes).

**Directors and their interests**

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

Directors' report - continued

**Disclosure of Information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

**Auditor**

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

For and on behalf of the Board of Directors

**IH Beattie**

**AM Bates**
*Directors*
15 July 2015

## Corporate governance

Guernsey Electricity's corporate governance arrangements are based on the proportionate and relevant application of good practice principles in corporate governance and predominantly those contained within the UK Corporate Governance Code published in September 2014.

**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. 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 12 Board meetings held during 2014/15. 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 Beattie spends on average 1 day per week in his role as chairman. The Board consider that he has no other external directorships which make conflicting demands on his time as chairman.

Robert Lawrence is the deputy chairman appointed by the Board.

# Corporate governance - continued

**Board balance and independence**

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

During 2014/15, Martyn Mann, Bob Beebe and David Hipple resigned from 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.

## Corporate governance - continued

**Attendance at Board meetings**

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

| Director | Meetings Attended/Total Meetings Held |
|---|---|
| IH Beattie | 12/12 |
| AM Bates | 12/12* |
| DS Hipple | 12/12 |
| RW Beebe | 11/11 |
| S-A David | 12/12 |
| RP Lawrence | 12/12 |
| IA Hardman | 10/12 |
| RJ Dutnall | 9/12 |
| CM Holmes | 10/12 |
| MJ Mann | 1/1 |

*****Denotes attendance for part of one meeting.

**Performance evaluation**

The Board undergoes an annual evaluation of its performance. The last assessment was for the period up to 31 March 2014 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. The Board completed further training on corporate governance as an outcome of the evaluation process.

**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.

**Remuneration**

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

## Corporate governance - continued

**Remuneration (continued)**

The Remuneration & Nominations Sub-Committee, which is chaired by Ian Hardman, consists solely of a minimum of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the executive director and senior management remuneration policy as agreed from time to time by the Board. 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 and senior management job descriptions and objective criteria for Board appointments and succession planning.

**Accountability and Audit**

**Financial reporting**

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

**Internal control and risk management**

During 2014/15 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 Finance Director during the year and will be the responsibility of the Chief Financial Officer going forward.

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 Baker Tilley (formerly RSM Tenon), a leading entity in providing such services. The Chief Financial Officer, in association with Baker Tilley, reports on all internal audit work in accordance with the plan approved by the Audit & Risk Sub-Committee. Specialist engineering audits complement this, again as approved by the Audit & Risk Sub-Committee.

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

**Audit & Risk Sub-Committee and auditor**

The purpose of the Audit & Risk Sub-Committee is to assist the Board of Directors of Guernsey Electricity Limited in the effective discharge of the Board's responsibilities for risk management, financial reporting and internal control in order to ensure high standards of probity and good corporate governance. In doing so, the Audit & Risk Sub-Committee is required to act independently of the executive and seek to safeguard the interest of the company shareholder. There were seven 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 Lawrence 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: RP Lawrence
Members: IH Beattie
RJ Dutnall
CM Holmes (until 14 August 2014)

**Sub-Committees of the Board and main terms of reference**

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

**Remuneration & Nominations Sub-Committee**

Ian Hardman is the chairman of the Remuneration & Nominations Sub-Committee.

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

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

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

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

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

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

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

Chairman: IA Hardman
Members: IH Beattie
RJ Dutnall
CM Holmes

**Land & Property Sub-Committee**

David Hipple was chairman of the Land & Property Sub-Committee until 31 March 2015. 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 seven Land & Property Sub-Committee meetings held in the year.

## Corporate governance - continued

**Relations with the shareholder**

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

## Statement of directors' responsibilities

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

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

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

We have audited the financial statements of Guernsey Electricity Limited (the "Company") for the year ended 31 March 2015 which comprise the balance sheet, profit and loss account, statement of total recognised gains and losses, the cash flow statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report 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 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 2015 and of its loss for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

### Matters on which we are required to report by exception

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

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

KPMG Channel Islands Limited

KPMG Channel Islands Limited
*Chartered Accountants*
St Peter Port
Guernsey

15 July 2015

## Profit and loss account

*for the year ended 31 March 2015*

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Turnover** | *2* | **55,618** | 55,895 |
| **Cost of sales** | | **(43,343)** | (43,928) |
| **Gross profit** | | **12,275** | 11,967 |
| **Net operating expenses** | | **(14,468)** | (12,222) |
| **Operating loss** | *3* | **(2,193)** | (255) |
| Loss on disposal of assets | | **(179)** | (88) |
| **Loss on ordinary activities before interest, other finance cost and other income** | | **(2,372)** | (343) |
| Interest receivable | *4* | **314** | 402 |
| Interest payable | *4* | **(230)** | (82) |
| Other finance income/(cost) | | **215** | (208) |
| **Loss on ordinary activities before taxation** | | **(2,073)** | (231) |
| Taxation | *5* | **208** | 37 |
| **Loss for the financial year after taxation** | | **(1,865)** | (194) |

All activities derive from continuing operations.

The notes on pages 22 to 38 form an integral part of these financial statements.

# Guernsey Electricity Limited

## Statement of total recognised gains and losses
*for the year ended 31 March 2015*

| | *Note* | **2015 £'000** | 2014 £'000 |
|---|---|---|---|
| Loss for the financial year | | **(1,865)** | (194) |
| Actuarial loss recognised in the pension scheme | *22* | **(3,230)** | (2,298) |
| Movement on deferred tax relating to pension deficit | *13* | **563** | 443 |
| **Total recognised loss for the year** | | **(4,532)** | (2,049) |

The notes on pages 22 to 38 form an integral part of these financial statements.

## Balance sheet
*at 31 March 2015*

| | Note | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|---|
| **Tangible fixed assets** | 7 | **115,109** | 112,300 |
| **Current assets** | | | |
| Stocks and work in progress | 8 | **5,748** | 6,385 |
| Debtors and prepayments | 9 | **12,534** | 11,714 |
| Balances with States Treasury | 10 | **2,489** | 3,510 |
| Cash at bank and in hand | | **626** | 734 |
| | | **21,397** | 22,343 |
| **Creditors: amounts falling due within one year** | 11 | **(11,718)** | (9,260) |
| **Net current assets** | | **9,679** | 13,083 |
| **Total assets less current liabilities** | | **124,788** | 125,383 |
| **Creditors: amounts falling due after more than one year** | 12 | **(10,232)** | (10,159) |
| **Provision for liabilities and charges** | 13 | **(372)** | (750) |
| **Net pension deficit** | 22 | **(22,306)** | (18,064) |
| **Net assets including pension deficit** | | **91,878** | 96,410 |
| **Share capital** | 14 | **109,209** | 109,209 |
| **Reserves** | 18 | **(17,331)** | (12,799) |
| **Shareholders' funds** | 19 | **91,878** | 96,410 |

The financial statements on pages 18 to 38 were approved by the Board of Directors on 15 July 2015.

Signed on behalf of the Board of Directors

**IH Beattie**

**AM Bates**
*Directors*

The notes on pages 22 to 38 form an integral part of these financial statements.

## Cash flow statement

*for the year ended 31 March 2015*

| | Note | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | *15* | **7,637** | 7,669 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **320** | 389 |
| Interest paid | | **(231)** | (44) |
| **Net cash inflow from returns on investments and servicing of finance** | | **89** | 345 |
| **Capital expenditure and financial investment** | | | |
| Payments to acquire tangible fixed assets | | **(9,167)** | (19,076) |
| Proceeds of disposal of tangible fixed assets | | **23** | 12 |
| Customers' contributions towards capital expenditure | | **289** | 316 |
| **Net cash outflow from capital expenditure and financial investment** | | **(8,855)** | (18,748) |
| **Net cash outflow before use of liquid resources and financing** | | **(1,129)** | (10,734) |
| **Management of liquid resources** | | | |
| Net cash movements with States Treasury | | **(1,021)** | (836) |
| **Financing** | | | |
| Amounts drawn under medium term credit facility | *12* | **-** | (6,000) |
| **Decrease in cash** | *16 & 17* | **(108)** | (3,898) |
| **Net cash outflow** | | **(1,129)** | (10,734) |

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

The notes on pages 22 to 38 form an integral part of these financial statements.

# Notes to the financial statements

*Year ended 31 March 2015*

## 1. Principal accounting policies

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

*Basis of preparation*

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

*Transfer of undertaking*

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

*Sales of electricity*

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

*Hire purchase*

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

*Interest*

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

*Deferred income*

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

*Tangible fixed assets and depreciation*

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

**1. Principal accounting policies - continued**

*Tangible fixed assets and depreciation - continued*

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

| | | Estimated life in years |
|---|---|---|
| Buildings | | 40 |
| Buildings Equipment | | 10 |
| Cable Link | | 25 – 30 |
| Plant and machinery | - Generation | 25 – 35 |
| | - Distribution | 35 |
| | - Street Lights | 20 |
| Distribution network comprising: | | |
| Distributors | | 35 |
| Meters | | 5 – 15 |
| Cyclocontrol receivers | | 5 |
| Motor vehicles | | 5 |
| Furniture and equipment | | 3 – 10 |
| Minor plant | | 5 – 10 |

*Stocks and work in progress*

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

*Leases*

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

*Deferred taxation*

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

# Notes to the financial statements - continued

*Year ended 31 March 2015*

**1. Principal accounting policies - continued**

*Foreign exchange*

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

*Financial instruments*

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

*Pension costs*

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

*Joint Arrangements*

The Channel Islands Electricity Grid Limited is a Joint Arrangement between Jersey Electricity plc and Guernsey Electricity Limited who each own an equal 50% shareholding. The company was formed to manage the project and the ongoing operation of the cable link between Guernsey, Jersey and France. In accordance with Financial Reporting Standard 9, “Associates and Joint Ventures”, (“FRS9”), these financial statements include the company’s entitlement to the assets, liabilities, cash flows and the shared items of this Joint Arrangement where the company’s entitlements are fully determined by contracts with the other party to the Joint Arrangement.

# Notes to the financial statements - continued

*Year ended 31 March 2015*

## 2. Turnover

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Sales of electricity | **52,328** | 52,526 |
| Other sales | **3,290** | 3,369 |
| | **55,618** | 55,895 |

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

## 3. Operating Loss

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

| | | **2015** | 2014 |
|---|---|---|---|
| | | **£'000** | £'000 |
| Depreciation (note 7) | | **6,176** | 5,598 |
| Rentals under operating leases | | **13** | 12 |
| Auditor's remuneration | - statutory audit | **35** | 41 |
| | - non-audit services | **-** | 15 |
| Bad debts | | **46** | 25 |
| Director fees, salaries and other benefits | | **1,148** | 774 |
| Regulatory costs | - external | **25** | 75 |
| | - internal | **12** | 19 |
| Other operating income | | **(617)** | (619) |

# Notes to the financial statements - continued

*Year ended 31 March 2015*

## 4. Interest

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Interest receivable: | | |
| Deposits with banks and States Treasury | 173 | 266 |
| Hire purchase | 141 | 136 |
| | 314 | 402 |
| Interest payable: | | |
| Medium term credit facility | 229 | 81 |
| Other interest payable | 1 | 1 |
| | 230 | 82 |

## 5. 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.

**5. Taxation - continued**

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. Various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate and the company higher rate. Deferred tax has been provided on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 17.4254% (2014: 19.2811%) 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 2015.

The deferred tax credit in the profit and loss account for the year is:

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Timing differences on capital allowances and depreciation | **534** | 252 |
| Short term timing differences (pension) | **170** | (168) |
| Short term timing differences (other) | **15** | (22) |
| Movement on unrelieved trading losses | **(927)** | (99) |
| | **(208)** | (37) |

**6. Dividend**

No dividend is proposed for the year. At the 2014 Annual General Meeting, the company proposed a dividend in specie to its shareholder out of the profits it made during 2011/12. It proposed to transfer the ownership of Tidal and Bathymetry Data that it had built up to its shareholder. Consequently, a resolution was signed by the shareholder on 7 October 2014 and as this data has a zero net book value, it was subsequently transferred for this amount.

# Notes to the financial statements - continued
*Year ended 31 March 2015*

## 7. Tangible fixed assets

| | 1 April 2014 £'000 | Additions £'000 | Written off/ disposals £'000 | **31 March 2015 £'000** |
|---|---|---|---|---|
| *Cost* | | | | |
| Land and buildings | 30,885 | 232 | - | **31,117** |
| Cable link | 43,206 | 6,217 | 234 | **49,189** |
| Plant and machinery: | | | | |
| Generation | 47,642 | 311 | - | **47,953** |
| Distribution | 12,637 | 348 | - | **12,985** |
| Distribution network | 32,743 | 1,406 | 230 | **33,919** |
| Motor vehicles, furniture and equipment, minor plant | 5,560 | 673 | 124 | **6,109** |
| | 172,673 | 9,187 | 588 | **181,272** |

| | 1 April 2014 £'000 | Charge for the year £'000 | Written off/ disposals £'000 | **31 March 2015 £'000** |
|---|---|---|---|---|
| *Depreciation* | | | | |
| Land and buildings | 10,194 | 831 | - | **11,025** |
| Cable link | 14,948 | 1,404 | 131 | **16,221** |
| Plant and machinery: | | | | |
| Generation | 18,481 | 1,925 | - | **20,406** |
| Distribution | 3,054 | 364 | - | **3,418** |
| Distribution network | 9,890 | 1,213 | 135 | **10,968** |
| Motor vehicles, furniture and equipment, minor plant | 3,806 | 439 | 120 | **4,125** |
| | 60,373 | 6,176 | 386 | **66,163** |
| **Net book value** | 112,300 | | | **115,109** |

Included above are assets in the course of construction of £4,875,000 (2014: £16,739,000), which are not depreciated.

**8. Stocks and work in progress**

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **£'000** | **£'000** | £'000 | £'000 |
| Fuel stocks | | **3,182** | | 4,190 |
| Purchased goods for resale | **267** | | 329 | |
| Provision | **(6)** | **261** | (7) | 322 |
| Other stocks | **3,956** | | 3,612 | |
| Provision | **(1,895)** | **2,061** | (1,865) | 1,747 |
| Work in progress | | **244** | | 126 |
| | | **5,748** | | 6,385 |

**9. Debtors and prepayments**

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Estimated value of unbilled units | **7,389** | 6,512 |
| Customer accounts outstanding | **3,748** | 3,708 |
| Other debtors | **964** | 1,108 |
| Prepayments | **433** | 386 |
| | **12,534** | 11,714 |

Included in "Customer accounts outstanding" is an amount totalling £323,000 (2014: £306,000) due after more than one year.

**10. Balances with States Treasury**

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

## Notes to the financial statements - continued
*Year ended 31 March 2015*

**11. Creditors: amounts falling due within one year**

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Trade creditors | **3,157** | 1,786 |
| Customer payments received in advance | **6,650** | 5,638 |
| Employee taxes and Social Security | **163** | 165 |
| Deferred income | **161** | 154 |
| Accruals and other creditors | **1,587** | 1,517 |
| | **11,718** | 9,260 |

The company has a £1,000,000 overdraft facility with Barclays Bank Plc (2014: £1,000,000), and interest is payable quarterly at 1.75% over UK base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. The States of Guernsey, by way of resolution at its meeting on 15 December 2011, authorised the Treasury & Resources Department to make an overdraft facility of £5m available to the company for a four year period from 1 January 2012 with interest payable at the States Treasury rate. As at 31 March 2015, £Nil was drawn on either overdraft facility (2014: £Nil).

**12. Creditors: amounts falling due after more than one year**

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred income | **4,232** | 4,159 |
| Amount drawn under medium term credit facility | **6,000** | 6,000 |
| | **10,232** | 10,159 |

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 facility is guaranteed by the States of Guernsey and a facility charge payable to the States of Guernsey of 0.50% is levied on the value of the amount drawn down for the term of the loan. The loan incorporates an option to increase the credit facility to £30m for the purpose of the future financing of the company's share of the "Normandie 1" project which will see an overlay of the failed "EDF1" cable between Jersey and France. During the year, the company utilised £Nil of the loan (2014: £6m).

**13. Provision for liabilities and charges**

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Deferred taxation: | | |
| Balance at 1 April | **(3,565)** | (3,085) |
| Profit and loss account credit | **(208)** | (37) |
| Statement of total recognised gains and losses | **(563)** | (443) |
| **Balance at 31 March** | **(4,336)** | (3,565) |
| Which comprises: | | |
| Capital allowances in excess of depreciation | **8,395** | 7,861 |
| Short-term timing differences (other) | **(200)** | (215) |
| Unrelieved trading loss for tax purposes | **(7,823)** | (6,896) |
| Provision for liabilities and charges | **372** | 750 |
| **Deferred tax asset on pension deficit (note 22)** | **(4,708)** | (4,315) |

### 14. Share capital

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| *Authorised:* | | |
| 125,000,000 ordinary shares of £1 each | **125,000** | 125,000 |
| *Issued and fully paid:* | | |
| 109,208,844 ordinary shares of £1 each | **109,209** | 109,209 |

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

### 15. Reconciliation of operating loss to net cash inflow from operating activities

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Operating loss | **(2,193)** | (255) |
| Depreciation charge | **6,176** | 5,598 |
| Pension current service cost | **2,258** | 2,082 |
| Pension past service cost | **396** | - |
| Pension losses on curtailments | **8** | - |
| Employer's pension cash contributions | **(1,042)** | (1,092) |
| Deferred income | **(161)** | (154) |
| Decrease in stocks and work in progress | **637** | 851 |
| (Increase)/decrease in debtors and prepayments | **(827)** | 825 |
| Increase/(decrease) in creditors | **2,385** | (186) |
| | **7,637** | 7,669 |

### 16. Reconciliation of net cash flow to movement in net debt

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Decrease in cash in the year | **(108)** | (3,898) |
| Cash used to decrease liquid resources | **(1,021)** | (836) |
| Amount drawn under medium term credit facility | **-** | (6,000) |
| Change in net funds | **(1,129)** | (10,734) |
| Net (debt)/funds at 1 April | **(1,756)** | 8,978 |
| **Net debt at 31 March** | **(2,885)** | (1,756) |

### 17. Analysis of changes in net debt

| | At 1 April 2014 £'000 | Cash flows £'000 | **At 31 March 2015 £'000** |
|---|---|---|---|
| Cash at bank and in hand | 734 | (108) | **626** |
| Balances with States Treasury | 3,510 | (1,021) | **2,489** |
| Credit facility due after one year | (6,000) | - | **(6,000)** |
| | (1,756) | (1,129) | **(2,885)** |

**18. Reserves**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Balance at 1 April brought forward | **(12,799)** | (10,750) |
| Loss for the financial year | **(1,865)** | (194) |
| Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit | **(2,667)** | (1,855) |
| Balance at 31 March carried forward | **(17,331)** | (12,799) |

**19. Reconciliation of movements in shareholders' funds**

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Shareholders' funds at 1 April brought forward | **96,410** | 98,459 |
| Loss for the financial year | **(1,865)** | (194) |
| Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit | **(2,667)** | (1,855) |
| **Shareholders' funds at 31 March** | **91,878** | 96,410 |

**20. Commitments**

Capital commitments, for which no provision has been made in these financial statements, amounted to £4,006,000 as at 31 March 2015 (2014: £11,615,000). These relate to outstanding commitments on capital projects across a range of asset categories.

*Cable link commitments*
For the import of power from the European Grid, the company has a contract with Electricite de France ("EdF"). The existing electricity import contract with EdF is effective for a 10 year period which commenced from 1 January 2013. The related transmission agreement with Reseau de transport d'electricite ("Rte") also commenced from 1 January 2013. Under the import contract, there is a take or pay commitment, whereby the company is jointly and severally liable, along with the Channel Islands Electricity Grid Limited ("CIEG") and Jersey Electricity plc, for a block of power over the term of the contract. The price at which the take or pay block is charged increases annually over the period of the contract and for calendar year 2016 this equates to a total commitment of €9.4m (2015: €8.7m) for Guernsey Electricity Limited.

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| *Land and Buildings* | | |
| Lease which expires: | | |
| Within one year | **13** | 13 |
| Within two to five years | - | - |

## 21. Financial instruments

(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 purchased and written options which have the economic effect of committing it to purchase Euro at contracted rates with the option to purchase additional Euro should exchange rates move against the company as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **€'000** | **£'000** | €'000 | £'000 |
| Committed purchase of Euro | **9,660** | **7,349** | 3,850 | 3,281 |
| Options for additional purchases | **4,140** | **3,149** | 1,650 | 1,406 |
| Contracts to purchase Euro | **13,800** | **10,498** | 5,500 | 4,687 |

The options will be exercised if the exchange rate falls below the relevant strike prices which range from 1.1980 to 1.3665. The Sterling/Euro rate at 31 March 2015 was 1.3802 (2014: 1.2098).

The fair value of these options which has not been recognised in the balance sheet is a liability of £295,000 (2014: £98,000).

(b) On-island Generation Financial Hedge

The company has no financial hedges on the commodity price of heavy fuel oil used for its on-island generation. The prior year financial statements reported financial hedges on heavy fuel oil totalling £9.1m comprising 23,000 metric tonnes at an average price of £397.15/metric tonne for 2014/15.

(c) 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 £8.4m and is referenced against the three month sterling LIBOR rate. The valuation of this instrument as at 31 March 2015 was £9,000 (2014: £52,000).

**22. Pension Scheme**

**Employee benefit obligations for Guernsey Electricity Limited**

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

As the PSPS is a multi entity arrangement, the States of Guernsey contracted the Scheme's qualified independent actuaries to identify the actuarial account for each entity and, therefore, the value of the pension fund assets and liabilities attributable to this company. The triennial valuation at 31 December 2013 recommended the decrease of employer's contribution from 14.6% to 11.5% from 1 April 2015 and this was approved by the States of Guernsey. The value of these employer contributions to the Fund from 1 April 2015 to 31 March 2016 are estimated at £1,178,000.

Due to a redundancy, in accordance with the Rules of the PSPS which apply to Guernsey Electricity Limited, an employee has become entitled to the early payment of unreduced benefits based on enhanced service. As the standard member and employer contribution make provision for only the benefit payable from normal pension age based on actual service, a payment of £343,000 has to be paid into the Fund in order to fund for this additional benefit. It is expected that after a period of less than three financial years, the company would have paid less in respect of the employee than it would had no redundancy been made.

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

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

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

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

# Notes to the financial statements - continued

*Year ended 31 March 2015*

**22. Pension Scheme - continued**

The amounts recognised in the balance sheet are as follows:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Fair value of Fund assets | **54,889** | 50,611 |
| Present value of funded obligations | **(81,903)** | (72,990) |
| Deficit in scheme | **(27,014)** | (22,379) |
| Related deferred tax asset | **4,708** | 4,315 |
| Net pension liability | **(22,306)** | (18,064) |

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Current service cost | **2,258** | 2,082 |
| Interest on obligation | **3,099** | 2,973 |
| Expected return on Fund assets | **(3,314)** | (2,765) |
| Past service cost | **396** | - |
| Losses on curtailments | **8** | - |
| Expense recognised in the profit and loss account | **2,447** | 2,290 |
| Actual return on Fund assets | **4,648** | 2,814 |

# Notes to the financial statements - continued

*Year ended 31 March 2015*

## 22. Pension Scheme - continued

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

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Opening defined benefit obligation | **72,990** | 66,863 |
| Service cost | **2,258** | 2,082 |
| Interest cost | **3,099** | 2,973 |
| Contributions by members | **470** | 493 |
| Actuarial losses | **4,564** | 2,347 |
| Past service cost | **396** | - |
| Losses on curtailments | **8** | - |
| Benefits paid | **(1,882)** | (1,768) |
| Closing defined benefit obligation | **81,903** | 72,990 |

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

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Opening fair value of Fund assets | **50,611** | 47,981 |
| Expected return | **3,314** | 2,765 |
| Actuarial gains | **1,334** | 48 |
| Contributions by employer | **1,042** | 1,092 |
| Contributions by members | **470** | 493 |
| Benefits paid | **(1,882)** | (1,768) |
| Closing fair value of Fund assets | **54,889** | 50,611 |

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

| | **2015** | 2014 |
|---|---|---|
| | **£'000** | £'000 |
| Total actuarial losses | **(3,230)** | (2,298) |
| Total loss recognised in STRGL | **(3,230)** | (2,298) |
| Cumulative amount of loss recognised in STRGL | **(27,243)** | (24,013) |

**22. Pension Scheme - continued**

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

| | **2015** | 2014 |
|---|---|---|
| | **%** | % |
| Equities | **76** | 70 |
| Gilts | **1** | 3 |
| Corporate bonds | **14** | 14 |
| Property | **7** | 9 |
| Other assets | **2** | 4 |

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

| | **31 March 2015** | 31 March 2014 |
|---|---|---|
| | **% p.a.** | % p.a. |
| Discount rate | **3.3** | 4.3 |
| Expected return on Fund assets at 31 March (for following year) | **N/A** | 6.6 |
| Rate of increase in pensionable salaries | **3.85** | 4.35 |
| Rate of increase in deferred pensions | **3.1** | 3.6 |
| Rate of increase in pensions in payment | **3.1** | 3.6 |

**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.

**Expected rate of return for 2015/16**

The Financial Reporting Council has issued a revised accounting standard, Financial Reporting Standard 102 ("FRS102"). Section 28 of this standard will replace the current FRS17 standard for financial years' beginning on or after 1 January 2015. Under FRS102, the "expected return on assets" and "interest cost" items of the pension cost are combined into a single item called the "Net interest on the net defined benefit liability/(asset)". This item will be calculated by reference to the discount rate and so, effectively, the expected return on assets assumption is equal to the discount rate, meaning a separate assumption is no longer required.

# Notes to the financial statements - continued

*Year ended 31 March 2015*

## 22. Pension Scheme - continued

Amounts for the current and previous periods are as follows:

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| | **£'000** | £'000 | £'000 | £'000 | £'000 |
| Defined benefit obligation | **81,903** | 72,990 | 66,863 | 59,615 | 51,521 |
| Fund assets | **54,889** | 50,611 | 47,981 | 43,184 | 42,756 |
| Deficit | **(27,014)** | (22,379) | (18,882) | (16,431) | (8,765) |
| Experience gains / (losses) on Fund assets | **1,334** | 48 | 2,198 | (2,620) | 1,860 |
| Experience gains / (losses) on Fund liabilities | **1,890** | (15) | 28 | 932 | 504 |
| Change in assumptions underlying the Present value of Fund liabilities | **(6,454)** | (2,332) | (3,766) | (5,530) | 2,835 |
| Total Experience (losses) / gains on Fund liabilities | **(4,564)** | (2,347) | (3,738) | (4,598) | 3,338 |

The balance sheet position in respect of the Actuarial Account has worsened mainly due to the effect of the economic assumptions derived from the market.

## 23. Statement of control

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

## 24. Related party transactions

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