Powering ahead

Security. Reliability. Sustainability. Affordability.

Guernsey Electricity Limited

Report and financial statements

2015/16

Guernsey Electricity

Directors, officers and professional advisers

Directors:

Advocate IH Beattie
(Non-Executive Chairman) retired 21 July 2015

IA Hardman
*(Non-Executive until 21 July 2015 –
Non-Executive Chairman from 21 July 2015)*

AM Bates
(Chief Executive Officer)

JPC Turner
(Chief Financial Officer from 11 June 2015)

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

The 2015/16 financial year has been a very positive year for Guernsey Electricity despite being extremely challenging. The company is moving forward towards its goal of secure, reliable, sustainable and affordable electricity supplies for the Island.

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.

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.

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.

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 a Diploma in Company Direction.

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.

Chairman's statement

The 2015/16 financial year has been a very positive and successful year for Guernsey Electricity. My first year as chairman has seen continued progressive change in the company and I am pleased to report that we have returned to profit after a few years of un-planned losses and the company has now reached a breakeven position following the commercialisation of the business in 2002. This return to profitability has allowed tariff levels to remain unchanged for the fourth year in a row and for further investments to be made in the Island's electricity supply infrastructure.

The company remains focused on its goal of secure, reliable, sustainable and affordable electricity supplies for the Island.

Our year started on a very positive note as the decision to carry out a preventative repair on the subsea power cable connecting Guernsey and Jersey ("GJ1") in 2015 was vindicated by subsequent forensic and operational testing which brought to an end a considerable period of uncertainty regarding the reliability of this cable. The Board was acutely aware that the loss of the cable in an unplanned way as was seen in 2012 would result in significant disruption and cost to our customers and the Island. As reported last year the Board and shareholder deemed this to be an unacceptable risk and authorised the repair.

The clarity granted by this successful repair operation, as well as allowing full operation of the cable, also enables the organisation to have a degree of certainty in terms of focusing on the strategic planning for the future. We are now developing projects to deliver a second subsea cable connection to the Island; to replace the Island's ageing fleet of generators; and to upgrade our networks to ensure reliable delivery of electricity to our customers. Our plans are now directed to delivering increased resilience for generated and imported electricity supplies and we will be making proposals to our shareholder to support further investment.

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The Board remains mindful of the pension position and is pleased to report that the net pension liability has reduced. The future sustainability of the scheme will continue to be reviewed. Options to reduce any adverse and unacceptable impact of providing the pension on the affordability of electricity prices remains a key Board focus.

The company continues with the transformation of its business activities to ensure that it remains as efficient and effective as possible in all the services it offers. The first stages of the transformation have been very successful and the Board is certain that this is in the best interests of the company and its customers.

The company remains well placed to deal with the many exciting challenges and opportunities in future years, and looks forward to working with the States Trading Supervisory Board who will take over shareholder responsibilities from the Treasury & Resources Department. In this report I would like to pass on my appreciation to the Political and Civil Service members of that department for all their support and assistance over what can only be described as an extremely challenging last couple of years.

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

IA Hardman
Non-executive Chairman

Chief executive officer's report

Overview

Guernsey Electricity has finished the 2015/16 financial year with a very positive outlook, successful operational performance and solid financial results.

This comes in contrast to the last few years which have been both eventful and extremely challenging for Guernsey Electricity and shows the success of our plans, which were required to take effect after the reliability issues in 2012.

Since the Guernsey to Jersey subsea cable ("GJ1") failed, the opening comments in each of the subsequent annual reports have highlighted the unenviable situation the business had to deal with in terms of the condition of some of its major infrastructure assets. At the time of the cable failure, Guernsey Electricity created a financial recovery plan which balanced the need for the significant operational and capital investments against the impact such expenditure would have on the affordability of electricity to its customers.

The recovery plan has been effectively implemented and this year I can report very successful operational performance and solid financial results. This improvement in underlying performance has been created by the foundations set by a decision to preventatively repair the subsea cable in 2015 and the commencement of a business transformation programme to ensure we continually add value to our activities and service as a business.

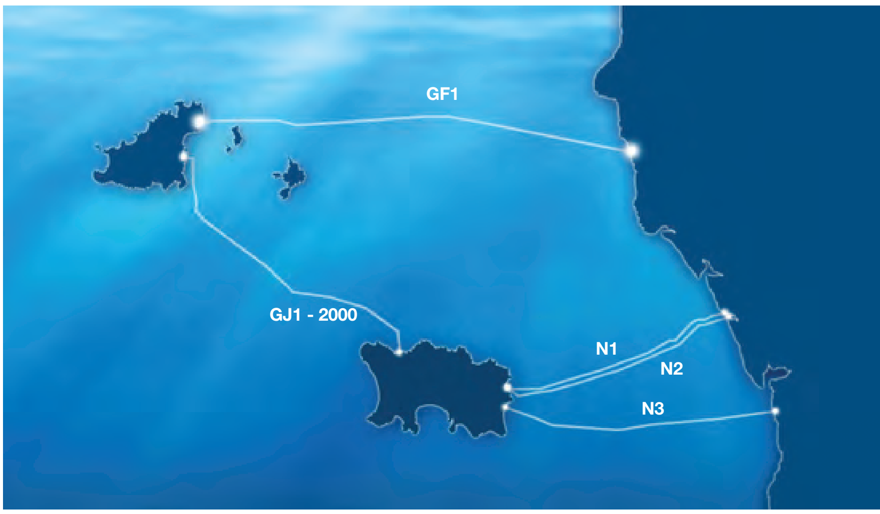
The financial performance for the year has resulted in an operating profit of £4.2m (2015: operating loss of £2.4m). The performance this year aligns with the expectations from the business in terms of both return on asset base as prescribed in the previous price controls and the current return on equity levels set by the shareholder. However, when taking into account the past five years' financial performance, the rolling average return on asset base still results in an adverse position for the business.

Strategy Update

The strategic challenges for Guernsey Electricity have changed over the last five years from the investment uncertainty created by the economic regulatory environment, to the substantial concerns surrounding the reliability of the single electricity importation asset GJ1. In addition to the reliability issues with GJ1, the difficult installation and commissioning of the first new diesel generation asset, 2D, in over 20 years created further operational challenges for our employees, the management team and the Board. These concerns over the long term sustainability of some of the key importation and generation assets had created significant challenges in terms of developing and concluding the organisation's business plans.

This financial year began however with a much clearer strategic direction after the reliability concerns relating to the security of imported electricity were resolved. This clarity in direction was obtained after the forensic examination and operational testing of the repaired subsea cable showed no further issues being apparent and the cable being able to operate at full capacity. Alongside this confirmation we commissioned with Jersey Electricity, our joint venture partners in the Channel Islands Electricity Grid ("CIEG"), additional electricity import capacity to the Channel Islands. This improved reliability and additional capacity significantly reduced the requirements for on-island generation and therefore the impact of our operations on our neighbours and the environment.

The greater clarity available on reliability and capacity has enabled Guernsey Electricity to update its future strategy for the importation of electricity from Europe. This update has revised the previous



Guernsey Electricity has signed a contract with Finnish energy company Wartsila to deliver and install a second medium-speed diesel engine. The engine, which is called '3D', will be situated inside 'D' station alongside the existing engine, '2D'.

investment approach in the "Guernsey – Jersey Cable Project" business case presented in late 2013 to the shareholder, and subsequently approved by the States of Guernsey in July 2014. In all of these recent strategic plans there has always been an intention to invest in greater electricity importation capacity through an additional subsea cable to the Island to ensure the security of the electricity supply is maintained to the Island. However, the approach to delivering these intentions has changed, particularly in terms of the additional subsea cable, with a firm focus now on a direct connection to France. Notwithstanding these changes in delivery, the overall strategic approach put forward continues to support the States of Guernsey in terms of both energy policy and electricity security for the Island.

Even with more certainty surrounding the condition of the subsea cable and with plans for a more robust and resilient future subsea cable network in place, a key challenge for the company is that we are still required to maintain on-island generation capability.

Even with more certainty surrounding the condition of the subsea cable and with plans for a more robust and resilient future subsea cable network in place, a key challenge for the company is that we are still required to maintain on-island generation capability.

This resource needs to meet the requirements of the N-2 security of electricity supply standard, which was agreed in 2014 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 on-island electricity supply. So as well as working to deliver the project for the second cable, we also need to ensure that we have a robust plan to replace some of the oldest engines in our on-island fleet. The next stage of the strategy to ensure electricity supply security to the Island requires the investment in engine 3D to mitigate the current risks presented by the single electricity import cable GJ1 and the ageing on-island generation assets. However, prior to further replacement of the older engines, a review will determine the requirements for on-island generation security and affordability with two subsea cables connected to the Island. This review will determine when and what type of generation equipment will need to be purchased. These on-island investments will also allow in the near term Guernsey Electricity to optimise the use of the power station to make electricity more affordable for its customers.

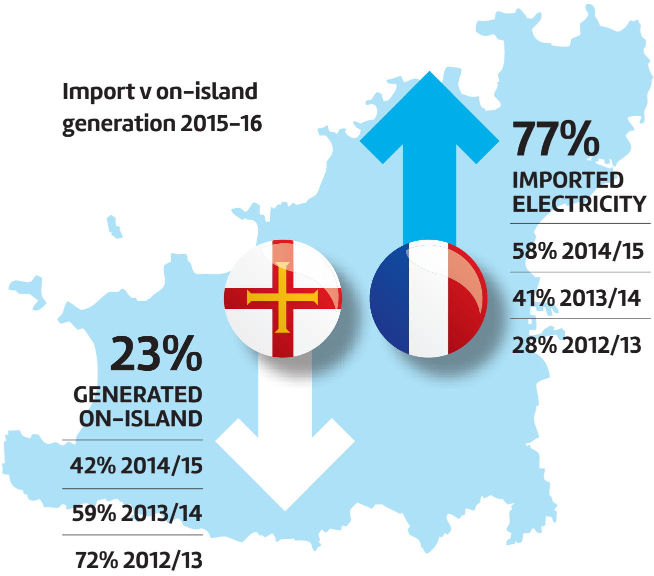
To facilitate the installation of further essential on-island generation assets, the company decided to extend the effective site boundary north of D Station by the strategic acquisition of land and properties in that area. This will allow in the first instance engine 3D to be installed in early 2017, followed by the replacement of the oldest engines in C station.

Chief executive officer's report, continued

In addition to the developments on installing further on-island generation in the form of 3D, I can also confirm positive progress is being made in securing a second electricity importation connection for Guernsey. Earlier economic assessments in 2013 indicated that a direct connection to France was the most economically viable option for the business based on modelling factors at that time. Unfortunately, with the uncertainty surrounding GJ1 reliability the option to install a direct connection had to be deferred in favour of planning for the replacement of the original subsea cable asset.

With the successful repair to GJ1 the replacement of this cable has now been put back to at least the design life of the cable, and therefore allows us again to progress a direct connection. As a result of the subsequent decision not to proceed with the replacement of the original GJ1 cable £1.2m of project costs have been written off. Our present day strategic investment work continues to confirm that a direct link to France still represents the optimum economic solution for the Island and its electricity customers for planned growth scenarios. These assessments also show the investment in the GF1 project to be a prudent step forward in the infrastructure planning to allow the Island to reach its energy policy goals with the required levels of security. The project will therefore represent a strategic investment for the Island as well as a purely commercial investment for Guernsey Electricity. Notwithstanding the rationale presented, Guernsey Electricity understands that given that the estimated project costs represent a significant proportion of the present value of company assets, purchasing the cable asset will introduce significant additional annual overheads into the business. It must therefore be continually ascertained whether the investment remains affordable to the Island electricity consumers. As the project proceeds the Board will remain vigilant on what the impact of such an investment on this scale will have on the financial performance of the business.

To facilitate the continual assessment of the proposed cable investment for the Island and electricity customers, Guernsey Electricity has now produced for its shareholder an updated Electricity Cable Interconnector Strategic Investment Report. This report includes the significant project milestones, financial assumptions and decision points, and sets out how progress will be made with the engineering



of a direct Guernsey to France cable. This project is now considered by Guernsey Electricity to be a priority meaning that there will be expenditure on critical engineering activities that at this stage are necessary to enable investment planning. Such activities need to be undertaken in order that a final investment decision for the cable procurement and installation can be made in 2018, or thereafter, to achieve the commissioning target of between 2020 and 2022. To facilitate the engineering enabling activities we have now submitted a Proposition Technique et Financière to the French transmission operator Réseau de transport d'électricité ("RTE") to further assess the technical, environmental and commercial factors associated with the project, and will continue to assess these to ensure the commercial viability and therefore affordability for the Island.

Throughout all of the above strategic planning the Board has remained focussed on ensuring delivery of secure and affordable electricity supplies to the Island, whilst minimising the environmental impact. That said, the extent of operational difficulties and the resultant business impact that the above issues created has required an unprecedented tactical coordination of activities. I am pleased to report that the financial and security impacts have successfully been managed to minimise the effect on customers by optimising the use of assets and adopting a financial recovery plan that spanned several years.

Major Project Activity

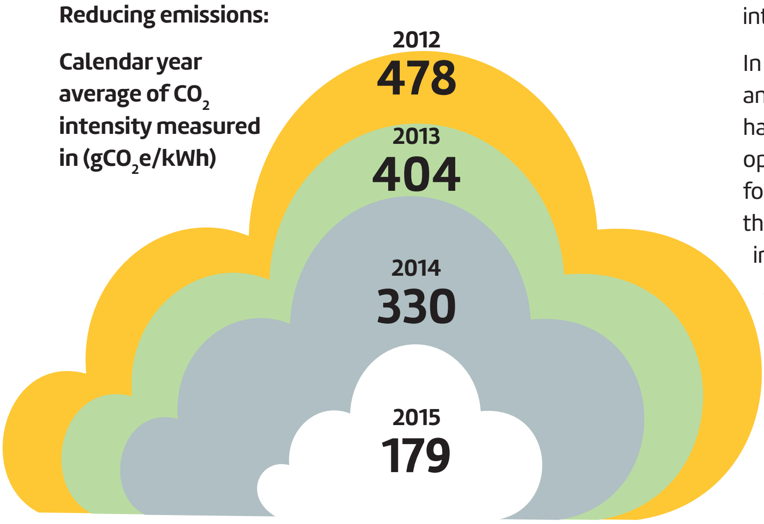
In October 2014, along with our partners in the CIEG, Jersey Electricity, we commissioned and began using a second cable between Jersey and France, called Normandie 3 (“N3”). This cable is now in full service and provides Guernsey with an extra 24 MW of entitled import capacity in addition to the existing 16 MW. In addition to N3, we have this year also committed to Normandie 1 (“N1”) which replaces the original cable between France and Jersey, (“EDF1”). This will provide Guernsey with a further 20 MW of import capacity. This combined 60 MW of entitled importation capacity from the three cables between France and Jersey allows us to import almost all of Guernsey’s power needs if required other than during the coldest parts of the winter.

This year we have concluded all the work to ensure that our newest on-island generator, the medium speed diesel engine, 2D, operates as effectively as possible. Working with the supplier and Environmental Health, we have completed the improvements required to further reduce its noise during operation. This engine has the lowest environmental impact and is the quietest engine in our generation fleet.

In terms of major project activity Guernsey Electricity is now focusing on delivering the next addition to the on-island generation fleet, engine 3D, and the enabling activities for the direct electricity cable connection to France, (“GF1”).

Reducing emissions:

Calendar year average of CO_2 intensity measured in (gCO_2e/kWh)



Business Performance

In the years following the failure of GJ1 a limited amount of electricity was imported into the Island due to our concerns in respect of the importation cable. As a result, and whilst levels have been increasing since the failure in 2012, the level of importation was dictated by asset reliability and condition, rather than by any economic or environmental factors. The importation levels for the previous three years have been 58% (2015), 41% (2014) and 28% (2013) of our total supply to the Island. The inability to import higher levels in previous years has adversely affected our financial performance. Whilst this clearly shows an improvement since the subsea cable failure, to meet affordability and environmental expectations we plan for imports to meet or exceed 75% of our supply. I am pleased to report that with the repair to the subsea cable, the investment in greater capacity and the significant reduction in the price of crude oil, and therefore the price of the heavy fuel oil used at the power station, Guernsey Electricity is again in the position whereby it can optimise the level of importation and on-island generation to maintain affordability and environmental emissions. To achieve this we constantly review and balance all the factors to secure the Island’s electricity supply, these being the marginal cost of generation and importation, the condition and security of the assets and finally the environmental impact of our activities. On this basis as well as achieving the required level of profitability, Guernsey Electricity has also achieved for this financial year an importation level of 77% of total demand with a carbon intensity of 150gCO2equiv./kWh (2015 carbon intensity level was 275gCO2equiv./kWh).

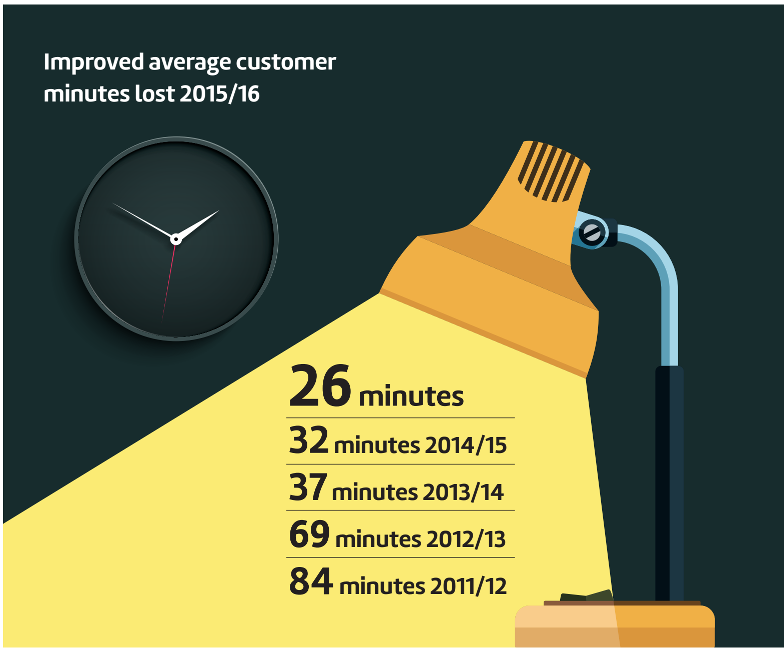
In addition to the improvement in profitability and carbon intensity, in terms of affordability, we have been able to absorb not only the underlying operational cost increase to the business over the last four years but also the cost increases associated with the capital investments in Normandie 3, the initial investments in Normandie 1, and the new medium speed diesel engine, 2D, with no increase in the level of tariffs.

Chief executive officer's report, continued

Whilst focusing on the upgrading of our critical infrastructure issues we also recognise that we have to continually review how we carry out our activities to provide an affordable electricity supply to our customers. This year we completed a fundamental review of our operational 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. Following this review we commenced a business transformation programme to make major changes to our operations to ensure we become more strongly focussed on our customers and how to optimise the investment in, and performance of, our assets. This business transformation programme has achieved these changes by directly dealing with the duplicated and fragmented processes that exist in most organisations, and by ensuring all that we do as a business adds value to our customers. Unfortunately, the changes required to achieve these improvements did lead to some job losses across the company. Whilst this is never easy for a business it was a step we had to go through to develop our company for the future. The transformation programme remains an integral part of aligning the business to our customers, the energy market and the Island's expectations.

As with previous years, another factor affecting the financial performance was the mild weather over the year. 2015 was again one of the mildest years on record. There were no particularly cold spells and the winter was once again quite mild, being slightly warmer than the previous winter. This has contributed to a 1% reduction in electricity usage by our customers which has led to a reduction in electricity sales of £0.4m compared to last year.

In terms of our service to our customers, I am pleased to report that customers, both domestic and commercial, only experienced 25.5 minutes loss of supply on average compared to 31.6 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. We are currently reviewing the guaranteed and overall service standards we provide as a business and expect to publish a revised set of standards within the next twelve months which will demonstrate the additional value we aim to deliver as a business.



The Retail and Contracting divisions of Guernsey Electricity continue to perform well with the Showroom exceeding profit expectations and the Contracting Division taking on several high profile electrical installation contracts including the Cour de Parc refurbishment and St Stephens Church.

In April 2015, 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"). As a company wholly owned by the States of Guernsey, this form of independent regulation added no value and imposed an additional unacceptable cost and time burden on the company. As raised last year the removal of regulation of course does not allow the company to operate unchecked in the future. The Treasury and Resources Department, through a Supervisory Sub-Committee has exercised greater control over the company as its shareholder. This scrutiny and supervision is being replaced by the States Trading Supervisory Board who will take on the role of the shareholder and will ensure the interest of all stakeholders. Through the appropriate scrutiny and transparency of operations the Board believes the appropriate level of supervision and oversight will be achieved at an affordable level for the Island.

Financial Performance

The financial statements reflect for the first time, adoption of Financial Reporting Standard 102 “The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)”. The transition adjustments are set out in note 23 to the financial statements.

The last year has seen a significant improvement in the company’s trading performance with the overall results showing an operating profit of £4.2m compared with an operating loss of £2.4m the previous year. The improvement has come from being able to import higher levels of electricity than in previous years and the lower wholesale costs of generation reflecting the decline in crude oil prices and the favourable £/€ exchange rate against the prior year. Overall profit before tax was £4.5m, compared to a prior year loss of £3.5m. The result reflects an excellent performance and shows 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 average capital employed has been 3.6% which is in line with our long term target of 4% positioning the business well within the range of expected performance for a fully integrated utility business.

In terms of financial performance, the returns from the business are considered on a five year rolling average basis. This allows the Board to assess the underlying financial dynamics created by demand factors such as weather and the wholesale markets and the resultant 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 £115.7m, the largest additions being the completion of our investment in the Normandie 1 cable from Jersey to France and the strategic acquisition of land and buildings to facilitate the extension of the northern boundary.

The net cash inflow for the year of £6.5m compared with a net cash outflow of £1.1m in the previous year is largely attributable to a return to profitability. Similarly, cash inflow from operating activities for the year was £14.5m compared to £7.6m the prior year.

At the year-end we had net cash of £3.6m compared to £2.9m net debt last year. This comprised £6.0m loans (2015: £6.0m) and closing cash balances of £9.6m (2015: £3.1m); these amounts include balances held with the States of Guernsey Treasury (“States Treasury”) of £7.2m (2015: £2.5m). Shareholder’s funds have increased by £6.7m, from £91.5m to £98.2m. This was a result of £4.2m of post-tax profits for the year and the actuarial gain in the pension scheme net of movement in deferred tax relating to the pension deficit of £2.5m.

The pension deficit, reported under Section 28 of FRS 102 Employee Benefits, has decreased from £27m to £26.1m. 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.

2015; another mild winter

1%
Less customer electricity usage

	AVERAGE TEMPERATURE 2014/15 °C	AVERAGE TEMPERATURE 2015/16 °C
November	11.2	12.2
December	8.6	11.6
January	7.5	7.9
February	5.9	7.2

1st November 2015 shattered record for warmest November day + warmest November on record.

December 2015 warmest on record.

Source: Guernsey Meterological Office

Chief executive officer's report, continued

Guernsey Electricity, Five-year Performance Summary

	2016 Actual £m	As Restated* 2015 Actual £m	2014 Actual £m	UK GAAP 2013 Actual £m	2012 Actual £m
INCOME					
Sales of Electricity	52	52	53	53	48
Other Sales Income	4	4	3	4	4
TOTAL FOR INCOME	**56**	**56**	**56**	**57**	**52**
EXPENSES	52	**58**	56	60	47
Operating Profit/(Loss)	4	(2)	–	(3)	5
Net gains/(losses) on derivatives at fair value	1	–	–	–	–
Finance Income/(Cost)	(1)	(1)	–	–	–
Profit/(Loss) Pre Tax	4	(3)	–	(3)	5
Earnings before Interest, Tax, Depreciation and Amortisation	12	4	5	2	10
Net cash/(debt)	4	(3)	(2)	9	17
Capex (cashflow value) (page 31)	8	9	19	11	6
Pension Deficit**	(26)	(27)	(22)	(19)	(16)
Total Units Generated & Imported (GWh) (page 18)	372	375	383	400	381
% Import (page 11)	77%	58%	41%	28%	82%
% Generation (page 11)	23%	42%	59%	72%	18%
Customer minutes lost (page 12)	26	32	37	69	84

* 2015 results have been restated under new accounting standard FRS102 comparable to 15/16 results. Prior years show results under previous reporting standards.

** Pension deficit shown gross of related deferred tax.

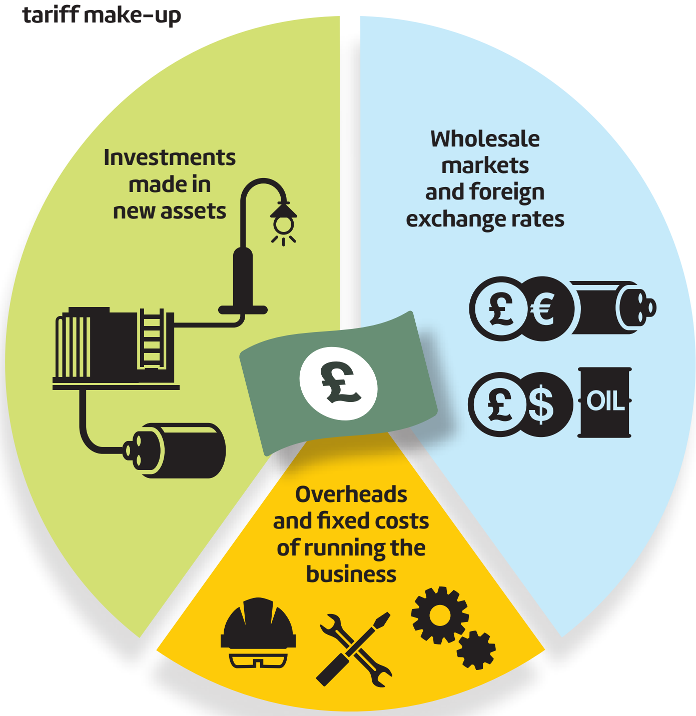
These two valuations are prepared on different bases for different purposes as well as being at different time points. The Actuarial Valuation uses best estimates of long term future returns and scheme costs and liabilities to determine the required level of future contributions. The accounting valuation 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 as compared to FRS 17 where there were separate rates for return on assets and liability discount rate. Consequently, on conversion to FRS 102 there is an increased cost given we are in a liability position. FRS 102 is completely prescriptive in respect of the basis of valuation and does not take account of anything other than current values.

The company remains part of the States of Guernsey Public Servants Pension Scheme and we are assessing the financial benefits created by the changes recently made to the Pension Scheme. The Board continue to be of the opinion that the scheme may create longer term pension affordability and sustainability concerns for the business. We are therefore ensuring we obtain and review options for mitigating future impacts of the scheme on tariffs. The Board will continue to assess the balance between the employee benefits against the cost to the business.

Tariff levels have not changed 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. On this basis we are working on providing greater transparency on these underlying factors which create changes in the tariff levels. These factors broadly fit into three areas:

The first area is the wholesale markets and foreign exchange rates of the pound against the Euro and US Dollar. Whilst once again we have seen a volatile period for crude oil, there has been stability in terms of imported electricity. This stability in imported price gives greater certainty for planning. The price level of crude oil is currently such that at times in the winter it is now more effective to generate on-island. Notwithstanding the lower current price of crude oil, in the future importation is still seen as the more affordable and stable supply for the Island.

Guernsey Electricity tariff make-up



The wholesale direct costs to produce electricity equates to approximately 40% of tariffs.

The second area that affects the tariff levels is the investments made by the business in new assets. Significant investments were made in the Island's electricity infrastructure in the 50's, 60's, 70's and 80's. However since that time, whilst we have enjoyed the use of those investments, the level of reinvestment has not been at a level required to sustain the assets and allow the growth required for our security and environmental aspirations. The Board needs to continue balancing these investment needs against the affordability of electricity to our customers. Our tariffs need to be clear in terms of the costs of these investments.

Finally, the third element of the tariff make up is the overheads and fixed costs of running the business, which includes all operational and maintenance activities. 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 State owned utility sector.

Our Community

To assist the company in communicating with the local community who live close to the power station in the Vale we have formed a Community Liaison Group. The group consists of neighbours, local business representatives, individuals with environmental interest and local Politicians past and present. The group discuss various topics regarding power station operations and its impact on the local community and the environment, as well as the company's strategic plans and developments. A newsletter is sent out regularly to keep our neighbours informed on the latest news about the power station.

The Community Liaison Group also administers a fund for donating to local good causes and this year we were pleased to be involved with the Bridge Floral Group in enhancing an unused area of land on the North Side.

In addition, we also support other local community and youth focus initiatives and this year these included working with "Every Child Our Future" to improve literacy and numeracy skills in Primary Schools; providing trench digging services at the Bathing Pools as part of the "La Vallette Project"; and raising over £2,000 for "Only Fools and Donkeys" from the sales of our annual calendar.

The Team

Whilst this year has been extremely successful for the business, it has also been a difficult year for Guernsey Electricity and its employees. Internal changes are challenging and can create significant uncertainty for employees. However, I would like to thank all of my colleagues for working with the company to deliver the changes required. I also appreciate how the company's employees continue to operate professionally, and remain loyal and committed to the company during these difficult times. The long service awards this year again showed this loyalty with two 40 year, one 30 year and two 20 year awards. 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 has been 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 business continues to invest in the development of employees through funding of qualifications and providing a bursary student and apprentice training programme to ensure the organisation has the appropriate level of competent resources in the future.

I would like to thank all of my colleagues for working with the company to deliver the changes required. I also appreciate how our employees continue to operate professionally and remain loyal and committed to the company...

The Future

For Guernsey Electricity, the strategic and operational focus of our activities continues to be the delivery of reliable, efficient and affordable electricity to the Island and to meet the expectation of our customers.

While 2015/16 has seen a reduction in the market price of crude oil, it remains clear that to meet our economic and environmental aspirations, the optimum way to manage the supply of electricity to our customers in the longer term is through imports from France. In the short to medium term this also means that as long as the existing cable operates successfully we can optimise the amount of on-island generation and consequently minimise the impact of our power station activities on the Island community and the environment. The amount of electricity generated on-island will be dependent on the requirements to centrally despatch our generation of electricity in an affordable manner. Of course for us to maintain this balanced affordability and environmental position into the future it is critical for us to secure more enhanced resilience of our imported electricity supply.

Whilst we have only the one cable with which to import power there will continue to be risks to delivering lower carbon supplies from Europe. This is why the work on the project to provide a second cable connection to the Island is critical and a priority for us.

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 will be in place. In the meantime 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.

In the longer term we continue to work with the States of Guernsey to understand and assess the use of renewable energy within our generation fleet, and particularly how modern technology for energy storage will make the use of renewable technology much more commercially viable for the Island.

Guernsey is a small Island with only 30,000 electricity 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 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.

UK decision to leave the European Union ("Brexit")

On 23 June 2016 the result of the EU referendum was for the UK to leave the European Union. There is expected to be a period of volatility in the currency markets, at least in the near term. As Guernsey Electricity materially transacts in Euros both in importing electricity and procuring capital assets we are impacted by any resulting volatility which could materially impact earnings in the future. The company will continue to manage this risk via hedging its foreign currency exposures so as to minimise volatility in line with its risk appetite. We believe the company financial fundamentals remain strong and we are well placed to ride out the expected future volatility in the currency markets.

Alan Bates
Chief Executive Officer

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2016. 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 28 to 56

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

At the 2016 Annual General Meeting, the company will be proposing a dividend of £1,044,000 representing £0.00956 per share (2015: £nil per share proposed).

Customers

The number of customers as at 31 March 2016 is 30,248 (2015: 30,077).

Units

Importation through the cable link between Guernsey, Jersey and the European grid provided 77% (2015: 58%) of the Island's electricity needs in the year ended 31 March 2016 and 23% (2015: 42%) was generated on the Island, as shown by the units analysis below:

	2016	2015
Units imported MWh	**284,892**	218,002
Units generated MWh	**87,354**	156,856
Total units imported/generated MWh	**372,246**	374,858

Average price

The average price per kWh sold in the year ended 31 March 2016 was 14.90 pence (2015: 15.10 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 2016, customers lost 3.02 minutes due to generation/importation activity (2015: nil minutes) and 22.49 minutes were lost per customer in respect of distribution (2015: 31.55 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

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

IA Hardman
Director

AM Bates
Director

11th August 2016

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 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 eight Board meetings held during 2015/16. 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 was appointed chairman following the retirement of Ian Beattie from the Board at the Annual General Meeting held on 21 July 2015. 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

During 2015/16, Ian Beattie retired from the Board. Julian Turner joined the Board on 11 June 2015 as chief financial officer.

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

Information and professional development

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

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

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

Attendance at Board meetings

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

Director	Meetings Attended	Total Meetings Held
IH Beattie	2	2
AM Bates	8	8
JPC Turner	8	8
S-A David	8	8
RP Lawrence	8	8
IA Hardman	8	8
RJ Dutnall	6	8
CM Holmes	7	8

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 2015 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 Treasury & Resources Department.

The Remuneration & Nominations Sub-Committee, which is chaired by Robert Lawrence, 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 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 2015/16 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.

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 (from 21 July 2015)
	RP Lawrence (until 21 July 2015)
Members:	IA Hardman (from 21 July 2015)
	CM Holmes (from 21 July 2015)
	IH Beattie (until 21 July 2015)

Corporate Governance (continued)

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 on page 23).

Remuneration & Nominations Sub-Committee

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

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

Chairman:	RP Lawrence (from 21 July 2015)
	IA Hardman (until 21 July 2015)
Members:	IA Hardman (from 21 July 2015)
	CM Holmes

Land & Property Sub-Committee

Julian Turner was chairman of the Land & Property Sub-Committee from 11 June 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 four 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. During the financial year 2015/16 in accordance therewith, the share certificates for the whole issued share capital were 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.

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 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.

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 including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)".

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 including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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 2016 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 2016 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
St Peter Port
Guernsey
11th August 2016

Statement of comprehensive income

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Revenue	4	**56,222**	56,235
Cost of sales		**(41,402)**	(48,685)
Gross profit		**14,820**	7,550
Net operating expenses	5	**(10,618)**	(9,973)
Operating profit/(loss)		**4,202**	(2,423)
Net gains/(losses) on derivatives at fair value		**1,142**	(239)
Finance income	6	**205**	314
Finance cost	6	**(216)**	(230)
Other finance income/(cost)	20	**(853)**	(930)
Profit/(loss) on ordinary activities before taxation		**4,480**	(3,508)
Taxation	7	**(303)**	431
Profit/(loss) for the financial year after taxation		**4,177**	(3,077)
Other comprehensive income:			
Remeasurement of net defined benefit liability	20	**2,531**	(1,674)
Total comprehensive income for the year		**6,708**	(4,751)

All activities derive from continuing operations.

The notes on pages 32 to 56 form an integral part of these financial statements.

Statement of financial position

at 31 March 2016

	Note	**2016** £'000	2015 £'000
Fixed assets			
Property, plant and equipment	*9*	**115,670**	115,109
Current assets			
Inventories	*10*	**4,645**	5,748
Trade receivables	*11*	**16,702**	16,908
Balances with States Treasury	*13*	**7,185**	2,489
Cash		**2,425**	626
		30,957	25,771
Trade payables: amounts falling due within one year	*14*	**(12,029)**	(12,156)
Net current assets		**18,928**	13,615
Total assets less current liabilities		**134,598**	128,724
Trade payables: amounts falling due after more than one year	*15*	**(10,290)**	(10,232)
Pension deficit	*20*	**(26,122)**	(27,014)
Net assets including pension deficit		**98,186**	91,478
Share capital	*16*	**109,209**	109,209
Reserves		**(11,023)**	(17,731)
Total Equity		**98,186**	91,478

The financial statements on pages 28 to 56 were approved by the Board of Directors on 11th August 2016.

Signed on behalf of the Board of Directors

IA Hardman
Director

AM Bates
Director

11th August 2016

The notes on pages 32 to 56 form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 March 2016

	Share capital £'000	Reserves £'000	Total equity £'000
1 April 2014	**109,209**	**(12,980)**	**96,229**
Loss for the financial year	–	(3,077)	(3,077)
Other comprehensive income for the year			
Remeasurement of net defined benefit liability	–	(1,674)	(1,674)
Total comprehensive income for the year	–	(4,751)	(4,751)
31 March 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**

The notes on pages 32 to 56 form an integral part of these financial statements.

Cash flow statement

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Net cash inflow from operating activities	17	**14,461**	7,637
Cash flow from investing activities			
Finance income		**206**	320
Payments to acquire property, plant and equipment		**(8,316)**	(9,167)
Proceeds of disposal of property, plant and equipment		**204**	23
Customers' contributions towards capital expenditure		**116**	289
Net cash flow from investing activities		**(7,790)**	(8,535)
Cash flow from financing activities			
Finance cost		**(223)**	(231)
Net cash flow from financing activities		**(223)**	(231)
Increase/(decrease) in cash and cash equivalents during the year		**6,448**	(1,129)
Cash and cash equivalents at the beginning of the year		**3,115**	4,244
Exchange gain/(losses) on cash and cash equivalents		**47**	–
Cash and cash equivalents at the end of the year		**9,610**	3,115
Cash and cash equivalents consists of:			
Balances with States Treasury		**7,185**	2,489
Cash		**2,425**	626
		9,610	3,115

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 56 form an integral part of these financial statements.

Notes to the financial statements

Year ended 31 March 2016

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. This is the first year in which the financial statements have been prepared under FRS 102. The date of transition to FRS 102 is 1 April 2014. Details of the transition to FRS 102 are disclosed in note 23.

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 2016, only £6m had been drawn on this facility. The company has a strong statement of financial position as at the end of the financial year and a net cash position of £3.6m. 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.

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.

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.

Notes to the financial statements (continued)

Year ended 31 March 2016

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.

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

Notes to the financial statements (continued)

Year ended 31 March 2016

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 the 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 2016

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 and note 23

4. Revenue

	2016 £'000	2015 £'000
Sales of electricity	51,917	52,328
Sale of goods, commercial and hire purchase	3,613	3,290
Rental income	306	277
Deferred income	167	161
Other income	219	179
	56,222	56,235

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 £7,802,000 (2015: £7,389,000).

Notes to the financial statements (continued)

Year ended 31 March 2016

5 Operating profit/(loss)

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

		2016 £'000	2015 £'000
Depreciation (note 9)		**6,991**	6,176
Rentals under operating leases		**13**	13
Auditor's remuneration	– non-audit services	**43**	35
	– statutory audit	**1**	–
Bad debts		**44**	46
Director fees, salaries and other benefits		**778**	1,148
Regulatory costs	– external	**17**	25
	– internal	**10**	12
Loss on disposal of assets		**1,349**	179

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

	2016 £'000	2015 £'000
Inventory write-offs	**41**	5
Inventory discrepancies	**8**	39
Inventory provision	**(29)**	29

6 Finance and income cost

	2016 £'000	2015 £'000
Finance income:		
Deposits with banks and States Treasury	**60**	173
Hire purchase	**145**	141
	205	314
Finance cost:		
Medium term credit facility	**215**	229
Other interest payable	**1**	1
	216	230

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 18.9352% (2015: 17.2992%) 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 2016.

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

	2016 **£'000**	2015 £'000
Timing differences on capital allowances and depreciation	**283**	534
Short term timing differences (pension)	**(856)**	(2)
Short term timing differences (other)	**(13)**	16
Movement on unrelieved trading losses	**889**	(979)
	303	(431)

8 Dividend

At the 2016 Annual General Meeting, the company will be proposing a dividend of £1,044,000 representing £0.00956 per share (2015: £nil per share proposed).

Notes to the financial statements (continued)

Year ended 31 March 2016

9 Property, plant and equipment

Cost	1 April 2015 £'000	Additions £'000	Written off/ disposals £'000	**31 March 2016 £'000**
Land and buildings	31,117	2,057	4	**33,170**
Cable link	49,189	3,726	1,420	**51,495**
Plant and machinery: – Generation	47,953	934	3	**48,884**
– Distribution	12,944	148	–	**13,092**
Distribution network	33,919	1,839	223	**35,535**
Motor vehicles, furniture and equipment, minor plant	6,150	401	1,007	**5,544**
	181,272	9,105	2,657	**187,720**

Depriciation	1 April 2015 £'000	Charge for the year £'000	Written off/ disposals £'000	**31 March 2016 £'000**
Land and buildings	11,025	849	4	**11,870**
Cable link	16,221	2,152	–	**18,373**
Plant and machinery: – Generation	20,406	1,979	3	**22,382**
– Distribution	3,418	382	–	**3,800**
Distribution network	10,968	1,261	129	**12,100**
Motor vehicles, furniture and equipment, minor plant	4,125	368	968	**3,525**
	66,163	6,991	1,104	**72,050**
Net book value	115,109			**115,670**

Included above are assets in the course of construction of £6,158,000 (2015: £4,875,000), which are not depreciated. During the year ended 31 March 2016, assets in the course of construction of £1,420,000 were written off to the statement of comprehensive income in the cost of sales of which £1,221,000 related to activities undertaken to install a second Guernsey to Jersey subsea cable. Given the successful preventative repair on GJ1 in 2015, the replacement of this cable has now been put back to at least its design life and investment in a direct connection to France, GF1, is now the optimum strategic solution.

10 Inventories

	2016		2015	
	£'000	**£'000**	£'000	£'000
Fuel inventories		**1,949**		3,182
Purchased goods for resale	**213**		267	
Provision	**(8)**	**205**	(6)	261
Other inventories	**4,227**		3,956	
Provision	**(1,864)**	**2,363**	(1,895)	2,061
Work in progress		**128**		244
		4,645		5,748

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

	2016 £'000	2015 £'000
Fuel inventories	**(100)**	(548)

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

	2016 £'000	2015 £'000
Estimated value of unbilled units	**7,802**	7,389
Customer accounts outstanding	**3,163**	3,748
Other receivables	**424**	978
Prepayments	**990**	433
Deferred tax asset (note 12)	**3,466**	4,351
Derivative financial instruments (note 19)	**857**	9
	16,702	16,908

Included in "Customer accounts outstanding, relating to goods and services purchased by customers under interest free and hire purchase agreements." is an amount totalling £305,000 (2015: £323,000) 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. Previously, under UK GAAP, the pension scheme deficit was presented net of deferred tax. The deferred tax relating to the pension scheme deficit is now recognised as part of the net deferred tax asset included within trade receivables.

Notes to the financial statements (continued)

Year ended 31 March 2016

12 Deferred tax asset

Deferred tax assets comprise of:	**2016 £'000**	2015 £'000
Deferred taxation:		
Balance at 1 April	**4,351**	3,565
Statement of comprehensive income (charge)/credit	**(303)**	431
Statement of other comprehensive income	**(582)**	355
Balance at 31 March	3,466	4,351
Which comprises:		
Capital allowances in excess of depreciation	**8,678**	8,395
Short-term timing differences (other)	**(211)**	(198)
Unrelieved trading loss for tax purposes	**(6,986)**	(7,875)
Deferred tax liability	**1,481**	322
Deferred tax asset on pension deficit (note 20)	**(4,947)**	(4,673)
Net deferred tax assets	**3,466**	4,351

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

	2016 £'000	2015 £'000
Trade payables	**3,822**	3,157
Customer payments received in advance	**6,279**	6,650
Employee taxes and Social Security	**166**	163
Deferred income	**167**	161
Accruals and other payables	**1,595**	1,730
Derivative financial instruments (note 19)	**–**	295
	12,029	12,156

The company has a £1m overdraft facility with Barclays Bank Plc (2015: £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. 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. This overdraft facility expired on 31 December 2015 and the Board did not seek its renewal on the basis that it was no longer needed. As at 31 March 2016, £nil was drawn on the Barclays Bank Plc overdraft facility (2015: £nil).

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

	2016 £'000	2015 £'000
Deferred income	**4,290**	4,232
Amount drawn under medium term credit facility	**6,000**	6,000
	10,290	10,232

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

16. Share Capital

	2016 £'000	2015 £'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.

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 2016

17. Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2016 £'000	2015 £'000
Profit/(loss) for the financial year	**4,177**	(3,077)
Tax on profit on ordinary activities	**303**	(431)
Net finance costs	**864**	846
Net (gains)/losses on derivatives at fair value	**(1,142)**	239
Operating profit/(loss)	**4,202**	(2,423)
Depreciation charge	**6,991**	6,176
(Profit)/loss on disposal of fixed assets	**1,349**	179
Exchange (gain)/loss on cash and cash equivalents	**(47)**	–
Net gains/(losses) on derivatives at fair value	**1,142**	(239)
Pension service cost	**2,455**	2,285
Pension cost of benefit changes	**896**	396
Pension (gains)/losses on curtailments	**(152)**	8
Employer's pension cash contributions	**(1,867)**	(1,042)
Pension administration costs	**36**	28
Deferred income	**(167)**	(161)
Decrease in inventories	**1,103**	637
Increase in receivables	**(681)**	(784)
(Decrease)/increase in payables	**(799)**	2,577
	14,461	7,637

18. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £14,149,000 as at 31 March 2016 (2015: £4,006,000). 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. 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 2017 this equates to a total commitment of €10.0m (2016: €9.4m) for Guernsey Electricity Limited.

Operating lease commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

Land and Buildings	2016 £'000	2015 £'000
Lease which expires: – Within one year	–	13
– Within two to five years	–	–

19. Financial instruments

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

	Note	2016 £'000	2015 £'000
Financial assets at fair value through profit or loss			
Derivative financial instruments:	11		
– Interest rate cap		–	9
– Forward foreign currency contracts		819	–
– On-island generation fuel hedge contracts		38	–
Financial assets that are debt instruments measured at amortised cost			
Estimated value of unbilled units	11	7,802	7,389
Customer accounts outstanding	11	3,163	3,748
Other receivables	11	424	978
Cash and cash equivalents		9,610	3,115
Financial liabilities measured at amortised cost			
Trade payables	14	3,822	3,157
Customer payments received in advance	14	6,279	6,650
Deferred income	14,15	4,457	4,393
Accruals and other payables	14	1,595	1,730
Amount drawn under medium term credit facility	15	6,000	6,000
Financial liabilities measured at fair value through profit or loss			
Derivative financial instruments – Forward foreign currency contracts	14	–	295

Notes to the financial statements (continued)

Year ended 31 March 2016

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 £7.3m (2015: £8.4m) and is referenced against the three month sterling LIBOR rate. The valuation of this instrument as at 31 March 2016 was £nil (2015: £9,000). The loss included within the profit and loss account was an expense of £9,000 (2015: £43,000).

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 the customer accounts outstanding which is 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 facility was guaranteed by the States of Guernsey and a facility charge payable to the States of Guernsey of 0.50% was levied on the value of the amount drawn down for the term of the loan. On the basis of the company's level of facilities and business performance, HSBC subsequently released the requirement for the guarantee on 18 January 2016. 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. 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 2016, the company had utilised £6.0m of the loan (2015: £6.0m). The drawn amount has been classified as a financial liability, measured at amortised cost.

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 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:

	2016		2015	
	€'000	**£'000**	€'000	£'000
Committed purchase of Euro	**5,950**	**4,295**	9,660	7,349
Options for additional purchases	**2,550**	**1,840**	4,140	3,149
Contracts to purchase Euro	**8,500**	**6,135**	13,800	10,498

The options will be exercised if the exchange rate falls below the relevant strike prices which range from 1.3680 to 1.4020. The Sterling/Euro rate at 31 March 2016 was 1.2637 (2015: 1.3802).

In addition, 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:

	2016		2015	
	€'000	**£'000**	€'000	£'000
Forward contract to purchase Euro	**6,600**	**5,089**	–	–

As at 31 March 2016, the outstanding contracts all mature within 14 months of the year end. These contracts are measured at fair value utilising the third party market valuations provided by the relevant counterparties. The gain included within the profit and loss account was a credit of £1,114,000 (2015: The loss included within the profit and loss account was an expense of £196,000).

(b) 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. The commitment to this is for an annual volume for financial year 2016/17 of 3,500 metric tonnes at a fixed price of £132.25/metric tonne amounting to a total hedged position of £463,000.

The hedges expire within 12 months of the financial year end and represent a open financial asset of £38,000 in the financial statements (2015: £nil). The prior year financial statements reported no open financial hedges on heavy fuel oil as at the financial year end.

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 pensionable pay. The actuarial account forms part of the PSPS. The PSPS is open to both future accrual and new members.

Notes to the financial statements (continued)

Year ended 31 March 2016

The most recent formal 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 2016.

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, with 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 next actuarial valuation, when contributions will be reviewed, is due as at 31 December 2016.

Actuarial account amendments

The final salary section of the fund was closed to new members with effect from 1 May 2015, and employees hired after that date joined a new Career Average Revalued Earnings (CARE) section. From 1 March 2016, accrual ceased in the final salary section, other than for some protected members, and members transferred to the CARE section for future service accrual of benefits from this date. Within the CARE section, members' pay is pensionable up to an earnings cap. Contributions on earnings above this cap from both the employer (at 12%) and employees are paid to a defined contribution section of the superannuation fund.

During 2015/16 there were 17 redundancies which have required special treatment in the accounts.

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:

	2016 £'000	2015 £'000
Fair value of actuarial assets	**54,726**	54,889
Present value of funded obligations	**(80,848)**	(81,903)
Net underfunding in actuarial account	**(26,122)**	(27,014)
Related deferred tax asset	**4,947**	4,673
Net defined pension liability	**(21,175)**	(22,341)

The position as at 1 April 2014 is unchanged from the position reported under FRS 17.

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

	2016 £'000	2015 £'000
Service cost	**2,455**	2,285
Cost of benefit changes	**896**	396
Curtailment (gains) /losses	**(152)**	8
Net interest on net defined benefit liability	**853**	930
Expense recognised in the statement of comprehensive income	**4,052**	3,619

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

	2016 £'000	2015 £'000
Interest on obligation	**2,665**	3,098
Interest on assets	**(1,812)**	(2,168)
Net interest on net defined benefit liability	**853**	930

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

	2016 £'000	2015 £'000
Return on assets (not included in interest)	**(1,987)**	2,508
Actuarial gains/(losses) on obligation	**5,100**	(4,537)
Total remeasurements recognised in other comprehensive income	**3,113**	(2,029)
Cumulative amount of remeasurements recognised in other comprehensive income	**1,084**	(2,029)
Actual return on actuarial account assets	**(175)**	4,676

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

	2016 £'000	2015 £'000
Administration expenses paid from actuarial account	**36**	28
Other items	**36**	28

Notes to the financial statements (continued)

Year ended 31 March 2016

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 £1,867,000 to the actuarial account over the year from 1 April 2015 to 31 March 2016. Members of the actuarial account contributed £465,000 to the actuarial account over the same period.

The company expects to contribute £855,000 to the actuarial account over the next year from 1 April 2016 to 31 March 2017. Contributions by members of the actuarial account are expected to total £523,000 over the same period.

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

	2016 £'000	2015 £'000
Opening defined benefit obligation	**81,903**	72,990
Service cost	**2,455**	2,285
Contributions by members	**465**	470
Cost of benefit changes	**896**	396
Curtailment (gains)/losses	**(152)**	8
Benefits paid	**(2,284)**	(1,882)
Interest on obligation	**2,665**	3,098
Experience gains	**(859)**	(1,916)
(Gains)/losses from changes in assumptions	**(4,241)**	6,454
Closing defined benefit obligation	**80,848**	81,903

The weighted average duration of the liabilities of the actuarial account was 21 years as at 31 March 2016.

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

	2016 £'000	2015 £'000
Opening fair value of actuarial account assets	**54,889**	50,611
Interest on assets	**1,812**	2,168
Return on assets (not included in interest)	**(1,987)**	2,508
Contributions by employer	**1,867**	1,042
Contributions by members	**465**	470
Benefits paid	**(2,284)**	(1,882)
Administration expenses	**(36)**	(28)
Closing fair value of actuarial account assets	**54,726**	54,889

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

	2016	2015
	%	%
Equities	**76**	76
Gilts	**3**	1
Corporate bonds	**10**	14
Property	**7**	7
Other assets	**4**	2

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 2016	31 March 2015
	% p.a.	% p.a.
Discount rate at end of year	**3.50**	3.30
Discount rate at start of year	**3.30**	4.30
Inflation	**3.10**	3.10
Rate of increase in pensionable salaries	**3.85**	3.85
Rate of increase in deferred pensions	**3.10**	3.10
Rate of increase in pensions in payment	**3.10**	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 2016	31 March 2015
	% p.a.	% p.a.
Defined benefit obligation	**80,848**	81,903
Actuarial Account assets	**54,726**	54,889
Deficit	**(26,122)**	(27,014)
Experience (losses)/gains on Actuarial Account assets	**(1,987)**	2,508
Experience gains on Actuarial Account liabilities	**859**	1,916
Gains/(losses) from changes in assumptions	**4,241**	(6,454)
Total Experience gains/(losses) on Actuarial Account liabilities	**5,100**	(4,537)

Notes to the financial statements (continued)

Year ended 31 March 2016

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. Transition to FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile loss for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

In accordance with the requirements of FRS 102 a reconciliation of opening balances is provided as below:

Reconciliation of loss for the year:	*Note*		**2015 £'000**
Loss for the year as previously reported under UK GAAP			(1,865)
Recognition of derivative financial instruments	*A*	(239)	
Holiday pay accrual	*B*	4	
Defined benefit pension scheme	*C*	(1,200)	
Total adjustment to loss before tax for the financial year			(1,435)
Deferred tax impact of adjustments	*D*		
– Derivative financial instruments		17	
– Holiday pay accrual		(1)	
– Defined benefit pension scheme		207	
Total adjustment to tax expense			223
Total adjustment to loss for the financial year			(1,212)
Loss for the year as reported under FRS 102			(3,077)

Reconciliation of other comprehensive income for the year:	*Note*	**2015 £'000**
Other comprehensive income for year as previously reported under UK GAAP		(2,667)
Defined benefit pension scheme	*C*	1,200
Deferred tax impact of adjustments	*D*	
– Defined benefit pension scheme		(207)
Other comprehensive income for the year as reported under FRS 102		(1,674)

Reconciliation of equity as at 1 April 2014 and 31 March 2015:	*Note*	**1 April 2015 £'000**	**1 April 2015 £'000**
Total equity as previously reported under UK GAAP		96,410	91,878
Derivative financial instruments	*A*	(47)	(286)
Holiday pay accrual	*B*	(134)	(130)
Deferred tax impact of adjustments	*D*		
– Derivative financial instruments			17
– Holiday pay accrual			(1)
Total equity as reported under FRS 102		96,229	91,478

Notes to the reconciliations

A. Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the company did not recognise these instruments in the financial statements. Accordingly at transition a liability of £47,000 was recognised at the transition date and a loss of £239,000 was subsequently recognised in the statement of comprehensive income for the year ended 31 March 2015. At 31 March 2015 there was a liability of £295,000 and a debtor of £9,000.

B. Holiday pay accrual

FRS 102 requires short term employee benefits to be charged to the statement of comprehensive income as the employee service is received. This has resulted in the company recognising a liability for holiday pay of £134,000 on transition to FRS 102. Previously, holiday pay accruals were not recognised and were charged to the statement of comprehensive income as they were paid. In the year to 31 March 2015, an additional credit of £4,000 was recognised in the statement of comprehensive income and the net liability at 31 March 2015 was £130,000.

C. Defined benefit scheme

Under previous UK GAAP the company recognised an expected return on defined benefit plan assets in the statement of comprehensive income. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in other comprehensive income. There has been no change in the defined benefit liability at either 1 April 2014 or 31 March 2015.

D. Deferred taxation

Deferred tax on defined benefit scheme

The impact on deferred tax as a result of the adjustment to the defined benefit pension scheme above was to increase the deferred tax credit in the statement of comprehensive income by £207,000 and decrease the deferred tax charge in other comprehensive income by an equivalent amount.

Deferred tax on holiday pay accrual

The impact on tax as a result of the holiday pay adjustment shown above was to increase the tax liability at 31 March 2015 by £1,000 with a corresponding increase in the statement of comprehensive income.

Notes to the financial statements (continued)

Year ended 31 March 2016

Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect loss for the financial year, the following adjustments have arisen which have had no effect on net assets or statement of comprehensive income but which have affected the presentation of these items in the financial statements.

Cash flow statement

The cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS 1 definition is more restrictive.

Classification of depreciation charge

Depreciation on property, plant and equipment relating to delivery of the principal business activities of £6,591,000 (2015: £5,800,000) is charged to the statement of comprehensive income within cost of sales. Depreciation relating to the provision of other corporate activities of £400,000 (2015: £376,000) is recognised within net operating expenses. Previously, all depreciation was recognised within net operating expenses.

Joint arrangement

On transition to FRS 102, management exercised its judgement on the accounting treatment of the company's interest in the Channel Islands Electricity Grid Limited. Under UK GAAP this joint arrangement was accounted for as a joint arrangement that is not an entity (a "JANE"). Following due consideration of ownership and control and the substance of the arrangement, management decided that of the three categories available under Section 15 of FRS 102, "Investments in joint ventures", its interest in the Channel Islands Electricity Grid Limited best met the definition of a jointly controlled operation.

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

Guernsey Electricity
www.electricity.gg